AIR PORTUGAL

TRANSPORTES AÉREOS PORTUGUESES, S.A.

2019

MANAGEMENT REPORT
AND
CONSOLIDATED ACCOUNTS

A STAR ALLIANCE MEMBER

CONSOLIDATED

MANAGEMENT REPORT

2019

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1. GOVERNING BODIES

Transportes Aéreos Portugueses, S.A. (“TAP, “TAP, S.A.” or “Company”)

Three-year period 2018-2020

By unanimous written resolution of 31st January 2018, of the sole shareholder TAP-Transportes Aéreos Portugueses, SGPS, S.A.

General Meeting Committee

Chairman	Vítor Pereira das Neves *Designated on 28th June 2019, through unanimous written resolution of the sole shareholder TAP-Transportes Aéreos Portugueses, SGPS, S.A.*
Company Secretary	Ana Maria Sirgado Malheiro

Board of Directors

Chairman	Humberto Manuel dos Santos Pedrosa
Member	David Gary Neeleman
Member	Antonoaldo Grangeon Trancoso Neves
Member	David Humberto Canas Pedrosa
Member	Raffael Guarita Quintas Alves

Executive Committee

By deliberation of the Board of Directors of 31st January 2018

Chairman	Antonoaldo Grangeon Trancoso Neves
Member	David Humberto Canas Pedrosa
Member	Raffael Guarita Quintas Alves

Company Secretary

By deliberation of the Board of Directors of 31st January 2018

Company Secretary	Ana Maria Sirgado Malheiro
Deputy Company Secretary	Carlos Neves de Almeida

Supervisory Board

Transportes Aéreos Portugueses, S.A.

Mandate (Start - End)	Position	Name	Appointment Doc.	Mandates held in the Company	
				Number	Date of 1st appointment
2018-2020	Supervisory Board	Sérgio Sambade Nunes Rodrigues (*)	Unanimous written resolution	2	13.nov.2015
		Baker Tilly, PG & Associados, SROC, S.A.	Unanimous written resolution	2	13.nov.2015
		Maria Susana da Mota Furtado e Almeida Rodrigues	Unanimous written resolution	2	13.nov.2015
	Deputy	João Miguel Guerreiro Aranha	Unanimous written resolution	1	31.jan.2018

(*) Sérgio Sambade Nunes Rodrigues has resigned to its office on January 29, 2020. On March 5, 2020, Paulo Jorge Duarte Gil Galvão André, on behalf of Baker Tilly, PG & Associados, SROC, S.A., has been elected for the office of chairman of TAP's Supervisory Board, whereas Susana Nereu de Oliveira Ribeiro has been elected for the office of Member of TAP's Supervisory Board, both for the remainder of the ongoing term office 2018/2020.

Certified Public Accountant

Permanent António Joaquim Brochado Correia or Hugo Miguel Patrício Dias, on behalf of Pricewaterhousecoopers & Associados, SROC, Lda.

Deputy Carlos Figueiredo Rodrigues

2. TAP, S.A. CONSOLIDATED STRUCTURE

As of December 31st, 2019, TAP, S.A. owned 100% of TAP Logistics Solutions, S.A., incorporated on December 30th, 2019 to operate in the cargo and mail activities. As such, this subsidiary was consolidated in TAP accounts by the full consolidation method as of December 31st, 2019.

3. KEY INDICATORS

TAP, S.A. Consolidated	2019	2018 [1]	Change	
			Abs.	%
Passenger ('000)	17,052	15,763	1,289	+8.2%
RPK (million)	42,065	38,048	4,017	+10.6%
ASK (million)	52,527	47,000	5,527	+11.8%
Load Factor	80.1%	81.0%	-0.9p.p.	
Operating Fleet (end of period) [2]	105	93	12	+12.9%
Total Fleet (end of period) [3]	105	96	9	+9.4%
Block Hours	409,522	390,544	18,977	+4.9%
Number of Departures	136,705	134,718	1,987	+1.5%
Average Stage Length (km)	1,956	1,874	82	+4.4%
Yield [4] (€ cents)	6.85	7.08	-0.23	-3.2%
PRASK [4] (€ cents)	5.49	5.73	-0.24	-4.3%
CASK [4] (€ cents)	6.12	6.60	-0.48	-7.2%
CASK ex-fuel [4] (€ cents)	4.63	4.95	-0.32	-6.5%
CASK fuel [4] (€ cents)	1.49	1.64	-0.16	-9.6%
Punctuality until 15'	63.9%	58.4%	+5.5p.p.	
Regularity	99.2%	98.2%	+1.0p.p.	
Active Staff (end of period) [5]	9,006	8,145	861	+10.6%
Total Operating Income (million €)	3,298.8	3,177.2	121.5	+3.8%
Passenger Income (million €)	2,914.0	2,782.4	131.6	+4.7%
EBITDAR (million €) [6]	522.9	195.8	327.1	+167.1%
EBITDAR margin	15.9%	6.2%	+9.7p.p.	
Operating Result (EBIT) (million €)	47.2	-26.9	74.1	n.m.
EBIT margin	1.4%	-0.8%	+2.3p.p.	
Net Income/ (loss) for the period (million €)	-95.6	-58.1	-37.6	n.m.

1) TAP adopted on January 1, 2019 IFRS 16, having chosen the modified retrospective model as of the transition date, which does not foresee the restatement of the financial statements from previous years. 2018 Consolidated Financial Statements have not been adjusted for IFRS 16 effects, therefore not being comparable to 2019 Consolidated Financial Statements. For additional information on the adoption of IFRS 16 and its impacts, please read the accompanying Consolidated Financial Statements and its Notes.
2) Includes aircraft operated under wet-lease agreements.
3) May differ from operating fleet in some periods due to aircraft in phase-in and phase-out.
4) Adjusted for stage length.
5) Excludes staff not placed and not active.
6) EBITDAR = Operating Result + Aircraft rents + Depreciation, amortisation and impairment losses.

4. BUSINESS DEVELOPMENTS IN 2019

4.1. Summary

IFRS 16 Note: Transportes Aéreos Portugueses, S.A. adopted on January 1, 2019 IFRS 16 – Leases, having selected the modified retrospective model as of the transition date, which does not foresee the restatement of the financial statements from previous years. 2018 Consolidated Financial Statements have not been adjusted for IFRS 16 effects, therefore not being comparable to 2019 Consolidated Financial Statements. For additional information on the adoption of IFRS 16 and its impacts, please see Explanatory Note 2 to the Consolidated Financial Statements.

Highlights of 2019

- EBITDAR for the year reached EUR 522.9 million in 2019 (an increase of EUR 327.1 million YoY) and Operating Result (EBIT) EUR 47.2 million, an improvement of EUR 74.1 million compared to the previous year. The 2H19 confirms positive trend with improvement in results and margins. The 2H19 saw a progressive improvement in activity, enabling a strong expansion of Operating Result (EBIT) and operating margin, with a positive net income in the period.

- Fleet Transformation with the strengthening of the fleet renewal and expansion strategy. In 2019, 30 new last generation Airbus aircraft from the NEO family entered into operation, enabling TAP's expansion to 11 new markets, from which we highlight the expansion in the USA, with the contribution of the new routes that started in June (San Francisco, Chicago and Washington), the beginning of operations in the Middle East (Tel Aviv), and the new routes in Africa (Conakry and Banjul).

- Record number of passengers carried in 2019, reaching 17.1 million (+8.2% YoY). Successful diversification strategy, with the North American market already representing 14% of total passenger revenue, an increase of 3 percentage points compared to 2018 and more than double the weight of this market compared to 2015.

- Total operating revenue grew by EUR 121.5 million in 2019 (+3.8% YoY) to EUR 3,298.8 million, with Passenger income increasing by EUR 131.6 million (+4.7%) to EUR 2,914.0 million, as a result of the 2H19 operating revenue growth, highlighting the performance of North American and domestic routes (Mainland and Islands), which increased passenger revenues in 2019 by 33.4% and 13.2%, respectively, in comparison with the previous year. Passenger income from Brazilian routes experienced a decrease of EUR 50 million (-6.3%) in 2019 compared to the previous year, mostly as a result of the first half performance which saw a YoY decrease of EUR 43.1 million, being impacted by the economic and political instability in the country, particularly during the first quarter.

- Decrease in total operating unit costs. In a context of increasing capacity (ASK growth of 11.8%), total operating unit costs per ASK (CASK) registered a YoY decrease of 7.2%, despite costs associated with the fleet expansion and renewal.

- Decrease in unit fuel costs per ASK (CASK fuel). CASK fuel decreased by 9.6% in 2019, reflecting the higher fuel efficiency of the new aircraft, the lower average price of jet fuel compared to the previous year and the hedging policy in place.

- Investment in the fleet and decrease in passenger income from Brazilian routes in the first half of 2019, with negative impact in the full year net income. Net loss for the year of EUR 95.6 million, worse in EUR 37.6 million than in the previous year, as a result of the investment in the renewal of the fleet being the costs related to the fleet transformation process of approximately EUR 55 million. Recovery in net income during the 2H19, with net income generated during this period positive in EUR 16.3 million, which represents an increase of 36% compared to the second half of 2018.

- Strong liquidity position with cash and equivalents amounting to EUR 426.3 million at year end. Additionally, considering available credit card receivables from Brazil of EUR 105.9 million, total liquidity represented EUR 532.2 million or 16.1% of total operating revenue.

- Successful completion of several financing transactions, following TAP's strategy of diversifying its funding sources and increasing its average debt maturity. The average maturity of TAP's financial debt (excluding operating leases) increased from 2.5 years at the end of 2018 to 4.5 years at the end of 2019. The percentage of fixed rate debt also increased significantly from 11% at the end of 2018 to 66% in 2019.

4.2. Macro-economic and Sector Environment

Macroeconomic Background

Macro Indicators *% YoY*	2018	2019E	2019E vs 2018
Real GDP Growth			
Global	+3.6%	+2.9%	-0.7 pp
Euro Area	+1.9%	+1.2%	-0.7 pp
Portugal	+2.4%	+2.0%	-0.4 pp
North America	+2.7%	+2.1%	-0.6 pp
Latin America	+1.0%	+0.2%	-0.8 pp
Africa	+3.8%	+3.2%	-0.6 pp
Middle East	+0.1%	-1.2%	-1.3 pp
Asia-Pacific	+5.3%	+4.8%	-0.5 pp
Trade Growth			
Global	+3.7%	+1.0%	-2.7 pp

Source: European Commission (Portugal and Euro Area data) – February 2020, IMF (Rest of the World data) – January 2020

During 2019, the global economy heightened the slowdown trend of the previous year, as global GDP growth decelerated from 3.6% to 2.9%, together with trade growth, from 3.7% to 1.0% in 2019.

FX Performance EUR 1 in foreign	FY 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	FY 2019	FY2018 vs FY2019
USD	1.181	1.136	1.124	1.112	1.107	1.119	-5.2%
BRL	4.308	4.278	4.407	4.408	4.559	4.413	+2.4%

Source: ECB (via Bloomberg), average daily prices.

Over the course of 2019, the EUR depreciated against the USD, with the average exchange rate falling 5.2% compared to the previous year. Throughout the year, the currency pair reached the year-low of 1.089 in the beginning of 3Q, far from the 1.149 high recorded in 1Q. Contrarily, the EUR appreciated against the BRL during 2019, with the average exchange rate increasing 2.4% compared to the previous year. The weakness in the Brazilian Real was attributed to the easing of monetary policy, as well as fears of a growth slowdown in emerging markets, caused by heightened uncertainty and trade tensions.

Oil Performance In USD	FY 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	FY 2019	FY2018 vs FY2019
Brent, (USD/bbl)	71.2	63.1	68.5	61.9	62.6	64.0	-10.1%
Jet Fuel (USD/mT)	687.5	625.4	645.8	629	627.1	631.7	-8.1%

Source: Bloomberg (Brent data), Platts (Jet Fuel data), average daily prices.

Brent prices were somewhat volatile during 2019, ranging from 52.8 USD/bbl to 73.9 USD/bbl. The average price of Brent fell from 71.2 USD/bbl in 2018 to 64.0 USD/bbl in 2019, which represents a 10% decrease. Similarly, the average price of Jet Fuel in USD in 2019 was 8.1% lower compared to the previous year. Even though OPEC+ agreed to cut production in an attempt to stabilize the market, oil prices still fell due to slower-than-expected economic growth and gradual downward revisions for global oil demand growth.

Airline Sector Overview

Revenue USD billion	2018	2019E	2019E vs 2018
Global	**812**	**838**	**+3.2%**
Europe	202	207	+2.5%
North America	254	265	+4.3%
Latin America	33	37	+12.1%
Asia-Pacific	254	258	+1.6%
Africa	14	15	+7.1%
Middle East	55	56	+1.8%
Passenger	**561**	**567**	**+1.1%**
Yield, % YoY	-2.1%	-3.0%	-0.9 pp
Load Factor, %	81.9%	82.6%	+0.7 pp
RPK, % YoY	7.4%	4.2%	-3.2 pp
Cargo	**111.3**	**102.3**	**-8.1%**
Yield, % YoY	12.3%	-5.0%	-17.3 pp
Load Factor, %	49.3%	46.7%	-2.6 pp
FTK, % YoY	3.4%	-3.3%	-7.7 pp

Source: Airline Industry Economic Performance - December 2019 (IATA)

As a result of the global economic cooldown, 2019 proved to be a slowdown year for the airline industry, which saw a widespread deceleration of most performance metrics. Passenger demand, measured by RPKs, grew 4.2% in 2019 (vs. 7.4% in 2018), whereas cargo demand, measured by FTKs, decreased 3.3% (vs. +3.4% in 2018). Global growth in ASKs also decelerated from 6.9% to 3.5% in 2019. Thus, in line with previous years, ASKs grew at a lower rate than RPKs, which supported the improvement of Passenger Load Factor of 0.7 pp to the all-time high of 82.6%. Nonetheless, this was offset by a deterioration of passenger yields, which fell by 3.0% in 2019.

On the Cargo segment, Freight Load Factor decreased by 2.6 pp, down to 46.7%, while cargo yields decreased by 5.0% in 2019. This led to a decrease in Cargo revenue of 8.1%, whereas Passenger revenue still rose 1.1%.

4.3. Operational and Economic-Financial Performance

Adoption of IFRS 16

TAP adopted on the effective date of mandatory application, 1st January 2019, IFRS 16 – Leases, having chosen the modified retrospective model as of the transition date, which does not foresee the restatement of the financial statements from previous years.

The main impacts in the statement of financial position as of the transition date resulting from the adoption of IFRS 16 are (1) the recognition of the assets corresponding to the rights of use (mainly associated with aircraft under operating leases), (2) the recognition of the liabilities corresponding to the contractual obligations assumed, (3) the reclassification of maintenance reserves to assets and, (4) the increase in equity in the amount corresponding to the effects of IFRS 16 in the treatment of maintenance costs of aircraft under operating lease.
The adoption of IFRS 16 on January 1, 2019 had the following impacts on the main headings of the statement of financial position:

TAP, S.A. Consolidated EUR million	31-Dec-18	Impact of IFRS 16 adoption	1-jan-19
ASSETS			
Non-current assets	**687.0**	**1,222.2**	**1,909.3**
Tangible fixed assets	521.0	1,179.0	1,700.0
Other receivables	61.1	43.2	104.4
Other items of non-current assets	104.9	-	104.9
Current Assets	**1,515.9**	**-**	**1,515.9**
Total Assets	**2,203.0**	**1,222.2**	**3,425.2**
EQUITY AND LIABILITIES			
Equity and Reserves			
Retained earnings	(12.0)	90.9	79.0
Other items of Equity and Reserves	116.8	-	116.8
Total equity	**104.8**	**90.9**	**195.7**
Non-current liabilities	**762.2**	**877.5**	**1,639.7**
Deferred tax liabilities	18.8	38.1	56.8
Provisions	12.2	26.1	38.3
Lease liabilities without purchase option	-	863.1	863.1
Other payables	49.7	(49.7)	-
Other items of non-current liabilities	681.5	-	681.5
Current liabilities	**1,336.0**	**253.8**	**1,589.7**
Lease liabilities without purchase option	-	303.6	303.6
Other payables	667.5	(49.8)	617.7
Other items of current liabilities	668.5	-	668.5
Total liabilities	**2,098.2**	**1,131.3**	**3,229.5**
Total equity and liabilities	**2,203.0**	**1,222.2**	**3,425.2**

In relation to the Income Statement for periods after the transition date, the main impacts of IFRS 16 adoption are: (1) the decrease in costs with aircraft rents and other traffic operating costs by the derecognition of costs associated with operating lease agreements or other similar contractual obligations; (2) increase in depreciation and amortization costs by the effect of amortization of the rights of use and of the capitalization of structural maintenance events; (3) decrease in the costs of aircraft maintenance and employee costs by the capitalization of the costs with large maintenances of equipment under operating lease and (4) increase in interest expenses by the effect of calculating the present value of liabilities with contractual obligations and possible foreign exchange variation resulting from the effect of a change in the exchange rates used to recognize the liabilities with contractual obligations.

The recognition of the right-of-use assets in lease liabilities without purchase option, and, the respectively redelivery and the corresponding liability resulted in an increase in depreciation expenses of, approximately, Euro 394 million and interest expenses of, approximately, Euro 130.8 million. Foreign exchange differences recognised in the income statement, related to lease liabilities, amounted to, approximately, Euro 13.7 million. On the other hand, the operating lease rents and other contractual obligations expenses (recognised until December 31, 2018 in the captions “Aircraft rents”, and “Traffic operating costs”) decreased by, approximately, Euro 423 million.

In 2019, Euro 66.2 milion of expenses with aircraft and engines structural maintenance were recognized in the caption tangible fixed assets.

Additionally, the presentation of payments related to lease liabilities without purchase option resulted in a reclassification in the amount of, approximately, Euro 417 million, from cash flows from operating activities to cash flows from financing activities.

Operational Performance

TAP, S.A. Consolidated	2019	2018	Change	
			Abs.	%
Passenger ('000)	17,052	15,763	1,289	+8.2%
RPK (million)	42,065	38,048	4,017	+10.6%
ASK (million)	52,527	47,000	5,527	+11.8%
Load Factor	80.1%	81.0%	-0.9p.p.	
Operating Fleet (end of period) [1]	105	93	12	+12.9%
Total Fleet (end of period) [2]	105	96	9	+9.4%
Block Hours	409,522	390,544	18,977	+4.9%
Number of Departures	136,705	134,718	1,987	+1.5%
Average Stage Length (km)	1,956	1,874	82	+4.4%
Punctuality until 15'	63.9%	58.4%	+5.5p.p.	+9.4%
Regularity	99.2%	98.2%	+1.0p.p.	
Active Staff (end of period) [3]	9,006	8,145	861	+10.6%

1) Includes aircraft operated under wet-lease agreements.
2) May differ from operating fleet in some periods due to aircraft in phase-in and phase-out.
3) Excludes staff not placed and not active.

In 2019 TAP reached a new record number of passengers carried, with a YoY increase of 1.3 million passengers (+8.2%) to 17.1 million passengers. After a slight decrease in the number of passengers carried in the first quarter of the year (-0.3% YoY), there was a trend of growth recovery and consolidation in the last 3 quarters of the year that translated in this significant traffic growth over the previous year. The increase in the number of passengers was cross-sectional to all the regions operated by TAP's network.

It is worth highlighting the performance of the North American market, as a result of increased frequencies and opening of new routes. In 2019 passengers in the Brazilian routes grew by 3% YoY, despite the YoY decrease of 2% observed in the first half of 2019.

This sustained growth of TAP was made possible by the renewal of the fleet, increased offering, diversification of routes and markets, with an emphasis on the consolidation of the investment in North America and increasingly competitive business practices.

Capacity in 2019, measured in ASKs, increased 11.8% YoY, as a result of the increase in the number of frequencies to many of the routes TAP already operated and the introduction of 11 new routes (Tel Aviv and Dublin in March, Chicago, Washington, S. Francisco, Naples and Tenerife in June, Oporto-Brussels and Conakry in July, Oporto-Munich in August and Banjul in October). Demand in terms of passenger traffic, expressed in RPKs, increased 10.6%, slightly below the increase in capacity, which resulted in a load factor of 80.1% in 2019, which compares to 81.0% in the previous year. During the 2H19 the load factor was 80.4%, an improvement from the 79.8% load factor registered during the 2H18.

TAP's punctuality and regularity indicators improved during 2019 when compared to the previous year. The Company's overall punctuality improved 5.5 percentage points YoY in 2019, being worth highlighting the Air Shuttle Lisbon-Oporto, which saw an improvement of 22 percentage points in punctuality, from 52% in 2018 to 74% in 2019. The number of cancelled flights decreased 56% compared to the previous year, with this number corresponding to 0.8% of the Company's total flights compared to 1.8% in 2018.

The improvement in punctuality and regularity in 2019 was achieved on the back of the implementation of multiple measures such as the new iOCC – integrated Operations Control Center, use of spare aircrafts, hiring of additional pilots and flight attendants, change in the boarding process, creation of a new function of turnaround coordinator in the hub and new operating systems and punctuality committees.

Client satisfaction, measured through Net Promoter Score (D15 NPS), showed a very positive evolution in 2019, increasing by 12 percentage points. As a result of the strong focus on customer service involving the entire Company and the fleet renewal, all the main NPS dimensions evaluated by Clients, increased during 2019, highlighting Comfort and in-flight entertainment. As a result of the measures implemented in the Air Shuttle between Lisbon and Oporto, namely the change to jet aircraft, there was an increase in this indicator by 20 percentage points.

Financial performance

TAP, S.A. Consolidated EUR million	**2019**	**2018** [1]	**Change**	
			Abs.	**%**
Operating Income	**3,298.8**	**3,177.2**	**121.5**	**+3.8%**
Passenger	2,914.0	2,782.4	131.6	+4.7%
Maintenance	211.3	228.2	-16.9	-7.4%
Cargo and mail	137.4	134.7	2.7	+2.0%
Other operating income	36.1	31.9	4.1	+12.9%
Operating Costs	**3,251.6**	**3,204.1**	**47.4**	**+1.5%**
Aircraft fuel	789.7	798.6	-8.9	-1.1%
Traffic operating costs	807.3	939.6	-132.3	-14.1%
Employee costs	678.6	607.8	70.9	+11.7%
Aircraft rents	0.0	152.0	-152.0	n.m.
Aircraft maintenance costs	56.1	89.9	-33.8	-37.6%
Cost of materials consumed	141.3	166.0	-24.7	-14.9%
Commercial, communication and marketing costs	153.2	186.5	-33.3	-17.9%
Impair. losses in inventories, receiv. and provisions	0.0	7.0	-7.0	n.m.
Other operating expenses	144.1	141.2	2.9	+2.0%
Restructuring	5.0	24.7	-19.7	-79.8%
Other non recurrent items	0.5	20.1	-19.6	-97.5%
Depreciation, amortisation and impairment losses	475.7	70.7	405.0	+572.8%
EBIT (Operating Result)	**47.2**	**-26.9**	**74.1**	**n.m.**
EBIT margin	***1.4%***	***-0.8%***	**+2.3p.p.**	
Interest and similar income	33.8	36.9	-3.1	-8.4%
Interests and similar expenses	-185.4	-43.2	-142.2	+329.0%
Net currency exchange	-21.3	-49.1	27.8	-56.6%
Earnings before taxes	**-125.7**	**-82.3**	**-43.4**	**n.m.**
Income tax	30.1	24.2	5.9	+24.2%
Net income/ (loss)	**-95.6**	**-58.1**	**-37.6**	**n.m.**
EBITDAR [2]	**522.9**	**195.8**	**327.1**	**+167.1%**
EBITDAR margin	***+15.9%***	***+6.2%***	**+9.7p.p.**	

1) TAP adopted on January 1, 2019 IFRS 16, having chosen the modified retrospective model as of the transition date, which does not foresee the restatement of the financial statements from previous years. 2018 Consolidated Financial Statements have not been adjusted for IFRS 16 effects, therefore not being comparable to 2019 Consolidated Financial Statements. For additional information on the adoption of IFRS 16 and its impacts, please read the accompanying Consolidated Financial Statements and its Notes.
2) EBITDAR = Operating Result + Aircraft rents + Depreciation, amortisation and impairment losses.

Operating Income

In 2019 total operating income reached EUR 3,298.8 million, an increase of EUR 121.5 million (+3.8%) compared to the previous year, mainly explained by the increase in passenger income of EUR 131.6 million. This performance was supported on the YoY increase of EUR 162.4 million (+9.6%) in total operating income occurred during the 2H19.

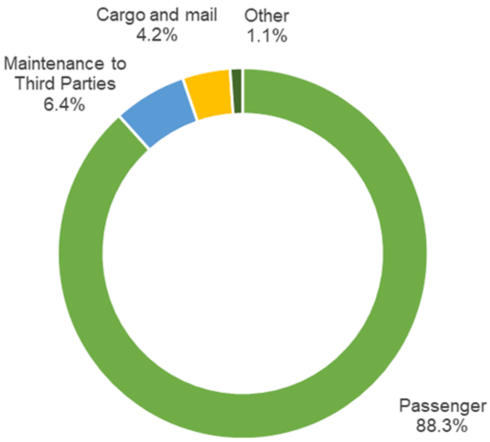
Passenger income reached EUR 2,914.0 million, a YoY increase of 4.7%, having represented 88.3% of total operating income. After a weak first quarter of 2019, with passenger income being particularly impacted by political and economic instability in Brazil, resulting in a YoY decrease of approximately EUR 47 million in the first quarter (-8.1%), TAP posted three consecutive quarters of significant YoY growth of passenger revenues (6.2%, 5.9% and 13.3% in the second, third and fourth quarter of 2019, respectively).

Analyzing passenger income performance by region compared to the previous year, we highlight North American routes which grew EUR 101.2 million (+33.4%), as a result of the focus in the US market and the opening of new routes in June (Chicago, Washington and San Francisco). In 2019 passenger income from North America already accounted for 14% of total passenger income, an increase of 3 percentage points compared to 2018 and 8 percentage points compared to 2015, following the strategy of markets' diversification implemented by TAP. Passenger income from Brazilian routes experienced a decrease of EUR 50 million (-6.3%) in 2019 compared to the previous year, mostly as a result of performance in the first half which was still impacted by the economic and political instability and from the BRL devaluation. The 2H19 saw an increase in TAP's passenger income of EUR 135.6 million (+9.0% YoY) with income from North American Routes growing by EUR 80.4 million (+51.3% YoY) and showing a recovery trend in the Brazilian market. Also worth noting the PRASK improvement observed during the last quarter of 2019 increasing 2% YoY across TAP's network.

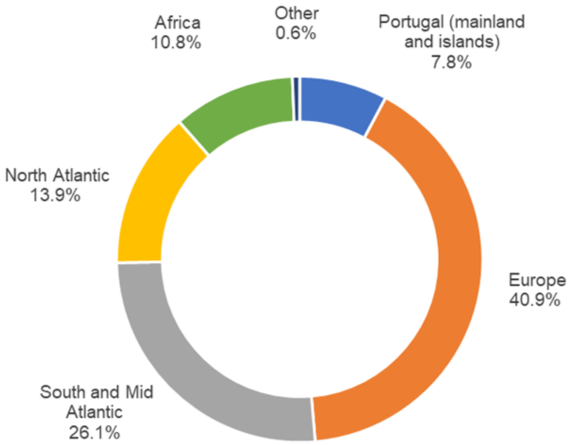
Income from maintenance to third parties decreased EUR 16.9 million YoY (-7.4%), essentially due to the renewal of TAP's fleet and phase-out of older aircraft, which resulted in fewer hangar slots available to third parties and a focus on more profitable engines' shop visits. Despite the revenue decrease, operating margin improved when compared to 2018. In the 2H19, income from maintenance to third parties increased EUR 15.2 million YoY (+14.7%).

Lastly, **Cargo and mail income** reached EUR 137.4 million in 2019, a YoY increase of EUR 2.7 million (+2.0%). In terms of volumes, TAP Air Cargo, TAP's cargo business unit, delivered a 16% YoY growth in volume, despite the decrease of over 3% in air cargo and mail volumes observed globally. This unit's strategy around time-to-market, tariff competitiveness and commercial reinforcement resulted in anticipating the capture of a greater volume of cargo, in order to adapt to a global market in decline. In the 2H19 Cargo and mail income grew by 5.5% YoY to EUR 71.6 million.

Operating Income by Activity
(2019)



Passenger Revenue by Geography
(2019)



Operating Costs

Total operating costs reached EUR 3,251.6 million in 2019, a YoY increase of EUR 47.4 million (+1.5%), below the growth in ASK during the year (+11.8%), which translated in a decrease in operational unit costs per ASK (CASK) of 7.2% compared to the previous year. This trend was even more positive in the 2H19 with CASK decreasing 8.3% YoY.

Fuel and CO2 emission licenses' costs decreased by 1.1% YoY in 2019, despite the growth in block hours (+4.9%), which represented a decrease in unit fuel costs (CASK fuel) of 9.6%, reflecting the higher fuel efficiency of new aircraft, the lower average jet fuel price in the international markets during 2019 when compared to the previous year (-3.2% in EUR considering CIF NWE Platts) and the jet fuel hedging policy in place. With the increasing percentage of NEOs in the fleet during the 2H19, CASK fuel decreased 13.3% YoY.

Traffic operating costs decreased by EUR 132.3 million (-14.1%) in 2019 compared to the same period of the previous year due to the improvement in operational efficiency with less cancellations that reduced the need for wet-leases and the effects of IFRS 16 adoption.

The increase in employee costs of EUR 70.9 million (+11.7%) is attributed to the hiring of employees to address the growth in activity with the expansion of the fleet, new routes and increased frequencies, as well as the wage increases agreed with labor unions in 2018.

The null value accounted for as aircraft rents in 2019 results from the adoption of IFRS 16.

Aircraft maintenance costs decreased in EUR 33.8 million (-37.6%) mainly due to the capitalization of costs with structural maintenances of aircraft under operating leases, pursuant to IFRS 16.

The decrease in costs of materials consumed in EUR 24.7 million (-14.9%), results essentially from the decrease in the activity of maintenance to third parties, namely in what concerns the replacement of high value life limited parts, when compared to the previous year.

The decrease in commercial, communication and marketing costs in EUR 33.3 million (-17.9%), includes the effect of lower booking fees as a result of increased sales through direct channels and of commercial negotiations.

The increase in depreciation, amortization and impairment losses of EUR 405.0 million, includes the impact in depreciation expenses from the adoption of IFRS 16, as a result of the recognition of the right-of-use assets and the corresponding liability.

Operating Results

EBITDAR reached EUR 522.9 million in 2019 (+167.1% YoY), corresponding to an EBITDAR margin of 15.9%, of which EUR 395.3 million was generated during the 2H19, corresponding to an EBITDAR margin of 21.4%.

EBIT (Operating Result) reached EUR 47.2 million in 2019, an improvement of EUR 74.1 million compared to the previous year, resulting in an EBIT margin of 1.4%, due to the performance in the 2H19 which generated EBIT of EUR 132.1 million, a YoY improvement of EUR 113.3 million, corresponding to an EBIT margin of 7.1% during the period.

Non-operating Results

The increase in interest and similar expenses in 2019 is mostly explained by the increase in operating lease interest, as a result of the investment in the renewal of the fleet and the adoption of IFRS 16 in 2019.

The unfavorable foreign exchange differences were mainly due to the appreciation of the US dollar, considering the amount of liabilities in this currency, as a consequence of the introduction of IFRS 16, being most of this impact non-cash since it depends on the year-end exchange rate. Additionally, this caption also reflects the devaluation of the Brazilian real.

Financial Position

TAP, S.A. Consolidated EUR million	31-Dec 2019	01-Jan 2019 1)	31-Dec 2018 2)
Total Assets	**5,152.8**	**3,425.2**	**2,203.0**
Non-current Assets	3,298.0	1,909.3	687.0
Current Assets	1,854.8	1,515.9	1,515.9
Equity	**134.5**	**195.7**	**104.8**
Total Liabilities	**5,018.3**	**3,229.5**	**2,098.2**
Non-current Liabilities	3,282.9	1,639.7	762.2
Current Liabilities	1,735.3	1,589.7	1,336.0

Financing and Lease Liabilities

TAP, S.A. Consolidated EUR million	31-Dec 2019	01-Jan 2019 1)	31-Dec 2018 2)
Financial Debt 3)	**1,358.3**	**775.9**	**775.9**
Bank Loans	399.1	644.0	644.0
Lease liabilities with purchase option	274.9	132.0	132.0
Bonds	684.3	0.0	0.0
Cash and cash equivalents	**426.3**	**223.7**	**223.7**
Net Financial Debt	**932.0**	**552.2**	**552.2**
Lease liabilities without purchase option	**2,278.7**	**1,166.7**	**0.0**

1) Reflects the impact of IFRS 16 adoption as of the transition date.
2) TAP adopted on January 1, 2019 IFRS 16, having chosen the modified retrospective model as of the transition date, which does not foresee the restatement of the financial statements from previous years. 2018 Consolidated Financial Statements have not been adjusted for IFRS 16 effects, therefore not being comparable to 2019 Consolidated Financial Statements. For additional information on the adoption of IFRS 16 and its impacts, please read the accompanying Consolidated Financial Statements and its Notes.
3) Excludes operating leases, which are included in Lease Liabilities without purchase option.

At the end of 2019, TAP presented a cash and equivalents position of EUR 426.2 million. In addition to the cash and cash equivalents on the balance sheet, TAP held a position of BRL 478.2 million of available credit card receivables at year-end (equivalent to EUR 105.9 million considering the year-end exchange rate). Total liquidity considering cash and equivalents and the value of available credit card receivables represented 16.1% of 2019 total operating income.

During 2019, TAP continued to pursue the goal of diversifying its funding sources and increase its average debt maturity, being worth to mention the following financing transactions:

- In January, financing with final maturity in 2034, in the amount of approximately EUR 137 million, placed with international institutional investors;
- In June, public offer in Portugal of TAP 2019-2023 Bonds with a 4-year maturity, in the amount of EUR 200 million. A total of 6,092 retail and institutional investors participated in the Offering. The Bonds are admitted to trading on Euronext Lisbon;
- In December, offering to institutional investors of TAP Senior Notes due 2024 with a 5-year maturity, in the amount of EUR 375 million.

The average maturity of TAP's financial debt (excluding operating leases) increased from 2.5 years at the end of 2018 to 4.5 years at the end of 2019. The percentage of fixed rate debt also increased significantly from 11% at the end of 2018 to 66% in 2019.

In November 2019, TAP was assigned a BB- rating (Preliminary, Outlook Stable) by Standard & Poor's and a B2 rating (Outlook Stable) by Moody's Investors Service.

4.4. Strategic Plan Developments during 2019

In 2019 TAP continued to give significant steps in the implementation of its strategic plan as described below.

Strategic Investments

2019 will be marked as the year of TAP's fleet transformation, as a total of 30 new technology aircraft entered the fleet, replacing 18 older aircraft that were phased-out. This was a clear investment in new technology to improve the operational efficiency, hard product and image upgrade to enhance the offering to TAP's present and future passengers. In 2019 TAP invested more than EUR 1.5 billion on its fleet renewal.

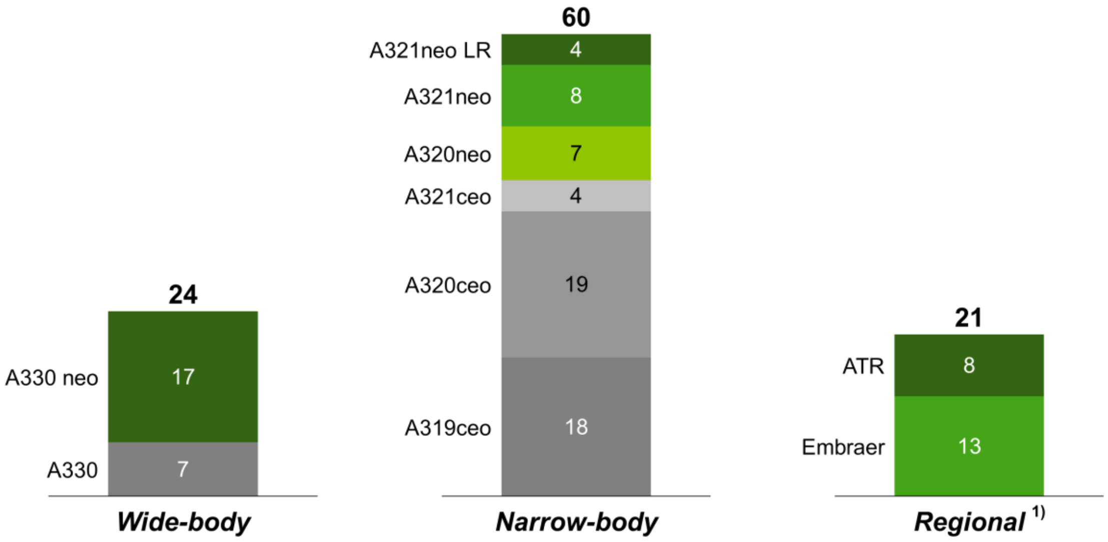
After starting operations of its first brand new A330neo at the end of 2018, for which TAP was the launch operator, during 2019, TAP added another 16 A330neo to the fleet, being at the end of this year, by far, the largest operator of the model. The addition of these aircraft enabled TAP to undergo a massive transformation on TAP long haul fleet, replacing the older A340 and A330 by brand new aircraft, significantly improving its product offering. Another paramount transformation on the long-haul fleet was the introduction of the A321LR. This narrow-body aircraft provides a similar experience to the TAP wide-body aircraft and leverages on Lisbon's unique location to reach eastern USA and Canada, northeastern Brazil and Africa. TAP was the first airline to operate this aircraft model on transatlantic flights. The introduction of the A321LR enables TAP to open new markets, increase frequencies to existing destinations and increase the level of flexibility of long-haul operations. By the end of 2019, all long-haul aircraft were equipped with full flat Executive Class seats, state of the art in-flight entertainment and 75% of the fleet had the capability to offer high speed internet connections and free messaging to passengers. The average age of the long-haul fleet was reduced from 15.2 years at the end of 2018 to 3.9 years at the end of 2019, highlighting the significant investment in new technology. TAP has one of the youngest long-haul fleets in the market, offering passengers a state-of-the-art and innovative experience.

On the medium-haul fleet, building on the significant fuel burn and CO2 improvements, TAP has continued the replacement of older generation A320fam by new generation A320neos and A321neos. This replacement brings not only improved efficiency, but also enables a fleet upgauging by increasing the number of offered seats. On top of the aircraft replacement, TAP has also added additional units to the medium-haul fleet, counting with a total of 56 aircraft at year end. As with the long-haul fleet, also on the medium haul, the investment in new technology resulted in the reduction in the average age of the fleet from 15.1 years at the end of 2018 to 13.2 years at the end of 2019.

In 2019 TAP has also reinforced the operation with spare aircraft on both the wide-body and narrow-body fleets in an effort to improve the on-time performance, especially protecting the inbound and outbound operations in the Lisbon hub.

The regional fleet remained stable during 2019.

As of December 31, 2019, TAP's operating fleet was composed of 105 aircraft, as follows:



1) White and Portugália's fleet, operated under wet-lease agreements

Network Strategy

In 2019 TAP maintained its commitment of increasing the overall profitability of its route network, ensuring a sustainable growth. The Company continued to pursue an expansion strategy focused in the Americas and Africa, leveraging the geographic location of Lisbon to provide superior connectivity across a range of destinations. The expansion of the number of frequencies and destinations allowed TAP to reduce its dependency on a limited number of markets and to diversify its portfolio.

The airline served 95 destinations in 38 countries in 2019, 4 more than in 2018, operating over 130 thousand flights, with an increase of more than 11% in capacity (measured by ASKs). As a result, TAP carried over 17 million passengers in 2019, growing 8% compared to 2018.

TAP consolidated its positioning as the leading European airline in air passenger travel between Europe and Brazil with 85 weekly flights operated to and from Brazil, carrying more than 1.7 million passengers in its 12 routes between the country and Europe. 2019 saw frequency increases to São Paulo, Salvador and Belém.

In the USA, the airline continued its strong expansion in 2019, growing from 6 to 9 routes with the launch of operations to Chicago, Washington and San Francisco. Additionally, frequencies from Oporto to New York (Newark) were increased. With these changes, the number of weekly flights to the USA grew to 49 (63% increase), reinforcing the relevance of this market to TAP. Routes for North America now account for 14% of TAP's total passenger income compared to less than 6% in 2015.

TAP grew its African network as well, increasing the number of weekly frequencies from 94 to 101. Highlights include launching of new destinations such as Banjul and Conakry, enhancement of operations in Angola with peak double daily flights and 3 new weekly flights to Cabo Verde.

A new daily flight to Tel Aviv was also launched, marking TAP's return to the Middle East.

Significant product improvements continued, with TAP starting to operate the Lisbon-Oporto air shuttle with Embraer E-jet aircraft. Operating the bigger and faster E90 instead of turboprops, allowed to increase the number of daily seats offered by approximately 400. The new equipment also allows for quicker trips, improved in-flight comfort for passengers and better punctuality. In 2019, TAP carried over 821 thousand passengers through the air shuttle, a 5% increase versus 2018.

With the long-haul fleet renewal, in December 2019, 70% of flights to Brazil were operated by new-generation aircraft, while for North America this figure reached 95%. The medium-haul fleet renewal also resulted in improved efficiency and increasing capacity for key markets across TAP's network in Europe and Africa.

Despite the constraints of the Lisbon hub, TAP continued committed to improving the quality of service.

Additionally, TAP started several initiatives with the aim of optimizing revenue management, investing in new capabilities and tools, focusing on competitiveness, quality of product and improving revenue.

Focus on Staff and Management Improvement

2019 was characterized by a strong effort in the recruitment, selection and hiring of candidates for the various positions at TAP, S.A. Consequently, a total of 906 new candidates were hired, including 228 pilots, 293 flight attendants, 58 aircraft maintenance technicians, 65 professionals to reinforce ground operations at the Lisbon hub and 41 contact center members.

A new Performance Management Model was implemented for the entire TAP Management Team, and it was applied in a transversal way in order to enhance real equality of opportunities for all employees. This new model based on the definition and management of objectives (KPIs) and 360-degree evaluation, as well as the implementation of moderation panels, allowed for a better evaluation of the performance of the Management Team elements as well as stimulating their personal and professional development.

Profitability

In the context of the transformation that occurred in the Company, 2019 still saw its profitability impacted by several factors, of which we highlight the decrease in activity experienced in the Brazilian market especially during the first half of the year, the sizing of TAP's operation to a higher level of activity and the phase-in of 30 new aircraft and phase-out of 18 older aircraft, as well as the constraints that continue to affect the Lisbon airport.

As mentioned, in the first half of 2019, there was a considerable decrease of passenger revenues in the Brazilian market (EUR 43.1 million YoY) not only as a result of the country's poor economic performance, but also due to the exchange rate devaluation. It should be noted however, that despite the loss in weight that Brazil has been experiencing as a result of the markets' diversification strategy, it continues to be one of TAP's main markets. As such, the recovery of the Brazilian economy will play a key role in the improvement of profitability of Latin America's routes.

On the other hand, the expansion and renewal of the fleet, in order to allow the increase in frequencies and opening of new routes, necessarily implies costs resulting from the lag between the costs incurred and the moment revenues begin to be generated. The moment of phase-out of the older aircraft does not match entirely with the phase-in of the new aircraft, leading to the existence of a duplication and consequent increase of costs in an initial stage. Similarly, in what concerns human resources, the new employees hired to meet growth in air transport, frequently need relatively long periods of training before starting to work, without the generation of the associated revenues during that period. Additionally, it should be mentioned that the phase-out of older equipment from TAP's fleet has demanded a higher involvement from the maintenance area, decreasing the capacity to provide maintenance services for third parties of periodic revisions, though not affecting the capacity of engines' maintenance. Total extraordinary costs associated with the phase-in and phase-out of aircraft in 2019 are estimated at EUR 55 million.

Capitalization and Debt

During 2019, there were three large financing transactions in an aggregate amount of EUR 712 million, allowing TAP to diversify its funding sources and extend the average maturity of its debt, as well as significantly strengthening the Company's liquidity position.

The average maturity of TAP's remunerated financial debt (excluding operating leases) at the end of 2019 was 4.5 years, increasing from 2.5 years at the end of 2018.

In November 2019, TAP obtained for the first time a credit rating from two international rating agencies, being assigned a BB- rating (Preliminary, Outlook Stable) by Standard & Poor's and a B2 rating (Outlook Stable) by Moody's Investors Service.

During the 4Q19, TAP fully amortized an existing secured Bank Facility with shorter maturity, which had an amount outstanding as of September 30, 2019 of EUR 58.8 million.

Lastly, we note that in the context of the Agreement of Adaptation and Monitoring of the Financial Liabilities related to Group TAP, signed with several Portuguese banking entities in the course of the privatization process, TAP amortized in 2019 a total of approximately EUR 164 million of this this loan facility, including an early amortization in December. As described in the subsequent events section, in February 2020, TAP amortized an additional EUR 158.6 million of this loan facility and agreed the extension of the final maturity from November 2022 to May 2024. Adjusted for the amount amortized in February 2020 and the maturity extension of this loan, the average maturity of TAP's financial debt as of December 31, 2019 would have increased further to 5.1 years.

The Commitment of TAP to Portugal

As a key player in the mobility of people and cargo both in Mainland Portugal and to Madeira and Azores, TAP continued to improve service in its domestic network. In 2019, besides the revamped air shuttle service between Lisbon and Oporto, with 13 daily flights, the airline continued service to Faro and increased seats offered to the islands by more than 10%, despite strong competition.

To support the Portuguese diaspora, operations to all Portuguese-speaking countries continued, with capacity increases in some routes (for instance, Cape Verde had 15% more seats offered compared to 2018). The important markets of Luanda and Maputo are now served by the new A330neo aircraft, improving quality over previous hard-product (A340 aircraft).

As a key enabler of the significant growth in foreign tourists in Portugal in the last few years, TAP contributed decisively for the increase in tourists from the USA and Canada. The awareness raised by TAP in these markets has leveraged Portugal as a touristic destination for North Americans, while the award-winning Portugal Stopover program introduced the popular concept for transatlantic travelers, allowing a stop in Lisbon or Oporto for up to 5 days while en-route to other European countries. TAP is looking to add further destinations to the Oporto stopover program.

Job-creation and contribution to the Portuguese GDP are also a strong proof of TAP's commitment to Portugal. During 2019, the company continued to hire some of the best talent in the country (906 new hires, 49% of those with higher education) and generated a significant tax contribution. In 2019, TAP's employee costs totaled EUR 678.6 million, placing TAP among the largest employers in the country.

TAP also contributes significantly to tax revenues and social contributions in Portugal, paying during 2019 circa EUR 262.7 million in taxes and social contributions (value net of taxes received).

4.5. Main events in 2019

January 2019

- Conclusion of a financing transaction in the amount of approximately EUR 137 million, with final maturity in 2034, arranged by the Macquarie Group.
- TAP starts operating 13 flights a day between Oporto and Lisbon, with flights every hour at peak times, operated entirely by jet aircraft.
- TAP receives three new aircraft from Airbus: one A321neo and two A330neo, totaling 9 NEO in the fleet.

February 2019

- TAP receives in Lisbon a new airbus A320neo, the first aircraft from this model to arrive the Company in 2019, progressing on the goal of modernizing its fleet.
- TAP reinforces its operation between Oporto and Brazil, adding more flights between the Portuguese city and São Paulo.
- TAP adds new benefits to its loyalty program Miles&Go, with TAP's Miles&Go clients being able to use miles to bid for upgrades and benefit from the new functionality Plusgrade.

March 2019

- TAP reports 2018 results.
- TAP celebrates 74 years and extends the Stopover Program to Brazil.
- TAP carries out the first commercial flight in an A330neo in the USA, in a flight between Lisbon and Miami.
- TAP achieves the first place for the month, in terms of punctuality among the list of European companies most active in Humberto Delgado's Airport – Lisbon.
- TAP receives three new aircraft from Airbus: one A321neo and two A330neo, totaling 13 NEO in the fleet.

April 2019

- TAP carries out the inaugural flight between Lisbon and Tel Aviv, as well as flights to Dublin.
- TAP receives the first Airbus A321 Long Range, becoming the first company in the world to operate simultaneously Airbus A330neo and Airbus A321 Long Range. The Airbus A321 Long Range is the first TAP narrow body aircraft with capacity to operate transatlantic routes, allowing the expansion of the connections in the east coast of USA and the northeast of Brazil.
- TAP receives another two new aircraft from Airbus: one A320neo and one A330neo, totaling 16 NEO in the fleet.

May 2019

- TAP receives three new aircraft from Airbus: two A320neo and one A330neo, totaling 19 NEO and, for the first time in TAP's 74-year history, reaching the mark of 100 aircraft in the fleet.
- On May 2, 2019, Megasis – Sociedade de Serviços e Engenharia Informática, S.A. was merged into TAP, S.A., producing accounting and tax effects as of January 1, 2019.

June 2019

- TAP concludes an inaugural offer in the Portuguese bond market. The bond issuance, in the amount of EUR 200 million with maturity in 2023, was the largest public bond offer by a Portuguese corporate issuer in the Portuguese Capital Market since 2012. The strong demand allowed the final amount of the offering to be set at 4 times the initial amount of EUR 50 million. More than 6,000 investors (retail and institutional) participated in the offer.
- In the same month in which it starts three new routes to the USA (Chicago, San Francisco and Washington), TAP also strengthens its network in Europe, with the start of flights to Naples and Tenerife. Naples is TAP's sixth route to Italy and Tenerife is the eleventh route to Spain and the second to the Canary Islands.
- TAP receives four new aircraft from Airbus: one A321 Long Range and three A330neo, totaling 23 NEO in the fleet and reaching the mark of 10 A330neo.
- New flight simulator set up in Cascais.

July 2019

- TAP starts flying between Oporto and Brussels, as part of the investment in the operation from the northern Portuguese city.
- TAP starts flying to Conakry (Guinea).
- TAP receives three new aircraft from Airbus: one A320neo and two A330neo, totaling 26 NEO in the fleet.

August 2019

- TAP announces route plan for 2020, which includes a new Air Shuttle to Madrid (from Lisbon and Oporto), a reinforcement of North American and Brazilian routes, and new destinations (such as Santiago de Compostela, in Spain).
- TAP welcomes one new A330neo and totals 27 NEO in the fleet.
- TAP starts flying between Oporto and Munich.

September 2019

- TAP receives two new aircraft from Airbus: one A321 Long Range and one A330neo, totaling 29 NEO in the fleet.

October 2019

- TAP hits the mark of 30 NEO in the fleet, by receiving a new A330neo, which is also the 15th one of this model.
- TAP launches EconomyXtra, offering total flexibility of choice to the customers and an onboard experience that goes beyond the traditional Economy and Business Class.

- TAP starts flying to Banjul (Gambia).
- The last A340 aircraft stops operating in TAP's fleet, after 25 years flying with the airline's colours.

November 2019

- TAP obtains credit rating for the first time with two international credit agencies, being assigned a BB- rating (Preliminary, Outlook Stable) by Standard & Poor's and a B2 rating (Outlook Stable) by Moody's Investors Service.
- TAP receives six new aircraft from Airbus: one A321 Long Range, one A230neo, two A321neo and two A330neo totaling 30 new aircraft in 2019 and 36 NEO in the fleet.
- TAP announces three new routes for 2020: Maceió (Brazil) and Montreal (Canada), from Lisbon, and Boston (USA), from Ponta Delgada (Azores).

December 2019

- TAP concludes the issuance of EUR 375 million in aggregate principal amount of senior notes due 2024, which constituted the first debt offering by TAP, SA in the international capital markets.
- TAP announces having concluded the required internal authorizations to proceed with a commercial cooperation agreement with Azul Linhas Aéreas Brasileiras S.A..
- TAP Logistics Solutions, S.A. was incorporated on December 30, 2019.

DISTINCTIONS AND AWARDS

Portugal

- TAP is considered the 2nd best company to work for in Portugal by the Randstad Employer Brand Awards, after conquering the 3rd place the previous year.
- TAP wins gold for Employer Branding at the Human Resources Awards.
- TAP elected "Best Airline" during the Marketeer Awards.
- TAP is Portugal's strongest and most valuable brand, leading the ranking of Brand Finance.
- TAP elected Best Airline at Publituris Awards.
- TAP Miles&Go elected best international loyalty programme by 'Melhores Destinos' magazine.
- TAP considered a "Trusted Brand" concerning environment best practices, by Reader's Digest's Portuguese readers.
- TAP marketing campaigns distinguished at Prémios Eficácia.
- TAP Air Cargo received three awards in the annual ceremony of Transportes & Negócios magazine.

International

- TAP was distinguished in Phoenix at the MicroStrategy Customer Awards 2019, in recognition of the dashboards developed for the Company, which allow it to continue improving the overall performance, namely punctuality and client satisfaction.
- TAP is awarded at the World Travel Awards, winning in the three categories for which it was nominated. TAP was considered i) European Airline leader in the connections to Africa, ii) European Airline leader in the connections to South America and also iii) European Airline with the best in-flight magazine, UP magazine.
- TAP Miles&Go, the airline's frequent flyer programme, was awarded the "210 Award" for Europe and Africa

in the prestigious Freddie Awards, which considered the programme to have the most potential of growth in those regions.

- TAP crew again voted world's most handsome. The prestigious British magazine Monocle reinforced last year’s award while emphasizing the professionalism of crew members.
- TAP Miles&Go wins three awards at the Frequent Traveler People’s Awards. TAP’s frequent flyer programme was considered the best in Europe and Africa, in the categories of Program of the Year, Best Overall Promotion and Best Loyalty Customer Service.
- TAP distinguished by MSC Cruises as “Airline Partner” in the All-stars of the Sea 2019 ceremony.

5. SUBSEQUENT EVENTS

Commercial Cooperation Agreement with Azul

On February 6, 2020 TAP, S.A. signed a commercial cooperation agreement with Azul Linhas Aéreas Brasileiras S.A. (“Azul”) (“Cooperation Agreement”). The goal of the Cooperation Agreement is to create a model for commercial cooperation between TAP and Azul, as commonly used in the aviation industry, to offer joint air transport services, increasing the efficiency and diversity of the products and services made available to passengers, notably in terms of frequencies, available schedules and number of combined origins and destinations served. This Cooperation Agreement does not entail any change at the level of the shareholding structure of neither TAP nor Azul. The implementation of the Cooperation Agreement is conditional on approvals and/or non-opposition being obtained and on the necessary communications before the competent regulatory and competition authorities being made.

Partial Loan Repayment and Maturity Extension

On February 12, 2020, TAP made a repayment towards a loan facility with a syndicate of Portuguese banks, in the amount of EUR 158.6 million. With this amortization, since the beginning of 2019, TAP amortized a total of EUR 322.2 million of this loan facility, with approximately EUR 142 million currently outstanding. Additionally, on February 28, 2020, TAP agreed the extension of the final maturity of this loan facility from November 2022 to May 2024. Adjusted for the amount amortized in February 2020 and the maturity extension of this loan, the average maturity of TAP’s financial debt as of December 31, 2019 would have increased further to 5.1 years.

Impact of Coronavirus (COVID-19)

In recent weeks, a growing number of confirmed cases of Covid-19 have been reported, both at the national and international level, having several governments, authorities and economic agents implemented a set of initiatives with impact on the mobility of populations and on the global economy. The consequences of the spread of the virus are still being analyzed by competent authorities, being expected that new initiatives will be implemented, which will have impact on the current situation.

Given the nature of the measures already implemented and potential future initiatives, the Tourism sector is expected to be among the most affected at the global level. In this context, it’s already possible to observe a decrease in demand for air transportation services worldwide, and as such, TAP’s Board of Directors is monitoring the situation based on the available information as well as current expectations regarding the evolution of the virus’ spread.

Within the context of uncertainty described above, TAP's Board of Directors, in coordination with Health and Civil Aviation authorities, and other relevant entities, implemented a set of measures to ensure the protection of employees and passengers' health, as well as to match its supply to the constant changes in demand, including the reduction in the number of flights for March (-7%), April (-11%), and May (-19%) of 2020 and several initiatives to control and reduce costs, including the suspension or delay of non-critical investments, the renegotiation of commercial agreements and respective payment schedules, cuts in incidental expenses, the suspension of new staff recruitment, promotions and training, as well as the implementation of temporary unpaid leave programs.

The measures implemented to protect TAP's financial position were determined based on the best available information to date, stressing, however, the context of uncertainty associated with the future evolution of the spread of Covid-19.

6. OUTLOOK FOR 2020

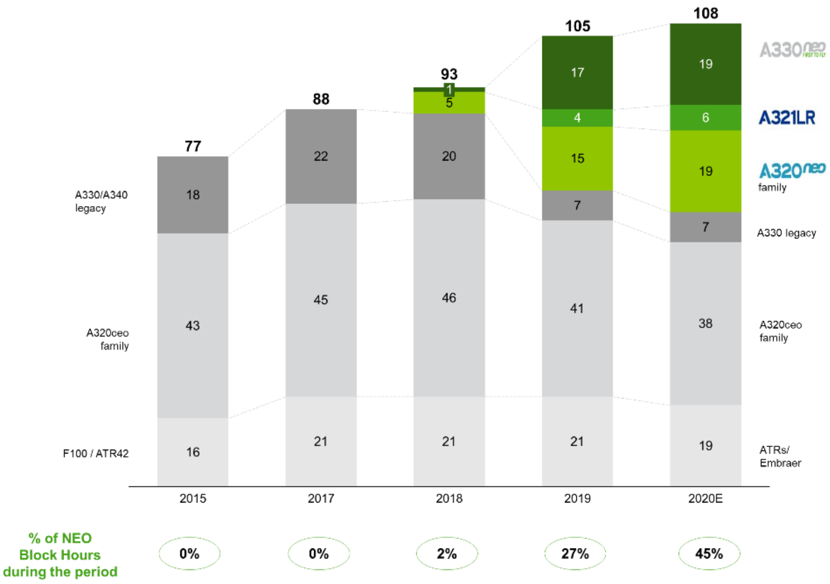
Fleet

Based on the deep transformation that was performed on the fleet in 2019, the Company's commitment to introduce new technology aircraft will continue, both in the long-haul and medium-haul fleets, though at a slower pace. During 2020 TAP expects to reinforce the long-haul fleet with 2 A330neo and 2 A321LR that will support operations growth and launch of new routes.

On the medium-haul fleet, the replacement of A319 and A320 by new A320neo and A321neo will continue with the expectation of having a total of 4 new aircraft on the fleet by year end.

The regional fleet should experience a temporary reduction caused by the phase-out of 2 E190 that will not be replaced in 2020.

End-of-year operational fleet and renewal plan [1)]



1) In some years Operational Fleet may differ from Total Fleet due to aircraft in phase-in and phase-out. The Fleet Plan for 2020 may change as a result of delays in the delivery of the new aircraft.

Passenger Air Transport

In 2020, TAP will continue to optimize its operation and its network in order to improve profitability, adjusting frequencies in current routes and launching new destinations. The Company will continue to pursue its hub strategy, with a focus on strong growth to North America and on improving connectivity between the regions served by TAP. The main network changes include:

- Introduction of New York (Newark) double-daily service from Lisbon, adding to daily Lisbon-JFK and daily Oporto-Newark operations (only daily in the Summer);
- Increase Miami to 10 weekly flights across the year (from current 7), and enhancement of Chicago and Washington routes, both increasing to daily (from current 5 weekly);
- Launch of a nonstop service between Lisbon and Montreal (Canada) and between Ponta-Delgada (Azores) and Boston. The link to the Azores continues our commitment to the diaspora, and provides a platform to support Azores in reaching its tourism potential;
- Maintain strong presence in Brazil, increasing frequencies to Natal and Belém, and adding a new nonstop service to Maceió, with 3 weekly flights;
- Increase frequencies in several routes, such as Oporto-Funchal (will offer 3 daily flights), and Lisbon-Ponta Delgada (5 daily flights). Improve service to Tel Aviv and Casablanca to double-daily, enhancing significantly their connectivity at Lisbon.

In addition to the announced increases in destinations and frequencies, TAP will continue to optimize its Lisbon hub in order to leverage connecting traffic, offering a better product in the main traffic flows between Europe, Africa, Middle East and the Americas.

To expand its coverage, particularly in South and North America, TAP will continue to rely on its extensive partner network, allowing it to offer more destinations and seamless connectivity beyond its own destinations. TAP will also leverage on its JV with Azul and fortify the links with its Star Alliance partners.

Finally, to improve competitiveness, TAP will focus in segmenting its demand and product offering in order to cater to different market segments, optimizing its portfolio and increasing value proposition. The Company will also focus in maximizing ancillary revenues, through improved dynamic pricing strategies and sales processes.

Maintenance and Engineering

Regarding the Maintenance activity in Portugal, from a commercial perspective, the prospects for 2020 are of consolidation in relation to previous years, though some growth in engine business is expected to compensate for the decrease in the activity of aircraft maintenance to third parties due to the lack of hangar slots available. Commercially, the focus is towards Asian markets and the work proceeds to obtain the required certification from the Chinese Authority, CAAC. The activity in components maintenance for third parties will mainly result from fleet management contracts, though some opportunities may arise resulting from TAP new maintenance providers. Finally, potential business with engine OEM's will be evaluated.

Cargo and Mail

In 2020 the market outlook for cargo airfreight remains uncertain and we expect it to maintain 2019 volumes level, after 14 continuous monthly drops, whereas TAP Air Cargo is expected to grow again in volume in 2020, namely during the first half of the year on the new USA trade lanes of Chicago and San Francisco.

The 2020 expected growth in TAP's cargo business should be delivered through a strategy of commercial reinforcement in key markets, and also considers the development of the off-line cargo destinations (interline), as well as the express door-to-door products´ implementation throughout the year, following the digitalization program of processes and revenue generation.

The performance of TAP in 2020 will naturally depend on the domestic and international economic environment and especially on the evolution of the following factors: i) demand for air travel in TAP's main markets, namely in Europe, Brazil and USA; ii) the price of jet fuel in the international markets and; iii) the exchange rate of the main currencies to which TAP is exposed, namely USD and BRL in relation to the Euro; and, also, by the capacity of suppliers to deliver the new aircraft in the agreed dates.

Additionally, 2020 is being adversely affected by weaker demand as a result of coronavirus (COVID-19), with global air travel being impacted by a decrease in both leisure travelling, with cancellation of previously booked tickets or postponements, and in business travel specially in the affected countries. TAP's teams are taking mitigating actions to better match supply to demand, including capacity adjustments in some routes, in line with the evolving situation and cost and revenue initiatives are being implemented across the business. With the ongoing uncertainty on the potential impact and duration of COVID-19, it is not possible at this stage to accurately assess the impact of this situation in FY 2020.

7. CORPORATE GOVERNANCE

7.1. Qualifying shareholdings in the Company as of 31 December 2019

Article 245-A, paragraph 1, sub-paragraph c) of the Portuguese Securities Code[1](“PSC”), applicable ex-vi article 245-A, paragraph 6 of the PSC

Shareholders with Qualified Holdings	Capital/Voting Rights (%)	Number of Shares
TAP – Transportes Aéreos Portugueses, SGPS S.A.		
▪ Directly	100%	8,300,000
Which in turn has as shareholders with qualified holdings:		
▪ Parpública – Participações Públicas (SGPS), S.A. (Portuguese State, through the Directorate-General of Treasury and Finance, holds 100% of the share capital)	50%	750,000
▪ Others[2]	5%	75,000
▪ Atlantic Gateway, SGPS, Lda.	45%	675,000
Which in turn has as shareholders with qualified holdings:		
▪ HPGB, SGPS, S.A. (Humberto Manuel dos Santos Pedrosa holds 96.86% of the share capital)	50%	
▪ DGN Corporation (David Gary Neeleman holds 100% of the share capital)	40%	
▪ GLOBAL AZULAIR PROJECTS, SGPS, S.A. (Global Airline Ventures LLC holds 54.55% of the share capital; Azul Linhas Aéreas Brasileiras S.A. holds 45.45% of the share capital)	10%	

1 Decree-Law No. 486/99 of 13 November, as amended.

2 On April 10, 2017, TAP – Transportes Aéreos Portugueses, SGPS S.A (“TAP SGPS”) launched a share public offering, exclusive for TAP Group employees’ (TAP SGPS and its affiliated companies), within the scope of the indirect reprivatisation process of TAP’s share capital, in accordance with the Resolution number 42-A/2017, from the Council of Ministers, dated March 23, 2017, following which, TAP Group’ employees acquired a total of 75,000 shares representing 5% of the share capital and voting rights of TAP SGPS. Part of these shares have already been sold to third parties.

7.2. Identification of any shareholders holding special rights and a description of such rights

Article 245-A, paragraph 1, sub-paragraph d) of the PSC, applicable ex-vi article 245-A, paragraph 6 of the PSC

TAP SGPS does not hold special rights in its capacity of sole shareholder of the Company.

At the level of the Company's indirect shareholding structure, and as provided for in the articles of association of TAP SGPS, each category of shares of TAP SGPS is attributed a specific percentage of economic rights. Accordingly, Parpública – Participações Públicas (SGPS), S.A. holds 50% (fifty percent) of the share capital and voting rights and 5% (five percent) of the economic rights of TAP SGPS while the private shareholder Atlantic Gateway, SGPS, Lda. holds 45% (forty-five percent) of the share capital and voting rights and 90% (ninety percent) of the economic rights of TAP SGPS. The remaining 5% (five percent) of the share capital, voting and economic rights of TAP SGPS are held by a few minority shareholders (please refer to section 7.1. above).

7.3. Any restrictions on voting rights, such as limitations on the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby the financial rights attached to securities remain separate from the holding of securities

Article 245-A, paragraph 1, sub-paragraph f) of the PSC, applicable ex-vi article 245-A, paragraph 6 of the PSC

Pursuant to article 9, number 2 of the articles of association of the Company, each 100 (one hundred) shares correspond to 1 (one) voting right at the Shareholders' General Meeting and the shareholders holding less than 100 (one hundred) shares of the Company may group together with other shareholders in order to reach the necessary conditions for the joint exercise of the voting right.

Besides this limitation on voting rights based on the number of shares of the Company, there are no restrictions or limitations on voting rights, nor any systems whereby the financial rights attached to securities remain separate from the holding of securities.

Pursuant to article 9, number 3 of the articles of association of the Company, for the voting right to be exercised, the respective shares shall be registered in the name of the respective holders on the Company's share registry book at least 15 (fifteen) days before the date set for the relevant Shareholders' General Meeting.

Shareholders may be represented at the Shareholders' General Meeting pursuant to the applicable law. Pursuant to article 9, number 4 of the articles of association of the Company, shareholders may be represented at the Shareholders' General Meeting by sending a letter addressed to the Chairman of the Shareholders' General Meeting before the beginning of the relevant Shareholders' General Meeting.

Postal voting is permitted under article 9, number 10 of the articles of association of the Company and shareholders may use it by hand-delivering a letter to the Chairman of the Shareholders' General Meeting or sending a registered courier with acknowledgement receipt to the Company's registered office at least 3 (three) business days before the date set for the relevant Shareholders' General Meeting, except when a longer period is established in the Shareholders' General Meeting convening notice.

Finally, as set out in article 9, number 11 of the articles of association of the Company, electronic voting is permitted, in accordance with the authenticity requirements that shall be defined in the convening notice by the Chairman of the Shareholders' General Meeting.

7.4. Rules governing the appointment and replacement of board members and amendments to the articles of association

Article 245-A, paragraph 1, sub-paragraph h) of the PSC, applicable ex-vi article 245-A, paragraph 6 of the PSC

The Board of Directors of the Company shall be composed by a minimum of 3 (three) and maximum of 11 (eleven) members. The Board of Directors is currently formed by 5 (five) members, including the Chairman. The members of the Board of Directors, including the Chairman, are appointed at the Shareholders' General Meeting, for a term of 3 (three) years, which may be renewed in accordance with the applicable legislation.

As provided for in article 13, number 2 of the articles of association of the Company, the Board of Directors may delegate, within the limits established by law, day-to-day management on one or more appointed board members or an Executive Committee within the capacities provided for by law. The Board of Directors has appointed an Executive Committee formed by 3 (three) members, including the Chairman (please see Section 7.5. below).

Regarding the absence and replacement of directors, pursuant to article 12, number 3 of the articles of association of the Company, directors who fail to attend more than 4 (four) consecutive meetings or to 6 (six) interpolated meetings of the Board of Directors, without justification approved by the remaining members of the Board of Directors, shall be granted a definitive absence. Upon the occurrence of a definitive absence of a director, his/her replacement shall be carried out under the terms of the applicable law, namely according to the provisions of articles 393 and following of the Portuguese Companies Code[3].

Pursuant to article 10, number 2 of the articles of association of the Company, the Shareholders' General Meeting may only be held, on first call, where shareholders holding, at least, 51% (fifty one percent) of the share capital of the Company are present or duly represented. Pursuant to article 10, number 4 of the articles of association of the Company, any resolutions of the Shareholders' General Meeting on any amendments of the articles of association of the Company must be approved by a qualified majority of two-thirds of the votes cast, except where the resolution is taken at a Shareholders' General Meeting held on second call (where shareholders holding, at least, half of the share capital and voting rights of the Company are present or duly represented), where any amendments of the articles of association of the Company must be approved by a simple majority of the votes cast.

[3] Decree-Law No. 76-A/2006 of 29 March, as amended.

7.5. Powers of the board, especially regarding resolutions for capital increase

Article 245-A, paragraph 1, sub-paragraph i) of the PSC, applicable ex-vi article 245-A, paragraph 6 of the PSC

The Board of Directors manages the Company's business and affairs and shall decide on any matter relating to its management while abiding by the resolutions adopted by the Shareholders' General Meeting whenever required by law or by the articles of association.

Article 13 of the articles of association of the Company grants the following powers to the Board of Directors:

a) Managing the activities of the Company;

b) Managing the corporate business and perform all acts relating to the corporate purpose of the Company which do not fall within the powers of the remaining corporate bodies of the Company;

c) Acquiring, dispose of or encumber rights or personal and real estate property and holdings in other companies;

d) Entering into loan agreements within the national or foreign financial market;

e) Deciding on the issuance of bonds or other securities, within such limits as annually set by the Shareholders' General Meeting (as per section f) of article 11 of the articles of association of the Company);

f) Representing the Company in court and out of court, actively and passively, with the possibility or withdrawing, settling and confession in any disputes and to settle arbitration agreements;

g) Establishing the technical and administrative organization for the Company and its internal functioning rules;

h) Granting powers of attorney; and

i) Performing other capacities attributed by law or by the Shareholders' General Meeting.

Pursuant to the articles of association of the Company, the Board of Directors sets the dates or the frequency of its meetings, which shall happen, at least, once every quarter and whenever the Chairman summons a meeting, on his own initiative. In the absence or impediment of the Chairman, a meeting may be convened by a deputy or at the request of at least two board members, or at the request of the Audit Committee.

The Board of Directors may not pass resolutions unless the majority of its members attend it or are represented, save in duly substantiated cases of urgency, as determined by the Chairman or by his substitute, in the absence or impediment of the Chairman and, in this case, postal voting is permitted.

The decisions of the Board of Directors shall be taken by a majority of the votes cast. Abstentions are not counted as votes cast.

In accordance with the articles of association of the Company, the Board of Directors may delegate, within the limits established by law, day-to-day management on one or more appointed board members or an Executive Committee.

On January 31, 2018, the Board of Directors approved the members of the Executive Committee, for the three-year period of 2018-2020 as well as the delegated powers.

The current management of the Company has been delegated to the Executive Committee, pursuant to the provisions in numbers 3 and 4 of article 407 of the Portuguese Companies Code and article 13, numbers 2 and 3, of the articles of association of the Company, which includes, namely and within the chart of the general policies approved by the Board of Directors, the performance of the following acts:

a) Management of the Company's activities pursuant to the annual budget approved by the Board of Directors;

b) Preparation of the Company's annual budget for approval by the Board of Directors;

c) Contracting and performance of the disciplinary, management and supervision powers of the employees of the Company, as well as representation of the Company in its relationships with the employees;

d) Preparation and presentation to the other board members of the information necessary for the Board of Directors to take decisions, pursuant to the respective agenda;

e) Presentation to the Board of Directors of matters that require specific technical studies;

f) Financial, operational, commercial, administrative, marketing and promotional management of the Company;

g) Negotiation and execution of all necessary or convenient agreements to pursue the Company's corporate purpose, except agreements that imply the contracting, modification or termination of any loans or issuance of debt instruments, to which the Company or any of its affiliates are a party, with an individual amount higher than 30% (thirty percent) of TAP Group's assets; granting guarantees by the Company and/or by any of its affiliates; approval of investments or other capital expenses of the Company and/or its affiliates, with an individual amount higher than 30% (thirty percent) of Tap Group's consolidated revenues; approval, modification or termination of partnership or joint-venture agreements to which the Company or any of its affiliates are a party, with an individual amount higher than 30% (thirty percent) of TAP Group's consolidated revenues; acquisition, encumbrance or sale of assets of the Company and/or any of its affiliates, with an individual amount higher than 30% (thirty percent) of TAP Group's consolidated revenues; acquisition or disposal of control over other companies by the Company; transmission of shares of any of the companies of TAP Group;

h) Opening bank accounts, negotiate financial conditions with the banks, make payments, make deposits or withdraw money from the Company's bank accounts;

i) Representing the Company before any ministries, general directions, government departments, municipalities and any public authorities or of other entities, public or private; and

j) Representing the Company before all courts, whether civil, criminal, administrative, labour and tax in all instances, filing motions, requests, requirements, answers, counterclaims, submitting evidence and filing ordinary or extraordinary appeals; settling all types of cases and disputes, withdraw actions or appeal, freely defining the conditions, settlements and obligations considered to be convenient; settling and withdrawing in any court, in all disputes with a civil, criminal, administrative, and tax nature, with the broadest faculties on behalf of the Company.

In addition to the matters under the exclusive responsibility of the Board of Directors pursuant to the applicable law, the Executive Committee may not decide on the following matters:

a) Approval or modification of the business plan or annual budget of the Company;

b) Appointment of members of the corporate bodies of companies affiliated or related to the Company;

c) Approval, modification or termination of any loans, issuance of debt instruments, to which the Company is and/or any of the affiliated companies of TAP SGPS are a party, with an individual amount higher than 30% (thirty percent) of TAP Group's total assets;

d) Granting of guarantees by the Company and/or by any of its affiliated companies;

e) Approval of any investments or other capital expenses of the Company and/or the affiliated companies, with an individual amount higher than 30% (thirty percent) of TAP Group's consolidated revenues;

f) Approval of any modifications to the capitalization plan in exhibit 1.1(j) to the direct sale agreement, entered into on June 24, 2015, between Parpública, DGN Corporation, HPGB, SGPS, S.A. and Atlantic Gateway;

g) Approval, amendment, or termination of partnership or joint-venture agreements to which the Company or any of its affiliated companies are a party, with an individual amount higher than 30% (thirty percent) of TAP Group's consolidated revenues;

h) Acquisition, encumbrance or sale of assets of the Company and/or any of its affiliated companies, with an individual amount higher than 30% (thirty percent) of TAP Group's consolidated revenues;

i) Acquisition or disposal of control over any other company by the Company;

j) Transmission of shares of any of the companies of TAP Group;

k) Filing of an insolvency proceeding or a special recovery proceeding of the Company;

l) Determination of the voting direction of the Company in the shareholders' general meetings of any affiliated companies on the following matters:

    (i) Amendment of the articles of association of any affiliated companies of the Company;

    (ii) Amendment of the policy of distribution of dividends of any affiliated companies of the Company;

    (iii) Merger, spin-off, capital stock/share capital increases and decreases, transformation, liquidation or dissolution of any of the affiliated companies of the Company;

    (iv) Payment and reimbursement of ancillary payments and definition of the respective terms and conditions.

The Executive Committee shall meet whenever summoned by its Chairman of by any of its members, at least 5 (five) days in advance and it shall have a minimum monthly periodicity and an annual calendar may be established.

The Executive Committee may not pass resolutions unless the majority of its members attend or is represented at the meeting, also considering the members who vote through mail.

The resolutions of the Executive Committee are taken through a simple majority of the votes and the Chairman of the Executive Committee has the deciding vote in case of a tie.

Finally, regarding the increase of the share capital of the Company, although article 456 of the Portuguese Companies Code sets forth that the articles of association may authorise the management body to approve an increase of the share capital by means of cash contributions, the articles of association of the Company do not grant any such powers to the Board of Directors.

7.6. Core information on the internal control and risk management systems implemented in the Company for financial information disclosure

Article 245-A, paragraph 1, sub-paragraph m) of the PSC, applicable ex-vi article 245-A, paragraph 6 of the PSC

The Board of Directors is responsible for ensuring disclosure of accurate financial information that truthfully reflects the financial situation of the Company at any given moment, in compliance with the applicable legislation and regulations.

As regards the quality of the financial information that is publicly disclosed, it results from a financial reporting process that is ensured by the central services areas, subject to the internal control system of Group TAP and monitored by the Board of Directors and the Audit Committee of Financial Matters of Group TAP. In particular, in relation to the semi-annual and annual accounts, the documents are sent to the Board of Directors, that approves them before they are published.

In addition, the Supervisory Board is responsible for monitoring the adequacy of the Board of Directors' process for preparing and disclosing financial information.

7.7. Specialized Committees within the Board of Directors

Within the governance model of TAP, it should also be mentioned the existence of three specialized committees – the Strategy Committee, the Audit Committee in Financial Matters and the Human Resources Committee – at the level of the sole shareholder TAP – Transportes Aéreos Portugueses, SGPS, S.A., which have been incorporated within the respective Board of Directors.

8. RISK MANAGEMENT

INTERNAL CONTROL SYSTEM

The Internal Audit Department, through the evaluation of internal control systems, plays an active role in the development and robustness of the risk management process, supervising its effectiveness and suitability, aligned with TAP's goal to continue to develop robust and independent internal controls, in order to strengthen its culture of regulatory compliance and awareness.

Considering the numerous risks that may jeopardize TAP's activity, the implementation of adequate internal control and risk management systems is fundamental in order to minimize the Company's exposure to those uncertainties.

Internal control is, therefore, an instrument of improvement and upgrading of processes, based in regulations, procedures and TAP's structures, that allow Management to implement its strategy and objectives efficiently, optimizing their resources.

The control environment of TAP is supported and instilled by top management, being communicated to all employees the importance of fulfilling the established procedures, in line with high standards of conduct, reflecting a commitment with ethical values, responsibilities, policies, norms and procedures.

MAIN RISKS

Organizations are subject to many occurrences, that may expose them to negative events, in terms of image or financial position.

Based on the results presented in the Global risks report 2019 of the World Economic Forum, several risks were identified that were grouped in 5 categories, namely economic vulnerabilities, geopolitical tensions, political and social tension, environmental issues and technological instability.

The sector in which TAP operates is directly affected by any of these risk categories, being significantly subject to the negative impacts that may arise from them.

Economic Vulnerabilities

Being focused in Europe, Brazil, North America and Portuguese speaking countries in Africa, TAP is particularly subject to any economic changes that affects any of these regions, directly or indirectly.

Unfavorable economic conditions such as high unemployment rates, difficult access to credit, low growth rates or negative GDP growth, unfavorable exchange rates or the decrease in consumer and business confidence could have a negative impact in the demand for tourism and business trips, affecting mainly premium services, which can affect materially the Company's revenues and margins.

The recent exit of the United Kingdom from the European Union presents currently an eminent risk for economic stability with potential impact in the aviation industry.

TAP also faces several financial risks, including fuel price and CO2 licenses risk, foreign exchange rate fluctuations, interest rate risk, liquidity risk, credit risk and capital management. For additional information on these risks please see explanatory note 3 to the 2019 Consolidated Financial Statements.

Additionally, outbreaks or potential outbreaks of diseases, such as the recent Coronavirus, could have an adverse impact on global air travel. Outbreaks of disease could also result in quarantines of our personnel or an inability to access facilities or our aircraft, which could harm our reputation and financial position.

Geopolitical Tensions

In the last years we have been witnessing increasing geopolitical tension among the main global powers, not being anticipated any slowdown of those in a near future, being certain that polarization and bad governance raise important questions about the political health of some countries, presenting a serious risk to global stability.

One of the factors that results in strong exposure by TAP to geopolitical crisis is fuel prices volatility which impacts significantly the Company's accounts. Adverse events in the Middle East or in other oil producing regions, including the suspension of production by any significant producer, may result in substantial increases of prices and impact future availability of oil affecting negatively the Company's costs and consequently, the financial performance.

Political and Social Tensions

Geopolitical instability is many times exacerbated by domestic political tensions, being societies' polarization one of the engines that may trigger developments in the global risk scenario. This instability may have a direct impact in the predisposition and availability to travel to specific destinations such as the United Kingdom with Brexit, Venezuela with the current social and economic crisis, or any other country where the Company operates.

Additionally, and since our business is based in human resources, we should highlight that other social issues such as increases in employee benefits, union disputes, strikes or other disruptions related with employees may significantly affect the company's operations.

Technological Instability

From a technological perspective, cybernetic attacks are an increasing concern, with fraud related to data and thefts, risks with a very significant probability of occurrence.

TAP depends on automatic systems for all operations including the sales system, reservations and fleet management, among others. Interruption or malfunction of flight management systems may provoke an activity disruption causing delays, cancellations, problems in crew planning, among many others, that would have a direct and highly negative impact in our activity. As such, costs associated to a cyber-attack may include material values of compensations to be paid to our clients, lost revenues, litigation and reputational losses, which may affect materially the trust of our clients and investors.

Environmental Issues

Risks related with environment have been the most sounding in the last years, not only for the probability of occurrence, but also for the potential impact they represent.

In this context, TAP's activities are subject to a number of safety and environmental laws and regulations that apply to air transport and aircraft maintenance, engines and components, which are increasingly rigorous, mainly in what relates to CO_2 emissions resulting from the usage of aircraft jet fuel, to the noise generated by the activity, waste management and gas emissions.

Given the nature of TAP's business, changes and major restrictions in these laws and regulations will have an immediate financial impact in the company and in its daily operations.

METHOD OF ANALYSIS

The methodological process used to anticipate risk by organizations is translated into the use of an analytical tool such as the Corporate Risk Management ('CRM'), a methodology through which managers, after identifying the risks to which their areas of responsibility are subject to, define a management strategy. It includes:

- Acceptance - if the level of risk monitored is within the range of variation in accordance with that established by the organization;
- Sharing/ Transferring - through the arrangement of insurance contracts or outsourcing of functions;
- Mitigation - through procedures that allow minimizing the impact, as well as controlling the process at the level of risk considered acceptable for the organization;

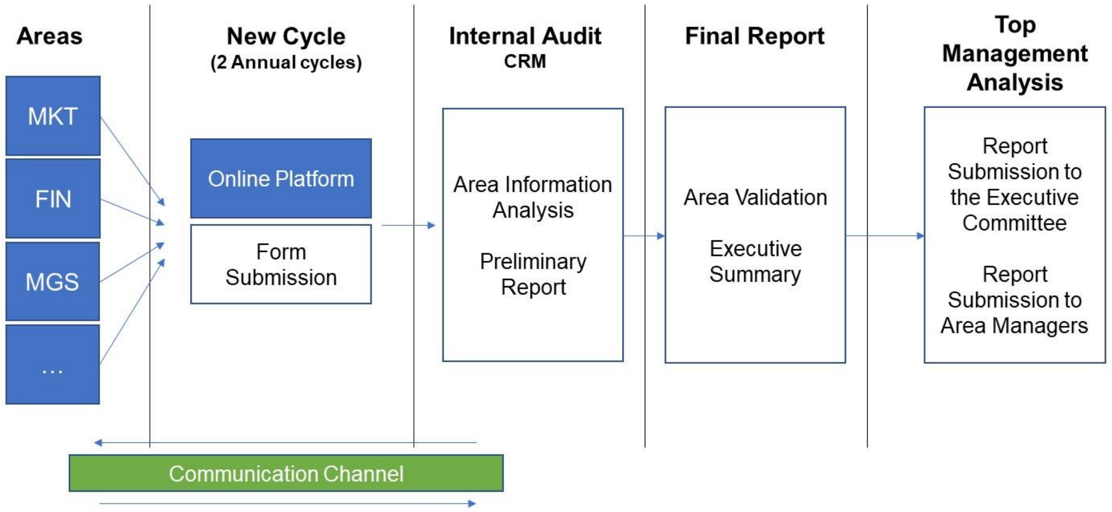
Another possible strategy is the refusal, the no-go of the process or action, whenever the level of risk is not appropriate to the intended operation and the 'appetite' profile of the organization.

The preparation of the CRM report intends to implement the indications provided by international standards and processes on risk management, highlighting FERMA's Risk Management Standard (2003), the document 'Enterprise Risk Management - An Integrated Framework' (2016) by COSO and ISO31000:2009, 'Risk Management-Principles and Guidelines' and is part of best practices, which help organizations to delegate and coordinate the essential tasks of risk management and monitoring. This document covers the reality of TAP and applies the methodological tool known as the 'Three Lines of Defense Model', derived from the 8th EU Company Law Directive of ECIIA / FERMA.

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

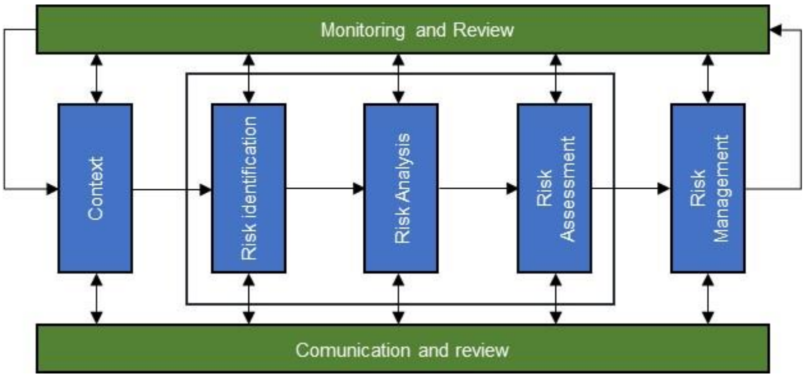
Regarding the flowchart of the CRM process, the following phases can be highlighted:

CRM process



Monitoring and review are the only way to ensure the cycle's effectiveness and the communication and consultation of everyone involved. An effective prevention and mitigation are only possible in organizations where everyone feels committed to risk mitigation, communicating all the situations that may lead to potential losses.

Cycle of Risk Management Process (ISO 31000)



A risk typology matrix was created by all the departments involved, allowing consistency of information across the platform and, thus, ensuring a process of coherent analysis of the information sent by the departments, as well as the possibility of comparison between homologous periods.

Risk Typology

Internal							External	
Legal Risk	**Financial Instruments Risk**	**Isolated Risk**	**Core Business Risk**	**Subsidiary Processes Risk**	**Contractual Risks**	**Operational Risks**	**External Risks**	**Market Risks**
Litigation	Assets	Internal Controls	Customers	Certifications	Contractual Changes	Fire and Prevention	Natural Disasters	Legal Regulation
Internal Organization	Fuel Price	Fraud	Suppliers	Technical Factors	Corruption	Maintenance	Partnerships	Sector Evolution
Legal	Treasury	Projects	Marketing	Indemnities	Payment Guarantees	IT Technologies	Taxes	Market Attractiveness
Tax	Money Laundering	Information (Conf/Priv)	Commercial Organization	Informatic		Operational	Epidemics	Commercial Organization
		Interpersonal Relationship	Real State	Infrastructures		Health and Safety	Social Environment	New Products
		Conflict of Interests	Products	Data Protection			Economic Environment	New Technologies
			Human Resources	Public Health			Catastrophes	Distribution
			Security				Cyber Attack	Competition
							Suppliers	
							Airport Infrastructures	
							Security Providers	
							Interest Rates	

RESULTS

The assessment made during 2019 regarding risks affecting TAP, which involved top managers, resulted in the following summary of conclusions:

Rank	Internal Risks	2019	2018
1	Operational	22%	16%
2	Human Resources	10%	12%
3	Data Protection	5%	4%
4	Security	5%	5%
5	Tecnical Issues	5%	3%
6	Facilities	4%	4%

Rank	External Risks	2019	2018
1	Legal Framework	12%	10%
2	Cyber Attack	10%	15%
3	Economic Environment	9%	10%
4	Sector Evolution	8%	8%
5	Suppliers	8%	5%
6	Partnerships	7%	6%

APPENDIX

I – MANDATORY MENTIONS

1. **Own Shares**

   (Articles 66, number 5, subparagraph d) and 325-A, number 1 of the Portuguese Companies Code)

   TAP did not acquire or divest any of its own shares during 2019.

   As of 31 December 2019, TAP did not hold any of its own shares.

2. **Number of Company shares and bonds held by the members of the board of directors and supervisory board and acquisitions, encumbrances or transfers of ownership, for any reason, of shares and bonds of the Company and other companies in a controlling group relationship with it**

   (Article 447.º, number 5 of the Portuguese Companies Code)

   Antonoaldo Grangeon Trancoso Neves, Member of the Board of Directors of TAP, acquired on June 24, 2019, a total of 20 (twenty) bonds, in an aggregate amount corresponding to €20,000 (twenty thousand euros), in the public subscription offer of bonds issued by TAP ("Obrigações TAP 2019-2023"), maintaining this position as of December 31, 2019.

3. **Annual value of the remuneration earned by the members of the company's administration and supervisory body in 2019**

   (Article 3 of Law 28/2009 of 19 June, applicable by force of article 3 of the Legal Framework for Audit Supervision approved by Law 148/2015 of 9 September)

   The members of the company's management and supervisory bodies are also members of TAP – Transportes Aéreos Portugueses, SGPS, S.A.' management and supervisory bodies where they are remunerated for their role. They are not paid any additional remuneration for the performance of their functions within other companies of the TAP Group (including the Company). Exception is made for the member of the supervisory board, Susana Rodrigues, who is not a member of the supervisory board of TAP – Transportes Aéreos Portugueses, SGPS, S.A. and thus was paid by the Company the amount of EUR 49,000, in 2019.

4. **Granting of credit to participated companies and respective creditor or debtor positions**

   (Article 5, number 4 of Decree-Law 495/88 of 30 December, as amended by Decree-Law 318/94 of 24 December)

   For information about the credit to participated companies and respective creditor or debtor positions please refer to note 39 "Related Parties" of the individual financial statements.

5. **Authorizations granted in relation to businesses between the Company and members of the Board of Directors**

   (Articles 66, number 5, e) and 397.º of the Portuguese Companies Code)

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.

Please refer to note 34 of the consolidated financial statements for businesses between the Company and its Board Members.

II – STATEMENT ISSUED IN ACCORDANCE WITH ARTICLE 245 OF THE PORTUGUESE SECURITIES CODE

In accordance and for the purposes of article 245, number 1 c) of the Portuguese Securities Code, the members of the Board of Directors of Transportes Aéreos Portugueses, S.A. identified below declare that, to the best of their knowledge, the management report, the annual financial statements, the legal certification of accounts and all other documents presenting accounts were prepared in conformity with the applicable accounting standards, providing a true and fair view of the assets and liabilities, financial position and results of the Company and the companies included in the consolidation perimeter, and that the management report faithfully states the trend of the business, the performance and position of the Company and of companies included in the consolidation perimeter, containing a description of the main risks and uncertainties faced.

Lisbon, March 10, 2020

BOARD OF DIRECTORS

Humberto Manuel dos Santos Pedrosa

Chairmain of the Board of Directors

David Gary Neeleman

Member of the Board of Directors

Antonoaldo Grangeon Trancoso Neves

Member of the Board of Directors and Chairman of the Executive Committee

David Humberto Canas Pedrosa

Member of the Board of Directors and Member of the Executive Committee

Raffael Guarita Quintas Alves

Member of the Board of Directors and Member of the Executive Committee

III – CONSOLIDATED NON-FINANCIAL INFORMATION

This section describes the development, performance, position and impact of TAP's activities in relation to: environmental, social and labor issues, equality between women and men, non-discrimination, respect for human rights and bribery and corruption prevention.

ENVIRONMENT

As a leading European aviation company, TAP has subscribed to the 3 global aviation goals defined by IATA: i) having a 1.5% annual average fuel efficiency improvement (between 2009 and 2020), ii) stabilization of CO2 emissions from the aviation sector at 2020 levels (carbon-neutral growth), and iii) contributing to an effective reduction of aviation's net CO2 emissions to 50% of 2005 level, by year 2050. These goals should be achieved through a four-pillar strategy for environmental protection: technology, operations, infrastructure and market-based measures.

By the end of 2019, TAP had received 36 new NEO aircraft and until 2025 TAP expects to receive a total of 71 new aircraft. These aircraft, with new high-efficiency engines and improved aerodynamics, allow for a significant decrease in fuel consumption and CO_2 emissions when compared to previous versions.

In 2019, TAP joined BIOREF – The Collaborative Laboratory for Biorefineries, which is integrated on the National Plan for the Promotion of Biorefineries. This project main objective is the diversification of national renewable sources including the development of Sustainable Aviation Fuel ("SAF"). As such, it is expected that SAF will be available in Portugal, which will allow the Company to further reduce its CO_2 emissions, while contributing to the industry's objectives.

Portugal is a signing country of ICAO's Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) from the Voluntary Phase (2021-2026), which means that from 2021 onwards, TAP must buy certificates to compensate for its CO_2 emissions growth from international flights. As an airline company from a signing state, TAP's obligations under CORSIA started in 2019-2020, with mandatory monitoring, reporting and accredited verification of its emissions, which will establish the baseline for the next phases of CORSIA.

In 2019 TAP estimates to have reduced the indicator CO2 (kg) per passenger in approximately 3.5% compared to the previous year (and since 2015 in approximately 16.5%).

Over the years, TAP has followed and implemented several environmental initiatives. In our Maintenance & Engineering facilities in Lisbon, we follow strict legal and normative requirements. Some of our facility have an environmental permit by the Portuguese Environmental Agency, which applies even stricter limits to activities. Those requirements are safeguarded by thorough procedures, rigorous control of data and several environmental audits that allow us to progressively minimize the risk associated with our activities.

Regarding energy and resources management initiatives, in 2019 the energy auditing program was expanded to the whole TAP campus, allowing the company to identify efficiency opportunities, that shall result in an expected reduction of energy consumption, of at least 6% until 2025.

Concerning plastic usage on-board, since 2018 that we are undertaking an effort to look for more sustainable and reusable options. We believe that as some reusable, lighter and ideally plastic-free materials (such as cutlery, bowls and cups) become more widely available, this transition will occur rapidly in our activity. Some of the materials used in the flights are already reusable and collected by TAP's caterers in Portugal. The Company is currently identifying new solutions that will ensure the increase in the usage of more sustainable in-flight products while meeting the limitations imposed by the sector and by food & health regulations.

CORPORATE SOCIAL RESPONSIBILITY

Connecting people and communities is the essence of TAP's business and is also part of its Corporate Social Responsibility ("CSR") strategy. We are committed to create added value for our Customers, Employees and Investors and to meet our responsibilities towards the Environment and Society. Therefore, our decision-making is based on considerations of economic, environmental and social sustainability.

TAP is an airline committed to operate in a sustainable and responsible manner, looking for innovative ways to be more efficient, reduce its environmental footprint and exceed our Customer expectations, while continuing to operate a sustainable business through business cycles.

TAP Corporate Social Responsibility remains on the path of valuing its people, promoting a culture of sharing and participation while, at the same time, it is involved in increasing actions towards the community, encouraging social cohesion. TAP is proud of its role and continues to search for new opportunities in the community to expand its ties to society.

TAP's CSR main objectives are the connection with company business, the employees' involvement in the actions and the perspective of long-term value creation, favoring lasting projects. Through TAP's CSR initiatives - *TAP Donate Miles Program*, *Solidarity Auctions*, *Campaigns & Donations* and *Volunteering Initiatives* - a strong bond between customers, society, employees and company is promoted.

Within the scope of CSR, travel and extra luggage support policy is based on the *TAP Donate Miles Program* which allows our Miles & Go Clients to donate miles to qualifying non-governmental organizations (NGO's) and social solidarity associations traveling on national and international humanitarian missions. Since 2004, more than 50 organizations have benefited from TAP Clients miles donation and luggage support. *TAP Donate Miles Program* is currently supporting 6 social solidarity associations and NGO´s whose missions TAP recognizes and supports in areas of Health, Education and Social Entrepreneurship around Portugal, Mozambique, São Tome and Principe, Guinea Bissau, Cape Green, among others TAP destinations. In 2019, in the context of this program, a total of 13.1 million miles were donated and 197 tickets were issued. Associations also benefited from 74 extra-luggage and 61 cargo volumes cost free, supported by TAP.

TAP Donate Miles Program has been updated offering more miles in new markets - Brazil and Africa - and in 2020 new entities and new causes shall join the Program, with an initial donation of 500,000 miles from TAP to the new three elected institutions.

Throughout the year TAP promoted 3 *Solidarity Auctions* selling discontinued aeronautical material due to the retrofit process of aircraft, whose total raised was donated to three institutions with focus on defending human rights namely supporting young people with disabilities and institutionalized elderly population.

Campaigns & Donations were also promoted internally, where we highlight support for Mozambique and the victims of cyclone Idai. 2019 was also the debut year of the *Giving Tuesday* movement in Portugal, with TAP promoting five corporate social initiatives. Additionally, TAP donated 3,360 TAP blankets to 9 social solidarity associations.

Proceeding with social community support, TAP also offered 11,449 fruit and 11,253 snacks to children and youth associations from our internal food & beverage vending.

Four different *Volunteering Initiatives* took place in 2019, promoted by TAP partner entities and with the participation of TAP employees and their families involving support for the homeless, surf activities for the disabled and nature protection.

Another way to provide support and connect people for health and humanitarian purpose is TAP Protocol with *Lisbon Pediatrics of the Portuguese Institute of Oncology*, which allows 12 annual trips for children and young people who are undergoing treatment, coming from the Portuguese-speaking African countries.

TAP is committed to lead the way towards a cleaner, caring and collaborative future and to communicate the social values of the Company, combining its operational activity with the value of the non-profit activities.

EMPLOYEES

Throughout 2019, several direct communication actions were carried out with employees, as well as with all union organizations and the Employees' Committee, having been defined as critical topics for the discussion of non-discrimination (gender, race, nationality, age, etc.) as well as the defense of human rights inside and outside our organization.

In line with its policy aimed at assuring compliance with its social Responsibility, TAP is guided by the following principles:

- Providing professional development and employability conditions to its Employees;
- Maintaining relations with Employees and respective representative organizations, based on ethical principles and mutual respect;
- Promoting balance between family and professional life;
- Adopting transparent principles in the Company’s management and its relations with society;
- Respecting the fundamental principles of Human Rights and Labour Practices of the United Nations Global Compact (“UN Global Compact”).

In the strongly competitive environment where it operates, TAP remains committed to the progression of its people, promoting a culture of sharing, while at the same time intensifying Community actions, encouraging social cohesion.

The Industry thus requires growing levels of technical capability and an appropriate attitude, decisive requisites to meet the competitiveness and quality levels needed for business development and sustainability. Hence, TAP’s investment is towards the development of its Employees to enable value creation, reflected in the improvement of the work conditions provided, fostering and supporting the compatibility of professional and personal life, and promoting and motivating a winning attitude and personal fulfillment.

Note should also be made, in the same context, of the application of a set of values in the human rights (Principles 1 and 2 of the UN Global Compact) and labour standards (Principles 3 to 6 of the UN Global Compact), fundamental corporate vectors that TAP endorses in its sphere of action and influence.

Given TAP’s subscription of the United Nations Global Compact principles in 2004, TAP has experienced the concerns related to human rights and labour best practices, incorporating them in its values.

Indicators representing the Company's objectives from a social perspective

Objectives	Indicators	2018	2019
Promote involvement with the Company	Rate of Absenteeism	5.8%	5.7%
Provide services and support of a social and cultural nature to Employees that contribute to improving their working conditions and facilitate the reconciliation of professional and personal life	Number of children using the nursery	265	246
	Number of beneficiaries of the Group's Healthcare Insurance[1)]	24,636	25,581
Promote and support initiatives of social nature	Realization of Traineeships at the Company	186	167

1) Figures relate to TAP Group

Profile of TAP Employees

Main Employee Indicators as of December 31, 2019:

Main Indicators	2019
Total Active Employees	**9,006**[1)]
Gender	
Female	42%
Male	58%
Function	
Ground Staff	46%
Cabin Crew	39%
Flight Deck Crew	15%

1) 4% of employees are based abroad in the markets where the Company operates

Gender per Function	Number of Employees	%
Portugal	**8,650**	
Ground Staff	**3,827**	**100.0%**
Female	1,356	35.4%
Male	2,471	64.6%
Cabin Crew	**3,476**	**100.0%**
Female	2,212	63.6%
Male	1,264	36.4%
Flight Deck Crew	**1,347**	**100.0%**
Female	59	4.4%
Male	1,288	95.6%
Abroad	**356**	
Ground Staff	**356**	**100.0%**
Female	179	50.3%
Male	177	49.7%
Total	**9,006**	**100.0%**
Female	3,806	42.3%
Male	5,200	57.7%

Human Capital Management – Labour Practices

TAP has been implementing several polices in this area to enhance the value of its human resources.

Differentiation through attitude

Assuming and recognizing the duality of objectives that guide the personal and organizational contexts within an organization, TAP seeks an alignment between them, entailing a balance between the professional success of its Employees and, at the same time, competitiveness, sustainability and excellence in business. Therefore, based on a model of participatory management and staff recognition, sustainable development is promoted through better performance and contribution of the Company's Employees towards competitiveness and best results. Human Resources Practices are clearly aligned with the Company’s strategy, thus contributing to the achievement of the Company’s overall objectives, strengthening the credibility of the TAP brand. In this context, considering the importance of a skilled and competent human capital, TAP directs its human resources strategy towards greater motivation and employee’s recognition.

Promoting merit

The performance evaluation, management of the remuneration policy and analysis and qualification of functions are polices conducted by the Company that seek to:

- Recognize the merit of its Employees, tracking their professional development and assessing their contribution to the Company;
- Follow the external competitiveness and internal fairness of remuneration, focusing on the internal fairness, the performance and the functions’ market value when comparing different functions, giving guidance on the differences.
- Assess the relative justice of reward within the Company as well as its level of external competitiveness.

The motivational and merit promotion programs also include the management practices and processes that TAP encourages and that contribute to the recognition, satisfaction and commitment of Employees in reaching the organizational objectives, in particular, inter alia:

- Program 100% Present
  Recognizes in a symbolic way the employees that had no records of absenteeism in the previous 4 years. This is an annual initiative, that is celebrated and awarded with an extra “TAP Buddy” flight valid for one year.
- My 20 TAP years
  Aims to honour those who have been co-building the Company, thanking those who have been with the Company for 20 years in a ceremony symbolizing the effort and dedication.
- TAP Stars
  TAP Stars Program allows all TAP employees to recognize a colleague, independently of the position or department, for its good work and exceptional attitude. Each employee may attribute up to 12 Stars per civil year (1 star per month), in 4 categories of recognition: Availability; Excellency; Positive Attitude and Innovation/ Creativity. This initiative aims to further incentivize TAP’s employees towards a better performance and positive attitude at work.

Promoting individual enhancement – Personal and professional development

Employees training and development is a constant and decisive practice for the Company’s success being aligned with the internal human resources enhancement policy and with the organization's strategy, defined according to individual and corporate needs. As such, the Company creates commitment, competence and contribution to the organization while providing employees personal and professional development.

In this context, TAP has its own training center and a multidisciplinary team of specialized and accredited professionals. The Company favors the use of internal trainers (given their specialized and qualified know-how of the aviation activity who, in addition to instructors, act as mentors and coaches of younger employees). The training is permanently adapted to ongoing professional development, acting in several areas of competence.

Safeguard (Occupational Safety and Health) – Promoting Health and a Healthy Life

The health insurance for employees, extended to family members, and the existence of a medical clinic on the TAP Campus: the UCS Unidade de Cuidados de Saúde (Health Care Unit) (“UCS”), with 96 professionals, is an important support for reconciling family/work, providing TAP Employees with access to health care in a convenient way facilitated by the proximity to the workplace. The UCS provides healthcare on an outpatient basis, aerospace medical certification and health, hygiene and safety at work, both at the headquarters in Lisbon and in its branches. Outside these working hours TAP has a domestic medical service (EcoSalva) for Employees, extended to family members.

In the context of health and well-being, TAP also promotes a healthy lifestyle among its Employees, highlighting the following initiatives:

- *Mais Saúde* Program (More Health Program), recognized and supported by the General Directorate for Health, which includes awareness, prevention and early diagnosis, free screenings and monitoring plans in pregnancy and childbirth preparation courses;

- Gym located on the TAP Campus, offering discounted rates for Employees;
- Internal pedestrian circuits for the practice of physical exercise;
- *Prevenir* Program (Prevention Program), Prevention and Control of the Consumption of Alcohol, Drugs and Tobacco, aimed at helping Employees to control their consumption and to stop smoking, given the risks of alcohol abuse and drug use for the health of Employees and the safety of persons and property, seeking to meet the highest aviation safety standards.

Systems that assure Well-Being – Balance between personal and professional life

In addition to all these practices and initiatives to promote the feasibility of the objectives and strategies outlined by TAP, there are other parallel practices and initiatives aiming the balance between family life and professional life of Employees and their well-being and therefore helping the business. In this context, the following initiatives deserve mention:

- Teleworking - TAP supports working at home in areas that are viable from a technological point of view, ensuring the desired productivity levels and allowing greater family support. In 2019, eight employees enjoyed the flexibility of this work arrangement;
- Flexible working hours - the Company offers flexible hours up to 20% of working time; this possibility is available to most employees, with the exception of operational areas or those that involve shift work;
- Bus transport - TAP offers free bus transport between its premises and the city centre in periods outside the public transport schedule, thus facilitating the transport to and from the workplace of employees who work in shifts.

Benefits

Thinking about motivation, safety and the quality of life of its Employees and their families, the Company grants different Social Benefits namely social support, a nursery, a canteen and health insurance. Also, TAP has celebrated many protocols with companies with benefits (mainly discounts) to TAP's Employees and families. Lastly, TAP has a policy of flight ticket benefits that consist in attributing air fares free of charge or with special discounts, subject to the availability of unsold seats for Employees working for the Company for more than 6 months, as well as to their family and friends (under certain conditions).

Diversity and Gender Equality

Recognizing the importance of Diversity and Gender Equality, TAP values the role of each Employee in the value chain, reinforcing their commitment to citizenship, social responsibility and sustainable growth by applying best practices. In this sense, TAP invests in promoting inclusion in the workplace regardless of gender, age, race, religion, disability and/or individual sexual orientation, ensuring all employees fair and equal conditions and opportunities that promote non-discrimination and diversity in the organization.

TAP promotes the following, inter alia:

- Multiculturalism, which at TAP is reflected in the integration of 29 different nationalities in its staff;
- Gender equality, where gender diversity is favored even in roles usually performed by men. TAP staff includes the existence of women in the following functions: pilots (about 60, of which 17 are commanders) and aircraft maintenance experts (33). In addition, about 2,138 women have higher education in a total of

3,846 (approximately 56%) and in 723 employees holding managerial/supervisory positions, 236 are women;

- The integration of people with disabilities in the business environment as a result of agreements signed with several social welfare institutions in functions tailored to the special needs of each one, employing 98 employees with a degree of disability/impairment in Portugal.

RESPECT FOR HUMAN RIGHTS

TAP is particularly strict in observing all legal and conventional standards regulating labour relations and respects the fundamental principles of Human Rights and Labour Practices of the UN Global Compact as described in the "EMPLOYEES" section above.

PREVENTION OF CORRUPTION AND BRIBERY

A sound corporate conduct not only contributes to enhance a Company's reputation, but it is also responsible for the development of high trust levels among the different stakeholders, being highly valued by TAP's customers and business partners and for its integration and social acceptance, which are all elements with a positive impact in TAP's sustainability. Considering these aspects may be safeguarded, it is fundamental that TAP's employees actions are oriented by the sense of responsibility in complying with the rules, values, principles and ethically correct practices, that should be observed, defended and complied by everyone, as defined in TAP's Code of Ethics and Good Business Conduct.

Given the growing concern of TAP with all matters related to ethics and to the compliance with international guidelines that aim to mitigate corruption risks and money laundering, among others, an Ethics & Legal Compliance Area was set up, within the Legal Department, being responsible for TAP's alignment with the principles described in TAP's Code of Ethics and Good Business Conduct, which reflect the mentioned international guidelines, contributing to strengthen TAP's business conduct and the maintenance of the Company's good reputation in the market.

IV - GLOSSARY

Adjusted for stage length: CASK, PRASK or Yield as adjusted for stage length is used to allow for comparisons across companies with different network profiles. For this purpose, CASK, PRASK or Yield are normalized for average stage length (flight distance) by multiplying by the square root of the average stage length divided by the normalization value of 2,000 km.

ASK: Available seat kilometer; total number of seats available for sale multiplied by the number of kilometers flown.

Block Hours: Number of hours between departure and arrival of a flight, measured from the time the chocks are off or on.

CASK: Operating cost per available seat kilometer (ASK), adjusted for stage length.

CASK excluding fuel or CASK ex-fuel: Operating cost excluding fuel expenses, per available seat kilometer (ASK), adjusted for stage length.

CASK fuel: Fuel expenses, per available seat kilometer (ASK), adjusted for stage length.

Code-Share: Agreement between two companies operating in partnership, whereby they offer services on the same aircraft, maintaining their respective IATA codes, flight numbers and brands.

D15 NPS: Net Promoter Score considering only flights with departures up to 15 minutes after the time of departure published under schedule.

EBITDAR: Operating Result + Aircraft rents + Depreciation, amortization and impairment losses.

Hub: Term used to designate the operational base of an airline in which arrivals and departures are coordinated in order to reduce transit time to the maximum extent.

IATA: International Air Transport Association.

Load Factor: Total number of revenue passenger-kilometers (RPK) divided by the total number of available seat-kilometers (ASK).

Net Promoter Score (NPS): Methodology that measures the degree of customer loyalty to any type of company.
PRASK: Passenger income divided by total number of Available seat kilometer (ASK), adjusted for stage length.

Punctuality: Industry Standard measured by the percentage of the number of flights with departures up to 15 minutes after the time of departure published under schedule.

Regularity: Percentage of flights actually carried out, of total planned flights.

RPK: Revenue passenger kilometer; total number of passengers multiplied by the number of kilometers flown.

Shop Visit: Maintenance event of an engine in workshop.

Wet lease: Contract in which an airline provides the aircraft, the complete crew, carries out maintenance and covers the aircraft insurance (ACMI-Aircraft, Crew, Maintenance and Insurance), receiving, in return, the payment for the hours operated. The company that contracts this service covers the remaining costs such as fuel, airport fees and reservations.
Yield: Passenger income divided by total number of revenue passenger kilometers (RPK), adjusted for stage length.

YoY: Year-over-year.

V – RESULTS CONFERENCE CALL

The conference call on 2019 Results will take place on March 11, 2020, at 14:00 (Portugal/UK time). To attend the conference call, please register in advance through the following link:

www.incommuk.com/customers/tap2019earningscall

VI – CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL YEAR OF 2019

TRANSPORTES AÉREOS PORTUGUESES, S.A.

INDEX

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019 AND 2018

Amount stated in euros	Note	2019	2018
Assets			
Non-current assets			
Tangible fixed assets	4	3,026,328,568	521,036,349
Investment Properties	5	2,148,564	1,925,764
Intagible assets	6	25,376,777	11,245,385
Investments in associates	7	172,310	172,310
Other financial assets	8	481,040	481,040
Other non current assests	13	16,207,546	-
Deferred tax assets	9	110,977,269	91,040,705
Other receivables	10	116,269,240	61,136,878
		3,297,961,314	**687,038,431**
Current Assets			
Inventories	11	100,329,977	63,944,563
Other receivables	10	1,288,115,891	1,154,621,266
Income tax receivable	12	539,123	8,329,644
Other financial assets	8	4,880,346	13,224,721
Other current assests	13	34,683,915	52,102,695
Cash and cash equivalents	14	426,290,329	223,714,593
		1,854,839,581	**1,515,937,482**
Total Assets		**5,152,800,895**	**2,202,975,913**
EQUITY AND LIABILITIES			
Equity			
Share Capital	15	41,500,000	41,500,000
Supplementary capital contributions	15	154,353,400	154,353,400
Legal reserves	15	8,300,000	8,300,000
Hedge reserves	15	16,417,199	(29,132,283)
Other reserves	15	(200,588)	(200,588)
Retained earnings	15	9,804,345	(11,956,732)
Net income/(loss) for the year		(95,637,433)	(58,065,358)
Total equity of the Group		**134,536,923**	**104,798,439**
Non-controlling interests	15	-	-
Total equity		**134,536,923**	**104,798,439**
Non-current liabilities			
Deferred tax liabilities	9	59,837,627	18,760,179
Post-employment benefits obligations	19	96,356,353	86,212,751
Provisions	16	77,784,854	12,214,655
Borrowings	17	957,948,155	493,673,196
Lease liabilities with purchase option	17	239,007,723	101,619,838
Lease liabilities without purchase option	17	1,851,992,700	-
Other payables	20	-	49,741,211
		3,282,927,412	**762,221,830**
Current Liabilities			
Borrowings	17	125,454,332	150,296,929
Lease liabilities with purchase option	17	35,885,034	30,349,867
Lease liabilities without purchase option	17	426,685,786	-
Other payables	20	571,718,616	667,492,728
Income tax payable	12	17,430	19,326
Other current liabilities	22	94,812,885	94,331,082
Liabilities from unused flight documents	21	480,762,477	393,465,712
		1,735,336,560	**1,335,955,644**
Total liabilities		**5,018,263,972**	**2,098,177,474**
Total equity and liabilities		**5,152,800,895**	**2,202,975,913**

The accompanying notes form an integral part of the consolidated statement of financial position as at December 31, 2019.

CONSOLIDATED INCOME STATEMENT
FOR 2019 AND 2018

Amounts stated in euros	Notes	2019	2018
Operating Income			
Revenue			
Passenger	23	2,914,005,095	2,782,440,616
Maintenance	23	211,289,251	228,169,834
Cargo and mail	23	137,392,757	134,684,113
Other operating income	23	36,066,423	31,938,835
		3,298,753,526	**3,177,233,398**
Operating costs			
Aircraft fuel	24	(789,677,244)	(798,623,576)
Traffic operating costs	24	(807,340,162)	(939,590,284)
Aircraft rents	24	-	(151,978,065)
Aircraft maintenance costs	24	(56,127,269)	(89,930,145)
Cost of materials consumed	24	(141,326,887)	(166,035,350)
Comercial, communication and marketing costs	24	(153,171,796)	(186,503,880)
Employee costs	25	(678,635,700)	(607,776,723)
Impairment losses in inventories, receivables and provisions	26	4,649	(7,001,719)
Other operating expenses	27	(144,068,232)	(141,185,691)
Restructuring	28	(4,983,097)	(24,650,606)
Other non recurrent items	29	(501,098)	(20,140,374)
Depreciation, amortisation and impairment losses	30	(475,745,165)	(70,706,112)
Operating income/(loss)		**47,181,525**	**(26,889,127)**
Interests and similar income	31	33,820,521	36,911,444
Interests and similar expenses	31	(185,431,144)	(43,222,335)
Net currency exchange	31	(21,283,835)	(49,073,869)
Net income/(loss) before income tax		**(125,712,933)**	**(82,273,887)**
Income tax for the year	32	30,075,500	24,208,529
Net income/(loss) for the year		**(95,637,433)**	**(58,065,358)**
Net income/(loss) attributable to owners of TAP SA		**(95,637,433)**	**(58,065,358)**
Net income/(loss) attributable to non-controlling interests		**-**	**-**
Results per share			
Basic and diluted earnings per share	38	(11.5)	(7.0)

The accompanying notes form an integral part of the consolidated income statement as at December 31, 2019.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR 2019 AND 2018

Amounts stated in euros	Notes	2019	2018
Net income/(loss) for the year		**(95,637,433)**	**(58,065,358)**
Items that may be reclassified to income statement:			
Gains and losses in derivate financial instruments - cash flow hedge	24	65,289,101	(41,322,387)
Deferred tax on derivative financial instruments - cash flow hedge	10	(19,739,619)	12,190,104
Items that will not be reclassified to income statement:			
Remeasurements of defined benefit plans	19	(17,575,097)	(16,989,154)
Deferred tax on remeasurements	10	6,458,481	5,011,801
Other comprehensive income/(loss) net of tax		**34,432,866**	**(41,109,636)**
Comprehensive income/(loss) for the year		**(61,204,567)**	**(99,174,994)**
Attributable to:			
Owners of TAP SA		(61,204,567)	(99,174,994)
Non-controlling interests		-	-
		(61,204,567)	**(99,174,994)**

The accompanying notes form an integral part of the consolidated statement of comprehensive income as at December 31, 2019.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FROM 1 JANUARY 2018 TO 31 DECEMBER 2019

Amounts stated in euros	Notes	Share Capital	Supplementary capital contributions	Legal reserves	Hedge reserves	Other reserves	Retained earnings	Net income/(loss) for the year	Subtotal	Non-controlling interests (Note 15)	Total
Equity as at January 1, 2018		**41,500,000**	**154,353,400**	**8,300,000**	**-**	**(200,588)**	**(70,390,762)**	**100,411,383**	**233,973,433**	**-**	**233,973,433**
Application of net income/(loss) of the year 2017		-	-	-	-	-	100,411,383	(100,411,383)	-	-	-
Dividends payments		-	-	-	-	-	(30,000,000)	-	(30,000,000)	-	(30,000,000)
Remeasurement *	11 and 19	-	-	-	-	-	(11,977,353)	-	(11,977,353)	-	(11,977,353)
Fair value of derivative financial instruments *	11 and 24	-	-	-	(29,132,283)	-	-	-	(29,132,283)	-	(29,132,283)
Net income/(loss) for the year		-	-	-	-	-	-	(58,065,358)	(58,065,358)	-	(58,065,358)
Equity as at December 31, 2018		**41,500,000**	**154,353,400**	**8,300,000**	**(29,132,283)**	**(200,588)**	**(11,956,732)**	**(58,065,358)**	**104,798,439**	**-**	**104,798,439**
Change in accounting policy - adoption of IFRS 16 *	2.2	-	-	-	-	-	90,943,051	-	90,943,051	-	90,943,051
Application of net income/(loss) of the year 2018		-	-	-	-	-	(58,065,358)	58,065,358	-	-	-
Remeasurement *	11 and 19	-	-	-	-	-	(11,116,616)	-	(11,116,616)	-	(11,116,616)
Fair value of derivative financial instruments *	11 and 24	-	-	-	45,549,482	-	-	-	45,549,482	-	45,549,482
Non-controlling interests		-	-	-	-	-	-	-	-	-	-
Net income/(loss) for the year		-	-	-	-	-	-	(95,637,433)	(95,637,433)	-	(95,637,433)
Equity as at December 31, 2019		**41,500,000**	**154,353,400**	**8,300,000**	**16,417,199**	**(200,588)**	**9,804,345**	**(95,637,433)**	**134,536,923**	**-**	**134,536,923**

** net of deferred taxes, when applicable*

The accompanying notes form an integral part of the consolidated statement of changes in equity as at December 31, 2019.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR 2019 AND 2018

	Notes	2019	2018
Operating activities:			
Receipts from customers		3,499,487,705	3,364,357,295
Payments to suppliers		(2,510,312,615)	(2,766,811,521)
Payments to employees		(626,486,259)	(567,176,507)
Payments of low value and short-term leases		(7,407,952)	-
Cash generated from operations		**355,280,879**	**30,369,267**
Income tax (payment)/receipt		271,855	(14,903,006)
Other receipts/payments relating to operating activities		(18,468,931)	(7,978,494)
Cash flow from operating activities (1)		**337,083,803**	**7,487,767**
Receipts from:			
Financial investments			
Other financial assets	9	133,095,264	66,543,254
Tangible fixed assets		23,300,712	44,586,526
Investment government grants		-	256,530
Loans granted		824,730,000	793,950,596
Interests and similar income		33,291,836	35,663,848
		1,014,417,812	**941,000,754**
Payments relating to:			
Financial investments	9	(150,355,288)	(7,497,818)
Tangible fixed assets		(132,468,189)	(124,887,681)
Intangible assets		(21,700,983)	(7,345,321)
Loans granted		(844,595,000)	(793,835,000)
		(1,149,119,460)	**(933,565,820)**
Cash flow from investment activities (2)		**(134,701,648)**	**7,434,934**
Financing activities:			
Receipts from:			
Borrowings	17	702,045,778	70,000,000
Lease liabilities with purchase option	17	77,014,133	96,397,383
		779,059,911	**166,397,383**
Payments relating to:			
Borrowings	17	(249,816,467)	(7,500,000)
Lease liabilities with purchase option	17	(38,795,503)	(45,471,784)
Lease liabilities without purchase option		(296,742,165)	-
Interests and similar costs		(58,130,505)	(30,195,851)
Interest elements of lease liabilities without purchase option		(119,769,279)	-
Dividends		-	(30,000,000)
		(763,253,919)	**(113,167,635)**
Cash flow from financing activities (3)		**15,805,992**	**53,229,748**
Net increase (decrease) in cash and cash equivalents (1)+(2)+(3)		218,188,147	68,152,449
Effects of currency exchange differences		(5,286,494)	(11,891,274)
Cash and cash equivalents at the beginning of the year	14	213,354,955	157,093,780
Megasis Merger	1	33,721	-
Cash and cash equivalents at the end of the year	14	**426,290,329**	**213,354,955**

The accompanying notes form an integral part of the consolidated statement of cash flows as at December 31, 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2019

1. Economic activity of the Group

The Group, composed by Transportes Aéreos Portugueses, S.A. ("TAP S.A.") and its subsidiary ,TAP Logistics Solutions, S.A., ("TAP Group" or "Group") has its head office at Lisbon Airport and is dedicated to air transport operations involving passengers, cargo and mail, maintenance and engineering works for its fleet and for third parties, providing handling services during air transport stopovers.

The Group rendered its services in Portugal, Mainland and its Autonomous Regions, Europe, Africa, North Atlantic, Mid-Atlantic, South Atlantic and Middle East. The Group has 21 representative offices in foreign countries and 4 in Portugal.

Head Office: Lisbon Airport, 25
Share Capital: Euro 41,500,000
Taxpayer Number: 500 278 725

TAP S.A. is affiliated to the IATA - International Air Transport Association.

The Company's liability for damages resulting from its air transport activity is limited to the precise terms in force for international flights, under the conventions to which the Portuguese State is, or will be, bound.

As part of the TAP Group re-privatization process, on June 24, 2015 the "Direct Sale Agreement" of TAP – Transportes Aéreos Portugueses, SGPS, S.A. ("TAP SGPS") was signed, between Parpública – Participações Públicas, SGPS, S.A ("Parpublica") (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 November 12, 2015, and Parpública remained with 39%.

Besides the "Direct Sale Agreement", it should be noted that, from among the various contractual instruments formalised on June 24, 2015, the "Strategic Commitment Agreement", was formalised between the Portuguese State, Parpública, TAP SGPS, TAP S.A., DGN, HPGB and Atlantic Gateway, which established 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-privatization. Under this agreement, the parties assumed certain strategic commitments, such as the promotion of the national hub and the maintenance of the head office of TAP S.A. and Portugália – Companhia Portuguesa de Transportes Aéreos, S.A. ("Portugália" or "PGA") in Portugal.

With the transmission of 61% of the share capital of TAP SGPS to Atlantic Gateway on November 12, 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 November 12, 2015, which led to the acquisition by Atlantic Gateway of shares representing 61% of the share capital of TAP SGPS, it should be noted that, by resolution of February 19, 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 December 23, 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 September 24, 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.

This way, on February 6, 2016, the Portuguese State and Atlantic Gateway formalised a "Memorandum of Understanding", which was amended on April 26, 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 May 19, 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 June 24, 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 March 8, 2016, previously authorised by ANAC, it 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 March 16, 2016, and the second (series B) in the amount of Euro 30 million subscribed by Parpública on June 14, 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 December 23, 2016.

After the deliberation of the Board of Directors of ANAC dated December 23, 2016, on January 12, 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 March 8, 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. (Company that was merged into TAP S.A. during the first half of 2019), 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 employees, consisting on the sale of shares representing up to 5% of TAP SGPS' share capital, from Parpública, to the employees 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 June 29, 2017, with effects from that date, Parpública and Atlantic Gateway concluded on June 30, 2017 the transfer of shares established in the Share Purchase Agreement, which was notified to ANAC under the terms and conditions legally foreseen. On September 20, 2018 it was decided, by resolution of the board of directors of ANAC, that the operation complied with the requirements of Regulation (EC) n.º 1008/2008 of the European Parliament and of the Council of September 24, 2008, related to common rules for the operation of air services in the Community.

On that same day, June 30, 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 of association, according to the Share Purchase Agreement.

Therefore, TAP SGPS' share capital is as follows:

- Parpública holds 750,000 category B shares, representing 50% of TAP SGPS' share capital and voting rights and 5% of its economic rights;
- Atlantic Gateway holds 675,000 category A shares, representing 45% of TAP SGPS' share capital and voting rights and 90% of its economic rights; and
- A certain number of shareholders jointly hold a total of 75,000 common shares, representing 5% of the share capital, voting rights and economic rights of TAP SGPS.

In accordance with the current TAP SGPS corporate structure, TAP SGPS 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 from 3 October and subsequent amendments.

On June 30, 2017 it was also signed the "Agreement of adaptation and monitoring of financial indebtdness in relation to 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 November 12, 2015, which has been expressly revoked.

Parpública notified TAP SGPS, by letter dated December 28, 2018, of their irrevocable decision to convert the owned convertible bonds in the amount of Euro 30 million plus interests due until that date, into special shares representative of the share capital of TAP SGPS. Such conversion will occur on the last permitted date for conversion, as defined in the contractual documents of the bond issuance, or on an earlier date, if such is required by Parpública.

On March 20, 2019, TAPGER and TAP S.A. signed a purchase and sale agreement of the share capital of Megasis for the amount of Euro 1,791 thousand. On May 2, 2019, the merger was registered, by incorporation of Megasis in TAP S.A., having the respective accounting and fiscal effects backdated to January 1, 2019. The statement of financial position of the merged company as at January 1, 2019 is detailed as follows:

Amounts stated in euros	Megasis as at 01-jan-19
ASSETS	
Non-current assets	
Tangible fixed assets	1,653,771
Investment properties	1,205,000
Deferred tax assets	117,104
	2,975,875
Current assets	
Other receivables	9,929,225
Other current assets	2,921,306
Cash and cash equivalents	33,721
	12,884,252
Total assets	**15,860,127**
EQUITY AND LIABILITIES	
Equity	**1,791,234**
Non-current liabilities	
Deferred tax liabilities	258,204
Post-employment benefits obligations	460,515
	718,719
Current liabilities	
Other payables	12,015,176
Other current liabilities	1,270,981
Income tax payable	64,017
	13,350,174
Total liabilities	**14,068,893**
Total equity and libilities	**15,860,127**

These consolidated financial statements for the year ended December 31, 2019, approved at the Board of Directors meeting on March 10, 2020, were prepared to be presented to the different stakeholders. The separated financial statements of the Company were prepared in accordance with the accounting principles generally accepted in Portugal ("Sistema de Normalização Contabilística").

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 Company.

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 as at January 1, 2019.

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 2.4.1.) and under the historic cost convention, except for derivative financial instruments and investment properties, which are measured at fair value.

The preparation of the consolidated financial statements, in accordance with 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 consolidated financial statements and best knowledge of past and present events, we note that actual and future results may differ from these estimates. The principal which involve a greater degree of judgment or complexity and the most significant assumptions and estimates used in the preparation of the previously mentioned financial statements are disclosed in Note 2.34.

The TAP Group, in the preparation of these consolidated financial statements, declares that is in compliance with IAS/IFRS and their SIC/IFRIC interpretations, as adopted by the European Union.

TAP S.A. constitute on December 30, 2019 TAP Logistics Solutions, S.A. ("TAP Logistics"), as such, 2019 is the first year that TAP S.A. present consolidated financial information, in accordance with the described in Article 7 of Decree-Law No. 158/2011, of July 13, republished by Decree – Law No. 98/2015, of June 2.

The 2018 financial information presented for comparative purposes concerns the valuation of assets and liabilities considered in the consolidated financial statements of TAP SGPS, which has been in accordance with IFRS since 2004.

2.2. Comparability

The Group adopted IFRS 16 on the effective date of mandatory application for the annual reporting period beginning January 1, 2019 through the modified retrospective model, without restating comparative information, and considered the following exemptions:

- Definition of a lease – IFRS 16 application to contracts that were previously identified as leases; and
- Measure of the right-of-use asset - amount equal to the lease liability as at January 1, 2019, applying the implicit discount rate, when available, or the incremental discount rate.

Therefore, the financial statements for the year ended December 31, 2019 are not comparable with the financial statements as of December 31, 2018.

The main changes induced by IFRS 16 are the following:

- ✈ Capitalisation of aircraft and engines lease and ACMI contracts fulfilling the capitalisation criteria defined by IFRS 16

  The lease term corresponds to the non-cancellable period of each contract except in cases where the Group is reasonably certain of exercising the renewal options contractually foreseen. The discount rate used to measure the lease liability corresponds, for each aircraft, to the implicit rate mainly determined by the contractual elements, if available, or to the incremental rate in the other circumstances.

- ✈ Accounting of the other-asset leases

  As a result of the Group's analysis, the main lease contracts identified concern company cars and property rented. The lease term corresponds to the non-cancellable period. The discount rate used to calculate the right-of-use asset and the lease liability is determined, for each asset, by the incremental borrowing rate.

- ✈ Accounting of the maintenance on leased aircraft

  Under IFRS 16, and considering the recognition of the right-of-use of the leased assets, the Group adjusted the accounting of structural maintenance and redelivery expenses, which are now accounted as follows:

  - **Redelivery expenses**

  The costs of restoration of the aircraft performed immediately before the redelivery to the lessor on termination of the lease (defined as redelivery works for IAS 37 purposes), are recognised as a provision on the commencement date, provided they can be reliably estimated, and an additional asset component is recognised in the right-of-use asset, which is depreciated on a straight-line basis over the lease term. Previously, the redelivery expenses estimation was accounted as future maintenance liabilities and recognised as expenses through the lease contract period.

  The measurement of the aircraft redelivery provision requires the use of significant estimates, namely the aircraft utilisation within the lease (flight hours, cycles, etc.) and the estimated cost of such structural maintenance at the redelivery date.

  - Airframe and engine structural maintenance

  The structural maintenance, that increase the useful life of the related asset is capitalised and included in the cost of acquisition of the asset. Subsequently it is depreciated over the expected useful life or until the lease termination. Previously, the estimates of expenses with structural maintenance were accounted as future maintenance liabilities and recognised as expenses through the lease contract period.

At the date of adoption of IFRS 16, rights-of-use assets and lease liabilities were recognised in the amount of Euro 1,166 million. The reconciliation of operating lease commitments disclosed in the financial statements as of December 31, 2018 and the caption "Lease liabilities without purchase option" on January 1, 2019, is as follows:

Amounts stated in thousand Euro	
Minimum payments for operating lease contracts release on Decemebr 31, 2018	1,182,364
Minimum payments for ACMI contracts, including "non-lease" components	289,374
Effect of financial rent discount	(305,003)
Liabilities without purchase option as of 1 January 2019	**1,166,735**

The average discount rate used to discount future rents on January 1, 2019 is 6.5% and the discount rate used for additional contracts entered in 2019 is between 6% and 7.1%.

The adoption of IFRS 16 on January 1, 2019 had the following impacts on the main headings of the statement of financial position:

Amounts stated in euros	31-dec-18	IFRS 16 adoption impact	01-jan-19
Assets			
Non-current assets			
Tangible fixed assets	521,036,349	1,178,987,847	1,700,024,196
Investment properties	1,925,764	-	1,925,764
Intagible assets	11,245,385	-	11,245,385
Investments in associates	172,310	-	172,310
Other financial assets	481,040	-	481,040
Deferred tax assets	91,040,705	-	91,040,705
Other receivables	61,136,878	43,248,286	104,385,164
	687,038,431	**1,222,236,133**	**1,909,274,564**
Current Assets			
Inventories	63,944,563	-	63,944,563
Other receivables	1,154,621,266	-	1,154,621,266
Income tax receivable	8,329,644	-	8,329,644
Other financial assets	13,224,721	-	13,224,721
Other current asssets	52,102,695	-	52,102,695
Cash and cash equivalents	223,714,593	-	223,714,593
	1,515,937,482	**-**	**1,515,937,482**
Total Assets	**2,202,975,913**	**1,222,236,133**	**3,425,212,046**
EQUITY AND LIABILITIES			
Equity			
Share Capital	41,500,000	-	41,500,000
Supplementary capital contribuitions	154,353,400	-	154,353,400
Legal reserves	8,300,000	-	8,300,000
Hedge reserves	(29,132,283)	-	(29,132,283)
Other reserves	(200,588)	-	(200,588)
Retained earnings	(11,956,732)	90,943,051	78,986,319
Net income/(loss) for the year	(58,065,358)	-	(58,065,358)
Total equity	**104,798,439**	**90,943,051**	**195,741,490**
Non-current liabilities			
Deferred tax liabilities	18,760,179	38,054,184	56,814,363
Post-employment benefits obligations	86,212,751	-	86,212,751
Provisions	12,214,655	26,082,076	38,296,731
Borrow ings	595,293,034	(101,619,838)	493,673,196
Lease liabilities w ith purchase option	-	-	101,619,838
Lease liabilities w ithout purchase option	-	863,122,497	863,122,497
Other payables	49,741,211	(49,741,211)	-
	762,221,830	**877,517,547**	**1,639,739,377**
Current Liabilities			
Borrow ings	180,646,796	(30,349,867)	150,296,929
Lease liabilities w ith purchase option	-	-	30,349,867
Lease liabilities w ithout purchase option	-	303,612,692	303,612,692
Other payables	667,492,728	(49,837,157)	617,655,571
Income tax payable	19,326	-	19,326
Other current liabilities	94,331,082	-	94,331,082
Liabilities from unused flight documents	393,465,712	-	393,465,712
	1,335,955,644	**253,775,535**	**1,589,731,179**
Total liabilities	**2,098,177,474**	**1,131,293,082**	**3,229,470,556**
Total equity and libilities	**2,202,975,913**	**1,222,236,133**	**3,425,212,046**

The recognition of the right-of-use assets in lease liabilities without purchase option, and, the respectively redelivery and the corresponding liability resulted in an increase in depreciation expenses of, approximately, Euro 394 million and interest expenses of, approximately, Euro 130.8 million. Foreign exchange differences recognised in the income statement, related to lease liabilities, amounted to, approximately, Euro 13.7 million. On the other hand, the operating lease rents and other contractual obligations expenses (recognised until December 31, 2018 in the captions "Aircraft rents", and "Traffic operating costs") decreased by, approximately, Euro 423 million. In 2019, Euro 66.2 million of expenses with aircraft and engines structural maintenance were recognized in the caption tangible fixed assets.

Additionally, the presentation of payments related to lease liabilities without purchase option resulted in a reclassification in the amount of, approximately, Euro 417 million, from cash flows from operating activities to cash flows from financing activities.

Consult additionally Note 2.3.

2.3. New standards, changes and interpretations of existing standards

The application of the new standards, interpretations and amendments to the standards mentioned below, are mandatory for the financial years beginning on or after January 1, 2019:

Description	Changes	Effective Date
1. New standards, amendments and interpretations effective on 1 January 2019		
• IFRS 16 – Leases	New definition of lease. New accounting of lease contracts by lessees. No major changes to lessor lease accounting.	January 1, 2019
• IFRS 9 – Financial instruments	Accounting treatment options for financial assets with negative compensation features	January 1, 2019
• IAS 19 – Employee benefits	Requirement to use updated assumptions for the calculation of remaining responsibilities, with impact on income statement except for any reduced excess under "asset ceiling' accounting treatment	January 1, 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	January 1, 2019
• Standards improvements 2015 – 2017	Clarifications: IAS 23, IAS 12, IFRS 3, IFRS 11	January 1, 2019
• 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	January 1, 2019

From the above mentioned accounting standards, IFRS 16 – Leases should be highlighted. It was adopted by the Group in the elaboration of its financial statements for the year ended at December 31, 2019, with significant impacts.

The change in the definition of a lease is mainly due to the concept of control. IFRS 16 determines whether a contract contains a lease based on the existence of the right granted to the customer to control the use of an identified asset for a given period against a consideration.

Until 2018, the leases of tangible fixed assets were classified as financial or operating leases. The operating lease payments (net of any incentive received from the lessor) were, until December 31, 2018, recognised in the income statement. A financial lease was recorded in TAP's statement of financial position, the asset obtained was accounted at the lower of the fair value of the leased asset and the present value of the minimum lease payments at the inception of the lease, while the lease liability was recognised net of initial direct costs, in the caption "Borrowings". Financial expenses included in the lease payments and the depreciation of the related assets, were recognised as an expense over the lease term.

From January 1, 2019 onwards, leases that meet the requirements of IFRS 16, are recognised as a right-of-use asset, in the caption "Tangible fixed assets" (within the same line item as that within which the corresponding underlying assets would be presented if they were owned) and the related lease liability is presented in the caption"Lease liabilities without purchase option", at the commencement date of the lease. Each lease payment is allocated between the lease liability and the financial expense. The financial expense is recognised in the income statement through the lease term, based on the interest rate applicable to each lease and the lease liability remaining. The right-of-use assets are depreciated on a straight-line basis over the lease term.

The lease liabilities are initially measured at amortised cost, on the contractual currency (mostly USD), including the present value of the following lease payments: i) fixed payments (including in-substance fixed payments), less any lease incentives receivable; ii) variable lease payments that depend on an index or a rate; iii) amounts expected to be payable by the lessee under residual value guarantees; iv) the exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising the option to terminate the lease.

The present value of the lease payments is determined with the interest rate implicit in the lease. If the interest rate implicit in the lease cannot be readily determined, the lessee uses its incremental borrowing rate, which is the rate of interest that a lessee would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Lease liability is subsequently remeasured using the effective interest rate method, increased to reflect the lease interest and reduced to reflect the lease payments.

The Group remeasures the lease liability (and adjusts the related right-of-use assets) when:

- lease payments change based on an index or rate, or a change of expected payments as guaranteed residual values, in which case a re-assessment of the lease liability takes place at the interest rate implicit in the lease (unless the change in lease payments is due to changes in a variable interest rate, which motivates the use of an incremental borrowing rate); and

- The lease contract is modified, and the modification does not qualify as a separate lease, in which case a re-assessment of the lease liability takes place at the interest rate implicit in the lease at the modification date.

The right-of-use asset is measured at cost, at the functional currency of the Group (Euro), which includes: i) the initial lease liability; ii) any lease payments made to the lessor at or before the commencement date, less any lease incentives received; iii) any initial direct costs incurred; and iv) the initial estimate of restoration costs (redelivery).

The right-of-use asset is subsequently measured at cost, less accumulated depreciation and any accumulated impairment losses.

The lessee might be obliged to return the underlying asset to the lessor in a specific condition or to restore the underlying asset to the terms and conditions required by the lease contract (in the specific case of the aircraft, to comply with the redelivery conditions). The lessee recognises a provision in accordance with IAS 37 to reflect this obligation.

Subsequent costs, including structural maintenance, are included in the cost of acquisition of the right-of-use asset whenever future economic benefits are likely to flow to the Group, and subsequently depreciated over expected userlife or until lease termination. Other costs with current maintenance and repairs are recognised as expenses in the period as are incurred.

Lease incentives received (for example rent-free period), if applicable, are recognised as a component of the right-of-use asset and the lease incentives receivable are a component of the lease liability, while in accordance with IAS 17 these incentives were recognised as a lease incentive liability and depreciated on a straight-line basis, reducing the lease expenses.

Variable lease payments that are not based on an index or a rate are not part of the lease liability, nor the right-of-use asset. Such payments are recognised in the income statement when the event or condition that triggers those payments occurs.

In contractual position assignment operations with subsequent leasing of the aircraft, the classification of the lease is determined on the inception date, and recognition occurs on the commencement date. Income or expenses incurred in the period between the inception date and the commencement date are included in the right-of-use asset and depreciated on a straight-line basis over the lease term.

The leases recognised as right-of-use assets are mainly the following:

- Aircraft and engine leases;
- ACMI contracts (*Aircraft, Crew, Maintenance and Insurance*) or *wet lease*;
- Property leases; and
- Other leases.

Payments related with short-term leases and leases of low-value assets are recognised on a straight-line basis in the income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value leases include, among others, computers and other office equipment.

The lease payments are presented in the cash flow statement, as follows:

a) The parts of the lease payments that represent cash payments for the principal portion of the lease liabilities are presented as cash flows resulting from financing activities;
b) The parts of the lease payments that represent the interest portion are also presented as cash flows resulting from financing activities; and
c) Lease payments which were not included in the measurement of the lease liabilities, including variable payments, short-term leases and leases of low-value assets, are presented as operating cash flows.

In accordance with IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 – Assets Impairment. This standard supersedes the previous requirement to recognise provisions for onerous lease contracts.

Sale & Leaseback

When the Group enters into a transaction in which the owner of an asset sells the asset and leases it back from the buyer, the Company applies the requirements of IFRS 15 to determine if the transaction qualifies as a sale of an asset.

If the transaction qualifies as a sale, the Company measures a right-of-use asset arising from the leaseback as the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Group. Consequently, the gain or loss to be recognised relates to the rights transferred to the buyer-lessor.

If the sale consideration is not equivalent to the fair value of the asset, or if the lease payments are not at market rates, the Group will make the following adjustments in order to measure the sale at fair value: i) if the purchase price is below market terms, the difference is accounted as a lease prepayment; and ii) if the purchase price is above market terms, the difference is accounted as an additional financing obtained by the Group.

The Amendments to standards that will become effective, on or after 1 January 2020, already endorsed by the EU, are detailed below:

Description	Changes	Effective Date
2.Amendments to standards that will become effective, on or after 1 January 2020, already endorsed by the EU		
• IAS 1 – Presentation of financial statements; IAS 8 – Accounting policies, changes in accounting estimates and errors	Revision of the definition of material, and the implication on the preparation of financial statements as a whole.	1 January 2020
• Conceptual framework - Amendments to references to other IFRS	Amendments to some IFRS regarding cross reference and clarification about the application of the new definitions of asset / liability and expense / income	1 January 2020

The Standards (new and amendments) that will become effective, on or after 1 January 2020, not yet endorsed by the EU, are detailed below:

Description	Changes	Effective Date
3. Standards (new and amendments) that will become effective, on or after 1 January 2020, not yet endorsed by the EU		
• IFRS 3 – Business combinations	Revision of the definition of business	1 January 2020
• IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform	Provide certain reliefs in connection with hedge accounting with the objective that interest rate benchmark reform does not cause hedge accounting to terminate	1 January 2020
• IFRS 17 – Insurance contracts	New accounting for insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics.	1 January 2021

The Group does not expect significant impacts from the adoption of those standards in future years.

2.4. Basis of Consolidation

2.4.1. Subsidiaries

Subsidiaries are all entities over which the Group exercises control.

The Board of Directors 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”.

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

Name	Head office	Object	% Equity
TAP Logistics Solutions, S.A.	Lisbon	Postal services and collection and transportation of documents, cargo and other goods.	100%

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.

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 consolidated income statement.

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.

2.5. 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 board of directors.

Two operational segments were identified: air transport and maintenance. Activities included in others are not eligible to report separately.

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 33.

2.6. Foreign currency translation

2.6.1. 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, which is the Group's functional and presentation currency.

2.6.2. 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 Net currency exchange.

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, as at December 31, 2019 and 2018, were as follows:

			Average Rate	
Currency	**2019**	**2018**	**2019**	**2018**
USD	1.1234	1.1450	1.1210	1.1838
CHF	1.0854	1.1269	1.1160	1.1578
GBP	0.8508	0.8945	0.8798	0.8837
BRL	4.5157	4.4440	4.4172	4.2412
VES	51,379.47	730.10	51,379.47	730.10
AOA	536.26	353.02	406.77	286.95

2.7. 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, 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, 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:		
Aircraft	20	0-5%
Aircraft under financial leasing	20	0-5%
Spare engines and spare parts	20	5%
Spare engines under financial leasing	20	5%
Other flight equipment	7-20	0-5%
Transport equipment	4-10	-
Tools	8-20	0-5%
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 2.11.).

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 expense. Regards the right-of-use refer to Note 2.25.

2.8. Investment properties

Investment properties are buildings, land and other constructions held for capital valuation purposes, earn rents, 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 is based on evaluations made by independent external evaluators, considering its usage conditions, or its highest and best use, depending on whether the properties are leased or not.

2.9. Intangible assets

The caption intangible assets includes, essentially, software to support the activity, 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.

2.10. 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.

Whenever the recoverable amount is lower than the carrying amount, the Group recognises the respective impairment loss.

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 fair value less cost to sell 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.

The reversal of impairment losses is recognised in the consolidated income statement under the caption "Impairment of assets not subject to depreciation/amortisation" or "Depreciation, amortisation and impairment losses". However, an impairment loss is reversed only up to the limit of the amount that would be recognised (net of amortisation or depreciation) if it had not been recognised in prior years.

2.11. Financial assets

Classification

The Group classifies its financial instruments according to its characteristics and business model for managing the financial assets and the contractual terms of the cash flows. The classification is determined at the time of the initial recognition of the financial asset.

Financial assets and liabilities are offset and their net amount reported in the statement of financial position when: i) the Group has a legally enforceable right to offset the recognised amounts and ii) there is an intention to settle on a net basis or realize 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.

IFRS 9 prescribes a financial instrument classification model based on the business model for managing the financial instruments ("business model test") and the contractual cash flow characteristics of the financial instruments ("SPPI test"). The Group classifies its financial instruments at the initial recognition, into the applicable IFRS 9 categories as follows.

✈ **Debt instruments**

A financial asset is measured at amortised cost if (i) it is held to receive contractual cash flows; and (ii) the underlying contractual cash flows represent solely the payments of principal and interest. Assets classified in this category are initially recognised at fair value and, subsequently, measured at amortised cost.

A financial asset is measured at fair value through other comprehensive income if (i) it has achieved the objective inherent to the business model, either by the collection of contractual cash flows or selling of financial assets; and (ii) the underlying contractual cash flows represent solely payments of principal and interest. Assets, classified in this category, are initially and subsequently measured at fair value and changes are recognised in other comprehensive income, except the recognition of impairment losses, interest and currency exchange gains or losses, which are recorded directly in the income statement. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

Financial assets that do not meet the requirements for classification in the situations referred to above are classified and measured at fair value through profit or loss, the residual category under IFRS 9.

✈ **Equity instruments**

O Equity instruments are measured at fair value. Equity instruments held for trading are measured at fair value through profit or loss. For all other equity instruments, the Group have an option, instrument by instrument, at the initial recognition, to recognize the fair value changes in other comprehensive income.

When the Group exercises its option, all changes in fair value, except for dividends that constitute a return on investment, are recognised in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the desrecognition of the assets, but a reclassification to retained earnings.

Impairment of financial assets

IFRS 9 prescribes an impairment model based on "expected losses", according to which the impairment estimate is assessed from the initial recognition, considering the assessment of credit risk.

✈ **Other receivables**

TAP uses the simplified approach set forth in IFRS 9 in the determination and recognition of impairment losses on receivables and assets from contracts with customers. Expected losses until maturity are recorded based on the experience of actual losses over a period that has been considered statistically significant and representative of the specific characteristics of the underlying credit risk, adjusted for forward looking information.

The impairment loss is recognised in the income statement, under the caption Impairment losses in inventories, receivables and provisions.

✈ **Other financial assets**

The Group considers that all debt instruments measured at amortised cost or at fair value through other comprehensive income have no credit risk.

If the credit risk of a financial instrument has not increased significantly since its initial recognition, the Group recognises an accumulated impairment equal to the expectation of loss estimated to occur within the next 12 months.

If credit risk has increased significantly, the Group recognises an accumulated impairment equal to the expectation of loss that is estimated to occur until the maturity of the asset.

An impairment loss of other financial assets is recorded against in the income statement for the period, under the caption Impairment losses in inventories, receivables and provisions.

Derecognition of financial assets

The Group derecognises financial assets solely when the contractual rights to cash flows have expired or have been transferred, and the Group has transferred substantially all the risks and rewards of ownership of the asset.

2.12. Derivative 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) and jet fuel swaps.

Economic proprieties are essential to drive the selection of derivative financial instruments. Derivatives financial instruments are recognised at fair value on the statement of financial position.

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. Subsequently, in their settlement date the derivatives are recognised in operating results ("Aircraft fuel") for jet fuel instruments, and in net financial results ("Interest and similar income / expenses") for the interest rate instruments. The ineffective part of the hedge is recorded in results in operating results or net financial results, depending on the nature of the derivative financial instruments, at the time it occurs.

In net terms, the expenses associated with the financing covered are periodized at the rate inherent to the covered hedge transaction. Gains or losses arising from the early termination of this type of instrument are recognised in the income statement, when the hedged transaction also affects results.

Whenever possible, the fair value of derivatives is estimated based on 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**

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

- ✈ At inception date, 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;
- ✈ There is an alignment of the hedging relationship with the risk management strategy and management objectives;
- ✈ The effectiveness of the hedging can be measured reliably, from the inception date to maturity;
- ✈ There is an economic relationship between the hedged item and the hedging instrument; and
- ✈ The risk of change in value is not related to credit risk.

2.13. Assets and liabilities at 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

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 includes, essentially, spares and equipment to be used in the aircraft engines and is valued at cost.

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 losses in inventories, receivables and provisions”.

2.16. Customers and other receivables

Customer balances and other current accounts receivable are initially accounted for at the agreed consideration, unless they have a significant financing component, in which case they are recorded at fair value. The Group holds the balances of customers and other current accounts receivable in order to collect them, and are subsequently measured at amortised cost, less impairment losses (Note 11).

Impairment losses are recorded based on the experience of actual losses over a period that was considered statistically significant and representative of the specific characteristics of the underlying credit risk, adjusted for forward looking information.

2.17. Cash and cash equivalents

Cash and cash equivalents include cash, bank accounts and other short-term investments with a 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”.

2.18. Share Capital

Ordinary shares are classified in shareholders’ equity (Note 15).

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.

2.19. Borrowings and Lease liabilities with purchase option

Borrowings and Lease liabilities with purchase option 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 17).

2.20. Borrowing costs

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

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

Any remaining borrowing costs are expensed as incurred.

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.

The Group recognises a provision for restructuring costs when the general recognition criteria for provisions are met, namely when the Group has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. The restructuring expenses are recognised in the income statement in the caption "Restructuring".

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 16).

The costs of restoration of the aircraft performed immediately before the redelivery to the lessor on termination of the lease (defined as redelivery works for IFRS 16 purposes), are recognised as a provision on the commencement date, provided they can be reliably estimated, and an additional asset component is recognised in the right-of-use asset, which is depreciated on a straight-line basis over the lease term.

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. 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 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.

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. Other payables

Current suppliers and other payables are, initially, recorded at their fair value and, subsequently, at amortised cost (Note 20).

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

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as two separate lines in the consolidated statement of financial position in the caption “Lease liabilities with purchase option” and “Lease liabilities without purchase option”.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever.

The lease term has changed if there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the period presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented in the financial position in the caption Tangible Fixed Assets.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other expenses" in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

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

The Group recognises its revenue in accordance with the nuclear principle introduced by IFRS 15, that is, to reflect the transfer of goods and services contracted to customers, in an amount corresponding to the consideration that the entity expects to receive as consideration for the delivery of those goods or services, based on a five-step model, namely: (i) identification of a contract with a customer; (ii) identification of separate performance obligations; (iii) determination of a transaction price of the contract; (iv) allocation of the transaction price to each of the separate performance obligations and (v) recognition of revenue as each performance obligation is satisfied.

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 expired, 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 expenses for the year, according to the application of the cut-off principle of the respective transport revenue.

The Group recognizes the revenue from maintenance contracts in accordance with the cost-to-cost method (also called percentage-of-completion method), which is defined as the ratio between the costs incurred in each contract up to a given date with the costs estimated to complete it. The differences obtained between the amounts arising from the application of the percentage-of-completion to the total estimated revenue and the amounts already invoiced are recorded under the caption other receivables, as accrued income (Note 10). Additionally, the Group's Board of Directors considers that the cost-to-cost method is the most appropriate method to measure the degree of fulfilment of the performance obligations in the maintenance contracts.

When it is likely that the total costs of a contract will exceed the total revenue, the expected loss is recognised immediately as an expense. It should be noted that maintenance contracts generally have durations lower than 3 months.

For the "TAP Miles&Go" frequent flyer program (former “TAP Victoria”), the Group follows the procedure, under defined conditions and based on flights carried out, of granting air miles to customers who join the loyalty scheme, which may subsequently be discounted in flights with favourable conditions, such as reduced fares.

At the time of the sale of a ticket, the Group considers that it has a separate performance obligation corresponding to the TAP Miles&Go points awarded. Based on the historic information of the number of miles assigned and not used or expired at the end of each fiscal year, adjusted from the estimate of miles to expire without use, and on the unitary valuation attributed, the Group recognises the deferral of the estimated revenue as corresponding to the allocation of miles. Mileage valuation is determined using the "stand-alone price", which is based on the average ticket value considering miles redemption in the last 12 months. Revenue is, thus, recognised when miles are used or expire, usually three years after the date of issuance.

Revenue is presented net of value-added tax, returns, discounts and other costs inherent to its realization.

2.28. Cut-off

The Group records its income and expenses, as they are generated, according to the cut-off principle, regardless of when they are received or paid.

The differences between the amounts received and paid and the corresponding income and expenses are recorded under the caption’s other receivables, other current assets, other payables or other current liabilities.

2.29. 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 2.22.

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.

2.30. Non-recurring items

According to the provisions of IAS 1 paragraphs 85 and 86, "Other non-recurring items" reflect unusual items that must be reported separately from the usual income statement line items, given their magnitude and relevance to understanding the Group's operations. The Group's seeks to present an underlying performance measure that is not impacted by relevant non-recurring items that are particularly significant or unusual, not directly related to the activity, particularly with regard to events intrinsic to its business, air transport activity, as mentioned in Notes 30 and 31.

2.31. Consolidated statement of cash flow

Consolidated statement of cash flow is prepared in accordance IAS 7, through direct method. Cash and cash equivalents include 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”.

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, leases, payments with interests and related expenses, own shares acquisition and payment of dividends.

The lease payments are presented in the cash flow statement, as follows:

a) The parts of the lease payments that represent cash payments for the principal portion of the lease liabilities are presented as cash flows resulting from financing activities;
b) The parts of the lease payments that represent the interest portion are also presented as cash flows resulting from financing activities; and
c) Lease payments which were not included in the measurement of the lease liabilities, including variable payments, short-term leases and leases of low-value assets, are presented as operating cash flows.

2.32. 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.

2.33. 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:

✈ **Deferred tax (Note 9)**

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 (Note 19)**

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 demographic and financial assumptions for pension obligations are detailed in Note 19. The Group's policy is to periodically review the main demographic and financial assumptions, when their impact on the consolidated financial statements is considered relevant.

✈ **Recognition of provisions and impairments (Notes 10, 11 and 16)**

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 of accounts receivable are calculated based on the estimated credit risk for each customer profile and their financial condition.

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 (Note 22)**

The Group recognises a contractual obligation under the "TAP Miles&Go" customer loyalty program, based on the unit value of the mile, given the "stand-alone price". Changes in the assumptions used by the Group in the calculation of this estimate may have a significant impact on the consolidated financial statements.

✈ **Liabilities from unused flight documents (Note 21)**

This caption includes the amount regarding the ticktes billed to customers whose flights have not yet occurred.

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. A variation of 5% in this estimative has an impact of Euro 3.4 million on revenue.

✈ **Useful life and residual value of tangible fixed assets (Note 4)**

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.

- **Leases (Notes 4 and 17)**

Following the adoption of IFRS 16, the Group recognises right-of-use assets and lease liabilities whenever the lease agreement provides for the right to control the use of an identifiable asset for a certain period of time in exchange for a certain amount. To assess whether there is control over the use of an identifiable asset, the Group considers whether: (i) the contract involves the use of an identifiable asset; (ii) has the right to obtain substantially all economic benefits from the use of the asset during the lease period; and iii) has the right to control the use of the asset. The Group uses estimates and applies its judgment in the analysis of lease agreements, in particular as regards the cancellation and renewal options provided for in the agreements and in determining the implicit or incremental rate of financing to apply.

- **Redelivery provision (Note 16)**

The Group incurs in liabilities for maintenance costs in respect of aircraft operated under leases. These arise from legal and constructive contractual obligations relating to the condition of the aircraft when it is returned to the lessor. To fulfil these obligations, the Group will normally have to carry out structural maintenance interventions during the lease period in order to return the aircraft to the lessor in accordance with the conditions contractually defined. In the measurement of this liability, when possible, several assumptions are considered, the most relevant of which are: i) the use (flights hours, cycles etc.) and condition of the aircraft; ii) the expected costs of the structural maintenance interventions at the moment they are expected to occur; iii) duration of contract, and iv) the discount rate used.

The main assumptions are reviewed periodically, taking into account the information available, and there may be circumstances that significantly change this estimate, such as the renegotiation of the conditions of redelivery of the aircraft, a significant change in the use of the aircraft and its navigability conditions, renegotiation of lease contracts, as well as changes in the cost of such structural maintenance. The estimation of the future cost of the structural maintenance of the aircraft requires judgement by the Board of Directors, and therefore changes in the assumptions used by the Company in calculating this estimate may have a significant impact on the financial statements.

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, price risk CO2 licenses to be acquired for compliance of CO2 emission directive, 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**

The Groups is exposed to several geographic markets, namely Europe, South America, North America and Africa.

Regarding the air transportation activity, several markets contributed significantly to the global growth of sales and income in 2019, with emphasis on the North America and Portuguese market.

It should be noted that the Group benefited and contributed to the growth of tourism in the Portuguese market, which has successively reached records in several indicators, from the occupancy levels of hotels, the number of overnight stays and the number for foreign tourists, as well as at the level of the country’s external balance of travel and tourism and the entry into operation of new hotels.

In the European market, the competition is based on: (i) price, namely depends on the route and the type of client (leisure or business) and (ii) the business models and route networks that companies use to adjust their services to customer needs. This differentiated product incorporates elements such as reliability, regularity, punctuality, diversify of schedules, frequency of flights, comfort of the equipment, product quality and quality of the flight experience. The Group determined is network in order to customers’ requirement, prioritizing profitability.

Regarding aircraft characteristics, namely the degree of comfort, modernity, technological advances, economy of use, low consumption, low noise, low emissions and flexibility in terms of flight autonomy, the renewal of The Group’s fleet for one of the most recent in Europe it becomes a fundamental competitive advantage. Inf act, within the scope of the strategic plan for the global renewal of its fleet, 28 aircraft were added during 2019, namely: 14 A330neo, 6 A320neo, 4 A321neo and 4 A321neo LR. Previously, from 2016 to 2018, a comprehensive retrofit plan for 48 aircraft was also carried out.

If the initiatives already implemented by the Group do not have the desired effects on fleet improvement, service improvement or price attractiveness, and if the Group cannot successfully complete its fleet restructuring plan, revenue and results of the TAP Group may be negatively impacted in the future.

✈ **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 is, the cost with the most weight in the operating expenses structure of the Group on the other hand, it is a cost component with extreme volatility and that is critical for the operating result, as well as for the definition of the fare conditions and market policies, in each year.

The year of 2019 saw a drop in the price of fuel: on average price of a barrel of Brent decreased from 71.15 USD in 2018 to 64.03 USD in 2019, representing a decrease about -10.0%. However, this period was market by a high level of volatility in the energy market, with the price of a barrel of Brent fluctuating between the maximum value of 73.9 USD and the minimum value of 52.80 USD during the period. In addition, the average price per ton of jet fuel stood at 631.7 USD in 2019, against 687.7 USD in 2018, registering a decrease of -8.1%.

During 2019, the Group carried out fuel hedge operations that contributed to mitigate the impact of the increase in fuel cost and reduce the volatility of fuel costs in the period (Note 10).

The company is also subject to changes in the prices of CO2 licenses, which are acquired every year to comply with EU regulations. The Company does not have a hedging policy in place. During 2019 CO2 prices rangered between Euro 18.7 and Euro 29.8.

As December 31, 2019, a 10% variation (positive or negative) in the price of jet fuel would result in an impact on the income for the year of approximately 77 million Euros.

✈ **Currency risk**

The Group’s exposure to exchange rate changes results from its presence in several geographic markets, reflecting multiple relevant cost items and several of its assets and liabilities. In all the markets where TAP is present, the exchange exposure is significant due to the operation on more than 100 routes in three continents, and also given the prominent position in the routes between Europe and the American continent, in terms of air transport activity.

The risks inherent to exchange rate fluctuations and exchange rate policy decisions of the monetary authorities of countries with controlled exchange rates add up to sovereign risks such as the one that materialised in Venezuela in recent years due to the economic collapse situation of that country. Despite the strong geographical diversification of the commercial and operational activity of the Group, a significant part of the sales is in markets whose official currency is the euro, or whose currency has a fixed exchange rate with the euro zone. Thus, the Group's concern focuses on the possibility of fluctuations in income obtained in other markets, of which the Brazilian, the American and the Angolan stand out.

In terms of income in 2019, Brazil remained at a similar level to that of the previous year. Also, with regard to the Brazilian market, its particularities with potential impact on the treasury by means of foreign exchange, favourable or unfavourable, should be mentioned, such as the practice of instalment sales, as well as agreements established with the acquirers/banks, for anticipation of the receivables. The volatility that characterizes the Brazilian currency has consequences in terms of fare policy, requiring great flexibility in the capacity management and quick reaction in the pricing and network management in order to respond to the competition and maintain satisfactory local factor rates. In order to minimize the volatility impact, several BRL / EUR exchange hedging operations were carried out during this year.

At the end of 2019, the American market represented around 14% of Group's ticket income, increasing approximately 3 percentage points compared to the previous year. The resulting exposure to the dollar is important to offset the adverse net exposure to the currency that The Group has, in substantial part due to its costs. The prospects continue to be of growth and expansion in the North American market, given that the expansion in the North Atlantic is an element of the commercial strategy and a source of relevant diversification not only in economic terms, but also in exchange terms.

Another market with a relevant currency expression in the revenues of The Group is the Angolan market, although only a portion of the revenues from this market is denominated in Kwanzas. At the end of 2019, assets denominated in Kwanzas represented about 2% of total assets denominated in foreign currency.

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, except for 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 the price is indexed, and established by reference, to the quotation of the dollar against the euro, representing the fuel costs almost total exposure to the dollar, in which only certain commercial rates and fees are excluded, with a marginal weight in the global fuel expense.

Also, in the case leases the market operates predominantly in dollars from monthly rentals to maintenance reserve costs and 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, some loans denominated in dollars, there for the respective interest and capital repayments result in an additional exposure to the American currency. At the end of 2019, 12% of the TAP Group's debt was denominated in dollars, against 8% at the end of 2018.

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 36 aircraft to be delivered in the coming years translates into a medium and long-term exposure to the dollar of a very material value, 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 Group's exposure to currency risk as at December 31, 2019 and 2018, 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:

	2019				
	USD	**BRL**	**AOA**	**OTHER**	**TOTAL**
ASSETS					
Cash and cash equivalents (Note 14)	225,268,194	10,948,393	12,386,044	13,733,352	262,335,983
Other financial assets (Note 8)	5,336,261	-	-	-	5,336,261
Receivables - customers (Note 10)	44,535,711	120,813,029	941,987	15,347,881	181,638,608
Receivables - other (Note 10)	205,915,262	11,455,835	37,306	7,584,860	224,993,263
	481,055,428	**143,217,257**	**13,365,337**	**36,666,093**	**674,304,115**
LIABILITIES					
Borrowing and lease liabilities with purchase option (Note 17)	164,032,127	-	-	-	164,032,127
Lease liabilities without purchase option (Note 17)	2,084,698,745	-	-	-	2,084,698,745
Payables - suppliers	48,719,416	1,925,323	409,290	7,148,212	58,202,241
Payables - other	54,744,526	4,939,994	1,547,926	5,785,707	67,018,153
	2,352,194,814	**6,865,317**	**1,957,216**	**12,933,919**	**2,373,951,266**

	2018				
	USD	**BRL**	**AOA**	**OTHER**	**TOTAL**
ASSETS					
Cash and cash equivalents (Note 14)	87,049,145	5,869,911	5,187,861	14,389,643	112,496,560
Other financial assets (Note 8)	13,680,637	-	-	-	13,680,637
Receivables - customers (Note 10)	60,094,462	52,842,524	1,034,377	14,973,047	128,944,410
Receivables - other (Note 10)	141,581,648	20,925,845	548,689	6,000,003	169,056,185
	302,405,892	**79,638,280**	**6,770,927**	**35,362,693**	**424,177,792**
PASSIVOS					
Borrowing and lease liabilities with purchase option (Note 17)	62,446,843	-	-	-	62,446,843
Payables - suppliers	75,449,929	17,408,455	1,419,410	8,864,725	103,142,519
Payables - other	131,936,742	1,410,829	937,750	5,589,322	139,874,643
	269,833,514	**18,819,284**	**2,357,160**	**14,454,047**	**305,464,005**

It should be noted that, on 31 December 2019, the caption "Other financial assets" includes the amount of Euro 4,880 thousand (2018: Euro 13,224 thousand), related to the "Angola's treasury bonds", subscribed in 2018 and 2017, indexed to the dollar. Additionally, the caption “Cash and cash equivalents”, includes Euro 431 thousand also indexed to the dollar and deposited in Angola (2018: Euro 10,771 thousand).

As at 31 December 2019, a 10% variation (positive or negative) of all the exchange rates with reference to the Euro would result in an impact on the results for the year of approximately, Euro 170 million (2018: Euro 16 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. On 30 June 2017, agreements relating the TAP Group's borrowings were formalised with 8 creditor banks, which had previously participated in 2015 renegotiation, allowing the Group to extend repayment terms, as well as to generically uniform and reduce the applied margins to the overall loans granted by the financial entities.

At the end of June 2018, a loan agreement was entered with the Portuguese branch of a foreign institution, in the amount of Euro 70 million. Also, during this semester, the refinancing of six used aircraft took place.

The Group issued a private subscription bond loan, fully subscribed on 17 January 2019, in the amount of Euro 137 million and maturity in 2034, with a fixed interest rate of 3.873% per year. The fulfilment of the principal and interest repayment obligations related to these bonds benefit from a pledge on a bank deposit constituted by the Issuer for this specific purpose (presented, in the balance sheet, as a deduction to the Gross Financial Debt) and from additional guarantees over contractual rights that do not affect any assets recognized in the Issuer's balance sheet.

TAP S.A. has made a public offering of 4-year bonds, with a fixed interest rate of 4.375% per year, in the amount of Euro 200 million, named “TAP 2019-2023 Bonds”. The issuance, physical and financial settlement of the transaction, as well as the admission to trading of bonds on Euronext Lisbon, took place on 24 June 2019.

In December 2019, TAP S.A. made a private offering to institutional investors of 5-year bonds, with a fixed interest rate of 5,625 % per year, in the amount of Euro 375 million. The issuance, physical and financial settlement of the transaction, took place on December 2, 2019.

The amount of fixed-rate debt in the total Group’s debt remained at the same levels, about 22% in both 2018 and 2017. 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 2018, 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 interest rates close to zero that occurred in Europe. However, during 2018 as well as 2017, there was a gradual rise in interest rates in dollars. 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 leases, transactions in which the level of long-term interest rates is normally passed on to the aircraft rental.

As at 31 December 2019 and 2018, financial liabilities with interest rate exposure, by type of interest rate, is as follows:

2019	< 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Variable Rate						
Borrowings	107,936,821	106,545,332	121,989,387	29,821,633	-	366,293,173
Lease liabilities with purchase option	24,856,624	16,755,798	53,407,666	-	-	95,020,088
	132,793,445	**123,301,130**	**175,397,053**	**29,821,633**	**-**	**461,313,261**
Fixed Rate						
Borrowings	17,517,511	7,495,321	586,833,472	23,972,484	81,290,526	717,109,314
Lease liabilities with purchase option	11,028,410	11,348,236	37,469,415	88,296,773	31,729,835	179,872,669
	28,545,921	**18,843,557**	**624,302,887**	**112,269,257**	**113,020,361**	**896,981,983**
Total	**161,339,366**	**142,144,687**	**799,699,940**	**142,090,890**	**113,020,361**	**1,358,295,244**
% fixed rate	**18%**	**13%**	**78%**	**79%**	**100%**	**66%**

2018	< 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Variable Rate						
Borrowings	142,201,343	154,619,470	269,494,091	37,218,192	-	603,533,096
Lease liabilities with purchase option	24,538,558	18,479,660	33,401,352	9,342,090	-	85,761,660
	166,739,901	**173,099,130**	**302,895,443**	**46,560,282**	**-**	**689,294,756**
Fixed Rate						
Borrowings	8,095,586	13,659,323	18,682,120	-	-	40,437,029
Lease liabilities with purchase option	5,811,309	6,086,737	6,702,949	27,607,050	-	46,208,045
	13,906,895	**19,746,060**	**25,385,069**	**27,607,050**	**-**	**86,645,074**
Total	**180,646,796**	**192,845,190**	**328,280,512**	**74,167,332**	**-**	**775,939,830**
% fixed rate	**8%**	**10%**	**8%**	**37%**	**0%**	**11%**

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 2019 would result in a decrease or increase of the future interest expense of approximately, Euro 5 million (2018: Euro 8 million).

Note 17 presents detailed information about the remunerated bank debt.

- **Liquidity risk**

The Group's liquidity risk is 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 must 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.

Another situation that affects the Group's liquidity risk are the difficulties to expatriate cash from international markets where the Group operates due to currency shortages as for example Angola. In 2019, the Group was able to expatriate most of the cash value in Angola.

The Group’s liquidity reveals a significant increase towards the end of 2018, from Euro 223.7 million to Euro 426.2 million at the end of the year. During this year it was also possible to execute future leasing operations of some aircraft including predelivery payments, which allowed the minimization of the liquidity consumption resulting from the payment of high advances to Airbus. As already mentioned, an operation of anticipation of receivables of the Brazilian market was also carried out.

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:

	2019						
	< 6 months	6 months - 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 anos	Total
Borrowings	90,211,169	83,444,041	162,673,798	781,700,612	145,129,385	-	1,263,159,005
Lease liabilities with purchase option	24,554,726	24,429,149	40,393,072	118,127,210	109,803,175	33,867,207	351,174,539
Lease liabilities without purchase option	212,044,689	214,641,097	366,503,715	677,788,421	679,741,895	127,958,669	2,278,678,486
Total	**326,810,584**	**322,514,287**	**569,570,585**	**1,577,616,243**	**934,674,455**	**161,825,876**	**3,893,012,030**

	2018					
	< 6 months	6 months - 1 year	1 - 2 years	3 - 5 years	6 - 10 years	Total
Borrowings	83,500,911	88,722,113	186,489,167	305,477,510	40,950,556	705,140,257
Lease liabilities with purchase option	20,726,696	14,643,421	28,972,636	49,052,110	43,183,271	156,578,134
Total	**104,227,607**	**103,365,534**	**215,461,803**	**354,529,620**	**84,133,827**	**861,718,391**

✈ Credit risk

The following table presents elements relative to the Group's assets as at December 31, 2019 and 2018, as well as other accounts receivable, which reflect the credit risk on those dates:

	2019	2018
Non-current assets		
Other financial assets and receivables	116,750,280	61,617,918
Current assets		
Cash and cash equivalents	426,290,329	223,714,593
Other receivables - Customers (Note 10)	240,677,357	169,279,011
Other financial assets and receivables (Notes 10 and 13)	1,052,318,880	996,789,467
	1,836,036,846	**1,451,400,989**

The Group applies the simplified approach under IFRS 9 to measure expected credit losses, which considers expectation of loss for all receivables. To measure expected credit losses, receivables were grouped based on common credit risk characteristics and maturity. The expected loss rates are based on the payment profiles of sales and services provided over a period of 36 months before 31 December 2018 or 1 January 2019, respectively, and the corresponding historical credit losses recorded during this period. As a result of the analysis carried out and given that a substantial part of the Group's revenues is received in advance, the expected credit loss rate is very low and, consequently, the resulting impacts immaterial.

From the total of receivables from customers, the balances of the airlines and travel agencies, as identified in Note 10, are settled mainly through the IATA Billing and Settlement Plan ("BSP") and IATA Clearing House ("ICH"), which substantially minimizes the Group's credit risk.

With regard to receivables from related entities, credit impairment is assessed against the following criteria: i) if the receivable is immediately due ("on demand"); ii) if the balance receivable is low risk; or iii) if it has a maturity of less than 12 months. In cases where the amount receivable is immediately due and the related entity is able to pay, the probability of default is close to 0% and therefore the impairment is considered equal to zero. In cases where the receivable balance is not immediately due, the related entity's credit risk is assessed and if it is "low" or if the maturity is less than 12 months, then the Group only evaluates the probability of a default occurring for the cash flows that mature in the next 12 months.

For all other situations and nature of receivables, the Group applies the general approach of the impairment model.

In the development of its activity, Group advanced payments to Airbus for the acquisition of new aircraft and entered into lease contracts for the acquisition of aircraft in which it pays the lessors maintenance reserves and security deposits. In the analysis of the credit losses of these amounts, Group takes into consideration the financial situation of the counterparties, as well as all the transactions it has in progress with them.

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

In November 2019, TAP obtains credit rating for the first time with two international credit agencies, being assigned a BB- rating (Preliminary, Outlook Stable) by Standard & Poor's and a B2 rating (Outlook Stable) by Moody's Investors Service.

✈ Capital management

The Group's goal relating capital management, which is a broader concept than the capital under the consolidated statement of 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 was an increase at 75 % compared to 2018. However, the Group'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 in lease liabilities without purchase option refers to the IFRS 16 adoption impact (Note 2.2) and the renewal expansion of fleet, 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 fixed assets

During the years ended December 31, 2019 and 2018, changes in tangible fixed assets, as well as the accumulated depreciation and impairments losses, were as follows:

	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	Right-of-use assets (Note 18)	Total
Acquisition Cost											
January 1, 2018	**41,168,153**	**156,172,681**	**1,288,811,771**	**2,405,474**	**23,824,794**	**56,220,858**	**12,143,578**	**46,991,329**	**180,849,770**	**-**	**1,808,588,408**
Acquisitions	-	293,361	86,484,187	12,457	1,624,264	999,719	417,598	37,011,066	42,366,558	-	169,209,210
Disposals	(25,346)	(127,557)	(821,449)	(154,465)	-	(429,269)	-	(27,237,795)	-	-	(28,795,881)
Regularisation, transfer and write-off	(17,210)	(1,013,611)	6,411,642	(86,542)	(12,490)	(434,939)	(140,111)	(17,719,460)	(126,301,735)	-	(139,314,456)
December 31, 2018	**41,125,597**	**155,324,874**	**1,380,886,151**	**2,176,924**	**25,436,568**	**56,356,369**	**12,421,065**	**39,045,140**	**96,914,593**	**-**	**1,809,687,281**
IFRS 16 Adoption (Note 2.2)	-	-	-	-	-	-	-	-	-	1,178,987,847	1,178,987,847
Acquisitions	-	699,544	222,406,611	23,753	2,502,785	2,325,336	304,788	29,315,029	20,637,801	1,622,431,990	1,900,647,637
Disposals	-	-	(531,022,329)	-	-	(5,598)	-	(24,489,208)	-	-	(555,517,135)
Megasis Merger	-	-	7,650,870	-	-	9,341,947	21,102	6,510	-	-	17,020,429
Regularisation, transfer and write-off	-	-	(6,369,180)	69,824	(26,820)	(1,266,438)	(20,846)	(3,859,867)	(42,324,105)	(59,959,978)	(113,757,410)
December 31, 2019	**41,125,597**	**156,024,418**	**1,073,552,123**	**2,270,501**	**27,912,533**	**66,751,616**	**12,726,109**	**40,017,604**	**75,228,289**	**2,741,459,859**	**4,237,068,649**
Accumulated deprec. and impairment losses											
January 1 ,2018	**-**	**74,329,200**	**1,072,404,941**	**2,189,827**	**16,134,913**	**54,422,514**	**10,688,436**	**-**	**-**	**-**	**1,230,169,831**
Depreciations (Note 30)	-	5,409,679	56,639,172	91,089	674,540	880,014	332,964	-	-	-	64,027,458
Impairment losses (Note 30)	-	-	4,186,407	-	-	-	-	-	-	-	4,186,407
Disposals	-	(51,792)	(778,643)	(104,693)	-	(428,602)	-	-	-	-	(1,363,730)
Regularisation, transfer and write-off	-	(920,709)	(6,790,784)	(86,542)	(11,488)	(419,400)	(140,111)	-	-	-	(8,369,034)
December 31 ,2018	**-**	**78,766,378**	**1,125,661,093**	**2,089,681**	**16,797,965**	**54,454,526**	**10,881,289**	**-**	**-**	**-**	**1,288,650,932**
Depreciations (Note 30)	-	5,431,247	62,424,035	54,293	697,722	1,544,262	342,795	-	-	394,150,933	464,645,287
Megasis Merger	-	-	6,501,452	-	-	8,846,575	18,631	-	-	-	15,366,658
Impairment losses (Note 30)	-	-	2,740,781	-	-	-	-	-	-	-	2,740,781
Disposals	-	-	(516,090,444)	-	-	(5,217)	-	-	-	-	(516,095,661)
Regularisation, transfer and write-off	-	-	(12,882,500)	2,291	(18,931)	(1,265,621)	(20,846)	-	-	(30,382,309)	(44,567,916)
December 31, 2019	**-**	**84,197,625**	**668,354,417**	**2,146,265**	**17,476,756**	**63,574,525**	**11,221,869**	**-**	**-**	**363,768,624**	**1,210,740,081**
Carrying amount as at December 31, 2018	**41,125,597**	**76,558,496**	**255,225,058**	**87,243**	**8,638,603**	**1,901,843**	**1,539,776**	**39,045,140**	**96,914,593**	**-**	**521,036,349**
Carrying amount as at December 31 , 2019	**41,125,597**	**71,826,793**	**405,197,706**	**124,236**	**10,435,777**	**3,177,091**	**1,504,240**	**40,017,604**	**75,228,289**	**2,377,691,235**	**3,026,328,568**

As December 31, 2019 the caption "Right-of-use assets" details as follows:

	December 31, 2019			
	Buildings and other constructions	Basic equipment	Transport equipment	Total
Assets				
IRFS 16 Adoption	1,832,381	1,176,363,069	792,397	**1,178,987,847**
Acquisitions	-	1,622,332,098	99,892	**1,622,431,990**
Write-off	-	(59,959,978)	-	**(59,959,978)**
Closing Balance	**1,832,381**	**2,738,735,189**	**892,289**	**2,741,459,859**
Accumulated depreciations				
Depreciations (Note 30)	714,284	393,181,811	254,838	**394,150,933**
Write-off	-	(30,382,309)	-	**(30,382,309)**
Closing Balance	**714,284**	**362,799,502**	**254,838**	**363,768,624**
Carrying amount	**1,118,097**	**2,375,935,687**	**637,451**	**2,377,691,235**

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

To guarantee the payments of the amounts due under a loan agreement, in the amount of, approximately, Euro 75 million, a mortgage was established on an urban building owned by TAP S.A., consisting of twenty-nine office buildings, workshops for construction materials and others, located at the Lisbon Airport (Note 16). As at December 31, 2019, the debt amounts to, approximately, Euro 69 million.

The main impacts occurred during 2019 are as follows:

- The additions of basic equipment in the amount of Euro 222,407 thousand, mainly relate to: (i) acquisition of one aircraft in the amount of 106,488 thousand under lease agreements with purchase option and (ii) capitalisation of expenses with structural maintenance of aircraft owned or under financial leasing in the amount of approximately Euro 55,373 thousand and (iii) acquisition of two engines under financial leasing arrangements amounting to Euro 30,420 thousand and (iv) acquisition of spares in the amount of 17,137 thousand.

- In addition, the disposal of A340 aircraft occurred in 2019 resulted in a loss of approximately Euro 1,200 thousand.

- Disposals of basic equipment in the net amount of Euro 14,932 thousand, refers essentially to the sale of three aircraft (A330), which generated a gain in the amount of Euro 7,433 thousand.

- The additions of other assets in progress in the amount of Euro 29,315 thousand, reated to pre-delivery payments for the future acquisition of two aircraft that will start on operation in 2020.

- The increase verified in the caption "Advances to suppliers of tangible assets" in the amount of Euro 20,638 thousand refers, essentially, to advances related to Rolls Royce "Total Care".

The main impacts occurred during the year ended 31 December 2018 are as follows:

- The additions basic equipment in the amount of Euro 86,484 thousand, mainly relate to: (i) capitalisation of expenses with structural maintenance of aircraft owned or under financial leasing in the amount of approximately Euro 37,876 thousand and (ii) acquisition of two engines under financial leasing arrangements amounting to Euro 33,908 thousand.

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

- Disposals of other assets in progress amounting to Euro 24,489 thousand relate mainly to equipment acquired initially by the Group for incorporation in the new aircraft included in the Purchase Agreement with Airbus, which were sold to the manufacturer at the acquisition cost.

- The increase verified in the item "Advances to suppliers of tangible assets" in the amount of Euro 42,367 refers to: (i) predelivery payments for the future acquisition of aircraft in the amount of Euro 25,691 thousand; (ii) advances to suppliers related investment projects in medium and long-haul fleet equipment in the amount of Euro 13,170 and (iii) advances made for the acquisition of a engines in the amount of Euro 3,506 thousand.

- The amount of Euro 126,302 thousand of other transfers write-offs in the item "Advances to suppliers of tangible assets" refers, mainly, to the transfer of the Group's contractual position in relation to predelivery payments of 12 aircraft to the lessors in the amount of Euro 122,675 thousand.

Depreciation of tangible fixed assets is recognised under "Depreciation, amortisation and impairment losses" in the consolidated income statement (Note 30).

As at December 31, 2019 and 2018, the heading "Basic equipment" is detailed as follows:

	2019			**2018**		
	Acquisition cost	Accumulated depreciation	Carrying amount	Acquisition cost	Accumulated depreciation	Carrying amount
Flight equipment						
Aircraft	17,772,460	(45,421,553)	(27,649,093)	521,730,473	(498,888,988)	22,841,485
Spare engines	8,225,988	(2,255,574)	5,970,414	11,483,714	(7,811,898)	3,671,816
Spare parts	121,246,691	(77,138,480)	44,108,211	109,178,704	(76,666,174)	32,512,530
	147,245,139	(124,815,607)	22,429,532	642,392,891	(583,367,060)	59,025,831
Flight equipment under Leases w ith purcahse option						
Aircraft	761,080,104	(465,303,325)	295,776,779	622,183,679	(473,979,993)	148,203,686
Reserve engines	72,803,235	(7,429,895)	65,373,340	33,907,632	(524,284)	33,383,348
	833,883,339	(472,733,220)	361,150,119	656,091,311	(474,504,277)	181,587,034
Machinery and equipment	92,423,645	(70,805,590)	21,618,055	82,401,949	(67,789,756)	14,612,193
	1,073,552,123	**(668,354,417)**	**405,197,706**	**1,380,886,151**	**(1,125,661,093)**	**255,225,058**

As at December 31, 2019 and 2018, the Group's aircraft fleet is detailed as follows:

	2019					2018				
	Owned by TAP Group	Finance leases	Operating leases	ACMI	Total	Owned by TAP Group	Finance leases	Operating leases	ACMI	Total
Airbus A340	-	-	-	-	**-**	4	-	-	-	**4**
Airbus A330	-	-	7	-	**7**	3	-	14	-	**17**
Airbus A330 NEO	-	1	16	-	**17**	-	-	3	-	**3**
Airbus A319	2	7	9	-	**18**	-	9	12	-	**21**
Airbus A320	-	5	14	-	**19**	-	5	16	-	**21**
Airbus A320 NEO	-	-	7	-	**7**	-	-	1	-	**1**
Airbus A321	-	2	2	-	**4**	-	2	2	-	**4**
Airbus A321 NEO	-	-	8	-	**8**	-	-	4	-	**4**
Airbus A321 NEO LR	-	-	4	-	**4**	-	-	-	-	**-**
Embraer 190	-	-	-	9	**9**	-	-	-	9	**9**
Embraer 195	-	-	-	4	**4**	-	-	-	4	**4**
ATR 72	-	-	-	8	**8**	-	-	-	8	**8**
	2	**15**	**67**	**21**	**105**	**7**	**16**	**52**	**21**	**96**

During year ended December 31, 2019, the following changes occurred in the aircraft fleet:

- Phase-in of ten aircraft of NEO fleet contracted previously with the Airbus, two A321 NEO LR and eight A330 NEO;
- Phase-in of eighteen placement aircraft (six A320 NEO, four A321 NEO, two A321 NEO LR and six A330 NEO);
- Phase-out of seven A330 aircraft, two A320 aircraft and three A319 aircraft.
- Disposal of three A330 aircraft and four A340 aircraft.

During the year 2018, the following changes occurred in the aircraft fleet:

- Phase-in of the first four aircraft of the NEO fleet contracted previously with Airbus, two A321 NEO and two A330 NEO. Should be noted that one of the Airbus A330 started its operation in 2019;
- Phase-in of four placement aircraft (one A320 NEO, two A321 NEO and one A330 NEO). Should be noted that one of the Airbus A330 started its operation in 2019;
- Phase-in of two Aigle Azur aircraft, one A319 and one A320;
- Phase-out of one aircraft A319 in November 2018;
- Phase-out of one aircraft A330 in June 2018.

5. Investment properties

As at December 31, 2019, "Investment properties" refers to: i) a property in Maputo (Mozambique) and ii) two apartments in Sacavém.

During the year ended December 31, 2019 and 2018, the movements recorded in investment properties were as follows:

	2019	2018
Opening Value	**1,925,764**	**883,849**
Transfers	-	110,111
Transfers - Megasis merger	1,205,000	-
Disposals	(1,000,000)	(361,000)
Fair value adjustments (Notes 23 and 27)	17,800	1,292,804
Closing Balance	**2,148,564**	**1,925,764**

In order to obtain the fair value of the investment properties the Group request to an independent expert with recognised professional qualifications to determinate the fair value, where the methods and significant assumptions applied in the determination of the fair value of the properties was supported by market evidence. In December 31, 2019, the market value of the investment properties is similar to the amount recorded.

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. Intangible assets

During 2019 and 2018, changes in other intangible assets were as follows:

	Industrial property and other rights	Computer programmes	Assets in progress	Advances to suppliers of in tangible assets	Total
Acquisition cost					
Balance as at January 1, 2018	**11,951,704**	**1,881,434**	**1,484,968**	**-**	**15,318,106**
Acquisitions	-	6,085,323	3,555,255	1,215,922	**10,856,500**
Regularization, transfer and write-off	-	380,060	(380,060)	-	**-**
Balance as at December 31, 2018	**11,951,704**	**8,346,817**	**4,660,163**	**1,215,922**	**26,174,606**
Acquisitions	-	18,043,192	3,382,051	275,740	**21,700,983**
Regularization, transfer and write-off	-	11,169,878	(4,332,301)	-	**6,837,577**
Balance as at December 31, 2019	**11,951,704**	**37,559,887**	**3,709,913**	**1,491,662**	**54,713,166**
Accumulated amort. and impairment losses					
Balance as at January 1, 2018	**(11,951,704)**	**(485,270)**	**-**	**-**	**(12,436,974)**
Amortisations and impairment losses (Note 30)	-	(2,492,247)	-	-	(2,492,247)
Balance as at December 31, 2018	**(11,951,704)**	**(2,977,517)**	**-**	**-**	**(14,929,221)**
Amortisations and impairment losses (Note 30)	-	(8,359,097)	-	-	(8,359,097)
Regularization and transfer	-	(6,048,071)	-	-	(6,048,071)
Balance as at December 31, 2019	**(11,951,704)**	**(17,384,685)**	**-**	**-**	**(29,336,389)**
Carrying amount as at December 31, 2018	**-**	**5,369,300**	**4,660,163**	**1,215,922**	**11,245,385**
Carrying amount as at December 31, 2019	**-**	**20,175,202**	**3,709,913**	**1,491,662**	**25,376,777**

The additions during the year of 2019 under the captions of computer programmes and assets in progress relate essentially to the acquisition and development of software related to the Company operating activity. The caption Regularization, transfer and write-off includes transfers made as a result of Megasis merger in 2019.

7. Investments in associates

As at December 31, 2019 and 2018, investments in associates are as follows:

	2019			
	% Owned	Opening Balance	Increases/ Decreases	Closing Balance
IC TAP Limited	100%	143,592	-	143,592
IC SAFIT Limited	20%	28,718	-	28,718
		172,310	**-**	**172,310**

	2018			
	% Owned	Opening Balance	Increases/ Decreases	Closing Balance
IC TAP Limited	100%	143,592	-	143,592
IC SAFIT Limited	20%	28,718	-	28,718
		172,310	**-**	**172,310**

8. Other financial assets

As at December 31, 2019 and 2018, other financial assets are detailed as follows:

	2019		2018	
	Current	Non-Current	Current	Non-Current
Angola's treasury bonds	4,880,346	-	13,224,721	-
Bank deposits in Guinea Bissau	-	1,746,631	-	1,727,665
SITA Group Foundation	-	455,915	-	455,915
Other	-	39,683	-	39,684
	4,880,346	**2,242,229**	**13,224,721**	**2,223,264**
Impairment losses	-	(1,761,189)	-	(1,742,224)
	4,880,346	**481,040**	**13,224,721**	**481,040**

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 movements in this caption in 2019 and 2018 are as follows:

	2019		2018	
	Current	Non-Current	Current	Non-Current
As at January 1	13,224,721	481,040	34,852,859	46,440,556
Increases	-	4,830,936	7,497,818	-
Decreases	(12,789,293)	-	(66,543,254)	-
Transfers	4,957,349	(4,957,349)	47,272,685	(47,272,685)
Currency translation differences	(512,431)	126,413	480,690	1,313,169
Other movements	-	-	(10,336,077)	-
As at December 31	**4,880,346**	**481,040**	**13,224,721**	**481,040**

The increase in the period ended December 31, 2019 in the amount of Euro 4,830,936, refers to the "Angola's Treasury bonds" subscribed in the amount of Kwanza 1,737,479 thousand, corresponding to the original exchange rate of 316.909 Kwanzas per dollar, with maturity date on December 18, 2020, and indexed to the dollar.

The decrease in the period ended December 31, 2019, in the amount of Euro 12,789,293, refers, essentially, to disposed "Angola's Treasury bonds" subscribed in 2018.

The movement in impairment of other financial assets in 2019 and 2018 is as follows:

	2019	2018
As at January 1	1,742,224	1,697,564
Currency translation differences	18,965	44,660
As at December 31	**1,761,189**	**1,742,224**

9. 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 2019 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 December 31, 2019 and 2018 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 31.5%, 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 the authorities granting these tax benefits have approved them.

The main temporary differences between accounting and taxable amounts as at December 31, 2019 and 2018, the corresponding deferred tax assets and liabilities and the respective effect on the results for 2019 and 2018 are as follows:

	2019				
	Opening balance	Megasis merger	Effect in results (Note 32)	Effect in other comprehensive income	Closing balance
Deferred tax assets					
Tax losses carried forward	37,163,328	-	29,079,379	-	66,242,707
Post-employment benefits obligations	25,432,762	103,615	(1,642,607)	6,458,481	30,352,251
Impairment losses in inventories	6,831,884	-	326,240	-	7,158,124
Impairment losses of receivables	7,020,375	13,488	62,972	-	7,096,835
Tax benefits	442,275	-	(442,275)	-	-
Other provisions and adjustments not accepted for tax purposes	122,949	-	4,403	-	127,352
Impairment losses in fixed assets	1,837,028	-	(1,837,028)	-	-
Derivative financial instruments	12,190,104	-	-	(12,190,104)	-
	91,040,705	**117,103**	**25,551,084**	**(5,731,623)**	**110,977,269**
Deferred tax liabilities					
Revaluation of tangible fixed assets	18,760,179	258,203	305,699	-	19,324,081
Derivative financial instruments	-	-	-	7,549,515	7,549,515
Ajustments due the adoption of IFRS 16	-	-	(5,090,153)	38,054,184	32,964,031
	18,760,179	**258,203**	**(4,784,454)**	**45,603,699**	**59,837,627**
			30,335,538	**(51,335,322)**	

	2018			
	Opening balance	Effect in results (Note 32)	Effect in other comprehensive income	Closing balance
Deferred tax assets				
Tax losses carried forward	20,750,265	16,413,063	-	37,163,328
Post-employment benefits obligations	16,323,829	4,097,132	5,011,801	25,432,762
Impairment losses in inventories	8,318,398	(1,486,514)	-	6,831,884
Impairment losses of receivables	6,872,114	148,261	-	7,020,375
Tax benefits	-	442,275	-	442,275
Other provisions and adjustments not accepted for tax purposes	133,103	(10,154)	-	122,949
Impairment losses in fixed assets	471,288	1,365,740	-	1,837,028
Derivative financial instruments (Note 15)	-	-	12,190,104	12,190,104
	52,868,997	**20,969,803**	**17,201,905**	**91,040,705**
Deferred tax liabilities				
Revaluation of tangible fixed assets	19,691,715	(931,536)	-	18,760,179
	19,691,715	**(931,536)**	**-**	**18,760,179**
		21,901,339	**17,201,905**	

The effects of IFRS 16 adoption on deferred tax assets are recognized at net value on deferred tax liabilities.

✈ Tax losses carried forward

Under the terms of current tax legislation in Portugal, tax losses generated in 2014 and 2015 can be carried forward for a period of twelve years after their occurrence, and the tax losses of 2019 can be reported for a period of five years after their occurrence, and susceptible to deduction against tax profits generated during that period, until the limit of 70% of taxable income.

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. It should be noted that, despite the Group having exercised its legitimate right of challenge, no deferred tax assets were recorded related to the tax losses carried forward resulting from the securitization operation in the years 2014 and 2015 amounting to Euro 99 million, currently under discussion in a tax court.

The tax losses carried forward as at December 31, 2019 are detailed as follows:

Year	Tax losses December 31, 2019	Deduction year deadline
2014	31,071,827	2026
2015	169,256,624	2027
2018	78,541,247	2023
2019 (estimate)	138,690,421	2024
	417,560,119	

	Without securitization	Securation	Total
2014	-	31,071,827	31,071,827
2015	101,330,011	67,926,613	169,256,624
2018	78,541,247	-	78,541,247
2019 (estimate)	138,690,421	-	138,690,421
	318,561,679	**98,998,440**	**417,560,119**

From 2017 onwards, TAP SA is taxed through the Group of companies in the Special taxation regime, and the taxable income is calculated on a consolidated basis at TAP SGPS level. However, each subsidiary tax accrual is recognised based on its individual results.

10. Other receivables

As at December 31, 2019 and 2018, other receivables are detailed as follows:

	2019		2018	
	Current	**Non-current**	**Current**	**Non-current**
Customers	302,432,507	-	230,470,984	-
Swaps jet fuel	23,966,713	-	-	
Security deposits of lease contracts	4,570,304	51,606,307	6,030,928	53,749,191
Recoverable maintenance reserves	12,361,581	64,428,164	-	-
Accrued income	52,558,098	-	24,861,437	-
Advances to suppliers	15,908,249	-	35,761,944	-
Other debtors	942,246,194	2,156,157	922,878,956	9,309,075
	1,354,043,646	**118,190,628**	**1,220,004,249**	**63,058,266**
Receivables impairment losses	(65,927,755)	(1,921,388)	(65,382,983)	(1,921,388)
	1,288,115,891	**116,269,240**	**1,154,621,266**	**61,136,878**

✈ Customers

As at December 31, 2019 and 2018, the caption Customers is detailed as follows:

	2019	2018
Private entities	138,601,024	77,527,813
Travel agency	66,570,860	49,498,969
Related parties (Note 34)	17,853,053	19,922,448
Airlines	18,886,632	22,904,051
Other	5,782,117	7,644,151
Doubtful customers	54,738,821	52,973,552
	302,432,507	**230,470,984**
Impairment	(61,755,150)	(61,191,973)
	240,677,357	**169,279,011**

The variation in the caption Private entities refers, essentially, to the fact that in 2018 the Group had a higher volume of anticipation transactions of receivables from Brazil in the amount of Euro 66,4 million.

	2019	2018
Not overdue values	135,104,241	91,064,307
1 to 90 days	86,672,963	50,208,163
91 to 180 days	2,140,202	2,313,329
181 to 270 days	1,544,121	1,689,193
271 to 365 days	638,866	8,468,974
Over 366 days	76,332,114	76,727,018
	302,432,507	**230,470,984**
Impairment	(61,755,150)	(61,191,973)
Customers - Net value (Note 10)	**240,677,357**	**169,279,011**

✈ Swaps jet fuel

As of December 31, 2019, the caption “swaps jet fuel” related with the fair values of hedging contracts settled in 2019, with maturity in 2020.

On December 31, 2019, TAP SA contracted a tax on 687,000 tons of jet fuel whose market value was 23,967 thousand euros and with maturities between January and December 2020, charged approximately 55% of monthly consumption.

✈ Security deposits of lease contracts

The security deposits are constituted under the lease contracts without purchase option for aircraft and engines, and will be returned, without interests, when the aircraft and engines are returned to their lessors. In addition, the caption deferred expenses include an amount of Euro 16.2 thousand related to the financial discount cost of these receivables, to be recognised in the period term of the related lease agreements (Note 13).

This caption includes an amount of Euro 380 thousand related to Aigle Azur security deposits (Note 34).

✈ Recoverable maintenance reserves

The variation in the caption "recoverable maintenance reserves" is due to the adoption of IFRS 16 since, until December 31, 2018, these reserves were presented in the caption Other accounts payable, to be deducted from estimated liabilities with structural maintenance of aircraft under lease contracts without purchase option.

✈ Accrued income

As at December 31, 2019 and 2018, the amount recorded under the caption Accrued income corresponds to:

	2019	2018
Work for aviation companies	32.291.174	9.893.975
Related parties (Note 34)	6.024.357	8.542.029
Airport facilities - incentives	3.524.855	3.796.633
Insurance comparticipation	3.340.000	-
Other	7.377.712	2.628.800
	52.558.098	**24.861.437**

The caption "work for aviation companies" corresponds to customer contracts assets, as provide by IFRS 15. The increase in this caption in 2019 refers to the increase of volume of the engines and aircraft maintenance projects.

The increase in the accrued income is mainly due to the fair valuer of the jet fuel swaps and the general increase in income with personnel and external suppliers and services, directly associated with the increase in the Company's activity.

✈ Advances to suppliers

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

	2019	2018
Related parties (Note 34)	2,743,637	20,371,710
Others	13,164,612	15,390,234
	15,908,249	**35,761,944**

✈ Other debtor – Current

As at December 31, 2019 and 2018, the caption "Other debtors – Current" is detailed as follows:

	2019	2018
Related parties (Note 34)	843,683,068	819,729,783
Advances related to lease contracts	22,710,579	45,366,677
Suppliers receivables	23,910,482	16,357,029
Employees	18,892,199	12,674,574
Interline and other invoicing	11,638,094	8,828,410
Doubtful accounts	4,172,605	4,191,009
Deposits and guarantees	2,565,631	2,126,622
Representations VAT	1,697,080	2,285,775
Other	12,976,456	11,319,077
	942,246,194	**922,878,956**
Impairment	(4,172,605)	(4,191,010)
	938,073,589	**918,687,946**

The item of advances related to lease contracts corresponds to amounts prepaid to the lessor, recoverable at the date of delivery of the aircraft.

✈ Impairment losses on other receivables

The movements in this caption in 2019 and 2018 are as follows:

	2019	2018
Opening balance as at January 1	65,382,983	64,314,235
Increases (Note 26)	8,049,354	2,422,962
Reversals (Note 26)	(4,665,324)	(1,350,689)
Utilisation	(2,839,257)	(3,525)
Closing balance as at December 31	**65,927,755**	**65,382,983**

11. Inventories

As at December 31, 2019 and 2018, the detail of the inventories is as follows:

	2019	2018
Raw materials and consumables	123,054,181	87,103,493
Inventory impairment losses	(22,724,204)	(23,158,930)
	100,329,977	**63,944,563**

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

During 2019, the inventories sold and consumed were recognised in the captions Aircraft maintenance costs and Cost of materials consumed in the income statement in the amount of Euro 28,142,606 and Euro 112,524,874, respectively (2018: Euro 63,471 thousand and Euro 139,407 thousand, respectively) (Note 23).

The movement of Inventory impairment losses in 2019 and 2018 is as follows:

	2019	2018
Opening balance as at January 1	23,158,930	28,197,961
Increases (Note 26)	48,341	1,402,836
Decreases (Note 26)	(478,692)	(499,964)
Utilisation	(4,375)	(5,941,903)
Closing balance as at December 31	**22,724,204**	**23,158,930**

In 2018, the utilisation of inventory impairment losses results from the disposal of several obsolete items, fully impaired.

12. Income tax receivable/payable

Group is taxed through the Special Taxation Regime for Groups of Companies (“RETGS”), being the tax result determined in TAP SGPS. However, company’s income tax estimate is recorded based on its fiscal results.

For the years ended December 31, 2019 and 2018 the balance relating income tax receivable or payable is detailed as follows:

	2019		2018	
	Current assets	Current liabilities	Current assets	Current liabilities
RETGS: Related Parties (Note 34)				
Payments on account	122,893	-	7,889,280	-
Withholding taxes	770,466	-	639,653	-
Current income tax (Note 32)	(354,236)	-	(199,289)	-
	539,123	**-**	**8,329,644**	**-**
State and Other Public Entities				
Other	-	(17,430)	-	(19,326)
	-	**(17,430)**	**-**	**(19,326)**
	539,123	**(17,430)**	**8,329,644**	**(19,326)**

13. Other assets

Other assets as of December 31, 2019 and 2018 are as follows:

	2019		2018	
	Current	Non-Current	Current	Non-Current
Deferred costs	30,553,073	16,207,546	47,472,655	-
State	4,130,842	-	4,630,040	-
	34,683,915	**16,207,546**	**52,102,695**	**-**

✈ Deferred costs

As of December 31, 2019, and 2018, deferred costs details as follows:

	2019		2018	
	Current	Non-Current	Current	Non-Current
Security deposits	-	16,207,546	-	-
Aircrafts and engines leases	-	-	34,227,664	-
Rental costs	833,740	-	4,310,856	-
Commissions	17,609,882	-	1,871,632	-
Related Parties (Note 34)	2,880,426	-	4,696,968	-
Other	9,229,025	-	2,365,535	-
	30,553,073	**16,207,546**	**47,472,655**	**-**

As at December 31, 2018, deferred costs related to “Aircraft and engine leases” refer to initial costs incurred between the inception and commencement date, to be recognised on a straight-line basis throughout the lease agreement. As at December 31, 2019, the deferred expenses amount is included in the right-of-use assets, under the IFRS 16 adoption.

Deferred costs related to “Security deposits” refer to the financial discount cost of these receivables, to be recognised in the period term of the related lease agreements.

The “Commissions” refer to amounts paid to agents for tickets sold, but not yet flown and not expired, until December 31, 2019 and December 31, 2018. The variation in this caption is related with the increase in the activity.

✈ State

For the years ended December 31, 2019 and 2018, the balance of this caption is detailed as follows:

	2019	2018
VAT	3,932,987	3,918,899
Other	197,855	711,141
	4,130,842	**4,630,040**

As at December 31, 2019, the outstanding balance of the VAT refers to requests for reimbursements, not yet received, for the months of November and December 2019.

14. Cash and cash equivalents

As at December 31, 2019 and 2018, the detail of cash and cash equivalents is as follows:

	2019	2018
Bank deposits available on demand	140,082,840	54,940,178
Term deposits	286,024,702	158,227,412
Other deposits	111,000	10,488,153
Cash	71,787	58,850
Cash and cash equivalent in the statement of financial position	**426,290,329**	**223,714,593**
Other deposits	-	**(10,359,638)**
Cash and cash equivalents in the cash flow statement	**426,290,329**	**213,354,955**

The amount of other deposits in 2018 corresponds essentially to “Treasury Bonds of Angola”.

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

As of December 31, 2019, and 2018, a portion of our cash and cash equivalents was dominated in currencies other than Euro, namely in USD, BRL and AOA (Note 3).

15. Equity

As at December 31, 2019 and 2018, the share capital of TAP S.A. was fully underwritten and paid up, represented by 8,300,000 shares with a nominal value of Euro 5, fully owned by TAP - Transportes Aéreos Portugueses, SGPS, S.A..

Supplementary capital contributions

Following the Shareholders General Meeting resolution on November 13, 2015, the shareholder TAP SGPS preceded to a cash entry, fully realised, in the amount of Euro 29,542,000 of supplementary capital contributions. Additionally, on December 11, 2015, by a unanimous written resolution, additional supplementary contributions were approved, in the total amount of Euro 124,811,400.

Accordingly, to the legislation in force, the supplementary capital contributions may only be reimbursed to shareholders if the total equity remains greater than the sum of the share capital and the legal reserve.

Reserves

✈ **Legal reserve**

The Commercial Companies Code establishes that, at least, 5% of annual net profit must be transferred to legal reserves until it reaches 20% of the share capital of the Company.

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 December 31, 2019 and 2018, the legal reserve was fully constituted in accordance with the commercial legislation in force.

✈ Other reserves

This caption refers to the reserve created in 2010 resulting from the merger by incorporation of Air Portugal Tours, S.A.

✈ Hedge reserves

As at December 31, 2019 the amount of Euro 16,417 thousand presented under the caption “Hedge reserves” correspond to the fair values of the financial instruments classified as hedging accounting, recorded in accordance with the policy described in Note 2.12, net of tax, in the amount of Euro 7,550 thousand (Note 19).

As at December 31, 2019, and 2018 the derivative financial instrument at fair value are related to jet fuel derivative financial instruments.

The jet fuel derivative financial instruments in portfolio, classified as hedging instruments presented the following evolution, during the financial years ended on December 31, 2019 and 2018:

	Assets	Liabilities
Fair value 1 January 2018	**-**	**(635,848)**
Acquisitions during the year - payment/(receipt)	-	(4,109,128)
Payment/(receipt) of swaps during the year	-	-
Receipt/(payment) of swaps retained through profit or loss	-	4,109,128
Increase/(decrease) of fair value reflected in equity	-	(41,322,387)
Fair value 31 December 2018	**-**	**(41,322,387)**
Acquisitions during the year - payment/(receipt)	(2,487,663)	-
Payment/(receipt) of swaps during the year	1,976,251	-
Receipt/(payment) of swaps retained through profit or loss	511,412	-
Increase/(decrease) of fair value reflected in equity	23,966,714	41,322,387
Fair value 31 December 2019	**23,966,714**	**-**

Retained earnings

The caption "Retained earnings" corresponds to the net results of previous years, as deliberated at the General Meeting Assemblies. 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, and IFRS 16 first time adoption adjustments (additionally see Note 2.2).

16. Provisions

During 2019 and 2018, changes in provisions were as follows:

	Provision for legal claims	Other	Redelivery costs (Note 2.2)	Total
January 1, 2018	**8,771,552**	**451,197**	**-**	**9,222,749**
Increases (Note 26)	3,438,992	1,877,168	-	5,316,160
Reversals (Note 26)	(255,166)	(34,420)	-	(289,586)
Utilisation	(157,500)	(1,877,168)	-	(2,034,668)
December 31, 2018	**11,797,878**	**416,777**	**-**	**12,214,655**
IFRS 16 adoption	-	-	26,082,076	26,082,076
Increases (Note 26)	-	-	62,616,178	62,616,178
Reversals (Note 26)	(2,945,843)	(12,484)	-	(2,958,327)
Utilisation	(136,101)	-	(24,405,128)	(24,541,229)
Exchanges and interests	-	-	4,371,501	4,371,501
December 31, 2019	**8,715,934**	**404,293**	**68,664,627**	**77,784,854**

✈ Provision for legal claims

Provisions for legal claims are recognised in accordance with the Company'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 December 31, 2019, the existing provision, amounting to Euro 8,715,934 is intended to cover the risk of several legal proceedings against the Company, in Portugal and foreign countries.

✈ *Redelivery costs*

As mentioned in Note 2.2, the increase of the provisions for redelivery costs is recorded against the right-of-use assets, being subsequently subject to depreciation.

17. Borrowings and Lease liabilities with and without purchase option

✈ Current and non-current borrowings and lease liabilities with and without purchase option

As at December 31, 2019 and 2018, Borrowings and lease liabilities are detailed as follows:

	2019		2018	
	Current	Non-Current	Current	Non-Current
Bank loans	121,434,904	279,119,809	150,628,347	498,485,039
Interest accrued	2,562,446	-	3,621,389	-
Initial expenses	(1,922,791)	(2,081,336)	(3,952,807)	(4,811,843)
Remunerated bank debt	**122,074,559**	**277,038,473**	**150,296,929**	**493,673,196**
Bonds	2,588,428	698,172,098	-	-
Interest accrued	4,406,277	-	-	-
Initial expenses	(3,614,932)	(17,262,416)	-	-
Bond issuance	**3,379,773**	**680,909,682**	**-**	**-**
Leasing liabilities	35,896,286	242,325,894	30,045,208	102,050,837
Interest accrued	940,896	-	562,988	-
Initial expenses	(952,148)	(3,318,171)	(258,329)	(430,999)
Lease liabilities with purchase option	**35,885,034**	**239,007,723**	**30,349,867**	**101,619,838**
Lease liabilities without purchase option	**426,685,786**	**1,851,992,700**	**-**	**-**
Total Borrowings	**588,025,152**	**3,048,948,578**	**180,646,796**	**595,293,034**

✈ Net debt

As at December 31, 2019 and 2018, net debt is detailed as follows:

	2019	2018
Borrowings and Lease liabilities with purchase option		
Non-Current	1,196,955,878	595,293,034
Current	161,339,366	180,646,796
	1,358,295,244	**775,939,830**
Cash and Cash Equivalents (Note 14)		
Cash	71,787	58,850
Bank deposits available on demand	140,082,840	54,940,178
Other deposits	286,135,702	168,715,565
	426,290,329	**223,714,593**
Net debt	**932,004,915**	**552,225,237**

✈ Borrowings and Lease liabilities with purchase option

As at December 31, 2019 and 2018, the borrowing and lease liabilities with purchase option, by maturity and by interest rate, is as follows:

	2019	2018
Up to 1 year	161,339,366	180,646,796
1 to 2 years	142,144,687	192,845,190
3 to 5 years	799,699,940	328,280,512
6 to 10 years	142,090,890	74,167,332
Over 10 years	113,020,361	-
	1,358,295,244	**775,939,830**

	2019					
	< 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Variable Rate						
Borrowings	107,936,821	106,545,332	121,989,387	29,821,633	-	366,293,173
Lease liabilities with purchase option	24,856,624	16,755,798	53,407,666	-	-	95,020,088
	132,793,445	**123,301,130**	**175,397,053**	**29,821,633**	**-**	**461,313,261**
Fixed Rate						
Borrowings	17,517,511	7,495,321	586,833,472	23,972,484	81,290,526	717,109,314
Lease liabilities with purchase option	11,028,410	11,348,236	37,469,415	88,296,773	31,729,835	179,872,669
	28,545,921	**18,843,557**	**624,302,887**	**112,269,257**	**113,020,361**	**896,981,983**
Total	**161,339,366**	**142,144,687**	**799,699,940**	**142,090,890**	**113,020,361**	**1,358,295,244**

	2018					
	< 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Variable Rate						
Borrowings	142,201,343	154,619,470	269,494,091	37,218,192	-	603,533,096
Lease liabilities with purchase option	24,538,558	18,479,660	33,401,352	9,342,090	-	85,761,660
	166,739,901	**173,099,130**	**302,895,443**	**46,560,282**	**-**	**689,294,756**
Fixed Rate						
Borrowings	8,095,586	13,659,323	18,682,120	-	-	40,437,029
Lease liabilities with purchase option	5,811,309	6,086,737	6,702,949	27,607,050	-	46,208,045
	13,906,895	**19,746,060**	**25,385,069**	**27,607,050**	**-**	**86,645,074**
Total	**180,646,796**	**192,845,190**	**328,280,512**	**74,167,332**	**-**	**775,939,830**

✈ Bank loans

Under the TAP SGPS Share Purchase and Sale Agreement, in addition to the “Financial Liability Adaptation and Monitoring Agreement for the TAP Group”, referred to in the Introductory Note, on June 30, 2017, TAP Group's bank debt restructuring was completed, being the main changes related to maturities and to financial conditions of the loans, namely its index and applicable spread.

✈ Bonds

TAP S.A. issued a private bond subscribed on 14 January 2019, in the amount of Euro 137.2 million and maturity in 2034. The fulfilment of the principal and interest repayment obligations related to these bonds benefit from a pledge on a bank deposit constituted by the Issuer for this specific purpose (presented, in the balance sheet, as a deduction to the Gross

Financial Debt) and from additional guarantees over contractual rights that do not affect any assets recognized in the Issuer's balance sheet.

TAP S.A. made a public offering in Portugal of 4-year bonds, with a fixed interest rate of 4.375% per year, in the amount of Euro 200 million, named “TAP 2019-2023 Bonds”. The issuance, physical and financial settlement of the transaction, as well as the admission to trading of bonds on Euronext Lisbon, took place on 24 June 2019.

In December 2019, TAP S.A. made a private offering to institutional investors of 5-year bonds, with a fixed interest rate of 5,625 % per year, in the amount of Euro 375 million. The issuance, physical and financial settlement of the transaction, took place on December 2, 2019.

At December 31, 2019 and 2018 all borrowings are denominated in Euros.

✈ Lease liabilities with purchase option

At 2019 and 2018 the lease liabilities with purchase option (accrued of interests and deducted of initial charges), essentially related to airplanes and engines.

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

	2019	2018
Lease liabilities in EUR	110,860,628	69,522,862
Lease liabilities in USD	164,032,127	62,446,843
	274,892,755	**131,969,705**

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

✈ 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 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 and unsecured financial net debt. In 2019, TAP S.A. repaid in advance in amount of Euro 98 million of the bank debt and then Net Debt/EBITDAR ratio no longer applies. These ratios have as main objective to follow up the Group’s financial situation and its capability to repay the debt.

During 2019, the Group issued to Public Bonds and bank debt which includes Net Debt/EBITDAR covenants, change of control clauses and some restrictions on loans.

As of December 31, 2019, the Group and its subsidiaries are complying with all covenants.

✈ Lease liabilities without purchase option

The caption Lease liabilities without purchase option refers essentially to the Company's non-cancellable payments under lease contracts, which vary in duration up to 12 years and may be extended at the express wish of the contracting parties, which are now recognised in the statement of financial position from January 1, 2019 with the adoption of IFRS 16.

As at December 31, 2019, there were 67 aircraft and 18 engines under lease contracts without purchase option and 21 aircraft under ACMI, as detailed in Note 4.

As at December 31, 2019 and 2018 lease liabilities without purchase option, by maturity, break down as follows:

	2019	2018
Up to 1 year	426,685,786	-
1 to 2 years	366,503,715	-
2 to 3 years	284,950,720	-
3 to 4 years	214,759,116	-
4 to 5 years	178,078,585	-
Over 5 years	807,700,564	-
	2,278,678,486	**-**

These liabilities are mainly indexed to the US dollar.

18. Reconciliation of cash flows borrowings and lease liabilities with purchase option

The evolution of borrowings and lease liabilities with purchase option and their reconciliation to the consolidated statement of cash flows is as follows:

	Remunerated bank debt and Bonds	Leases
January 1, 2018	**580,554,615**	**143,583,709**
Receipts	70,000,000	96,397,383
Payments	(7,500,000)	(45,471,784)
New lease agreements	-	(65,795,822)
Currency translation differences	-	3,044,134
Other	915,510	212,085
31 December 31, 2018	**643,970,125**	**131,969,705**
Receipts	702,045,778	77,014,133
Payments	(249,816,467)	(38,795,503)
New lease agreements	-	110,096,089
Currency translation differences	-	2,173,980
Angariation fees	(12,796,949)	(7,565,647)
December 31, 2019	**1,083,402,487**	**274,892,757**

The contractual assignment of lease contracts results from the new fleet contracts, in which TAP has fully assigned its contractual position to the lessor. Therefore, no financial outflow will occur in the future.

19. 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 (VIVA)

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 guaranteed 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.

✈ Jubileu bonus - PNT

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:

- Pilots recruited before 31 May 2007: 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;

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

✈ Health Care

“TAP S.A.” ensures that both pre-retired and early-retired employees, below the age of 65, are awarded 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 - Cuidades Integrados de Saúde, S.A. (“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 December 31, 2019 and 2018, prepared by independent entities, individually for each company, using the projected unit credit method and essentially based on the following financial and demographic assumptions:

	2019		2018	
	Portugal VIVA	**Portugal Jubileu**	**Portugal VIVA**	**Portugal Jubileu**
Mortality table	TV 88/90	TV 88/90	TV 88/90	TV 88/90
Disability table	EKV1980	EKV1980	EKV1980	EKV1980
Discount rate	1.50%	1.50%	2.00%	2.00%
Fund yield rate	1.50%	1.50%	2.00%	2.00%
Grow th rate				
Wages	[1,5%-5%]	2.00%	[1,5%-5%]	2.00%
Pensions	1.00%	1.00%	1.00%	1.00%
Trend of medical costs	1.50%	--	1.50%	--
Regular retirement age	66	65	66	65

The Group reviews the actuarial assumptions annually, or whenever relevant events occur, based on market financial information and information related to the beneficiaries covered by these plans.

The Group reviews periodically the actuarial assumptions, or whenever relevant events occur, based on market financial information and information related to the beneficiaries covered by these plans. At December 31, 2019, the discount rate if VIVA and Jubileu was reduced to 1.5%, following the decrease of the high quality bonds interest rates.

The net liabilities evolution for past services, as at December 31, 2019 and 2019 is detailed as follows:

	2019					
	VIVA Fund	**VIVA Pensions**	**Health Care**	**Jubileu Bonus**	**England Representation**	**Total**
Liabilities from past services						
- Active employees	622,374	3,334,671	-	100,979,484	-	104,936,529
- Early retirement	46,622	16,174,758	454,112	-	-	16,675,492
- Retired	9,643,670	27,883,399	2,769,961	-	16,919,499	57,216,529
Fair value of the fund	(15,737,186)	-	-	(51,237,487)	(15,497,524)	(82,472,197)
Defit/(surplus)	**(5,424,520)**	**47,392,828**	**3,224,073**	**49,741,997**	**1,421,975**	**96,356,353**

	2018					
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Liabilities from past services						
- Active employees	281,580	1,877,234	-	83,939,828	-	86,098,642
- Early retirement	37,608	18,281,534	438,246	-	-	18,757,388
- Retired	10,636,637	30,872,904	2,598,463	-	16,919,499	61,027,503
Fair value of the fund	(15,230,464)	-	-	(48,942,794)	(15,497,524)	(79,670,782)
Defit/(surplus)	**(4,274,639)**	**51,031,672**	**3,036,709**	**34,997,034**	**1,421,975**	**86,212,751**

According to the study carried out by independent individuals, the best estimate of contribution to pension benefit plans, for the subsequent year, is 6,000,000 Euros.

As at December 31, 2019 and 2018, the defined benefit plans of the Group in Portugal (excluding the Representation in England) covered 1,850 and 1,883 active beneficiaries, respectively. The total number of retired employees entitled to a supplementary retirement pension, or early retirement as at December 31, 2019 and 2018, was 689 and 650 beneficiaries, respectively.

As at December 31, 2019 and 2018, the average maturity of the liabilities related to the defined benefit plan for the “VIVA fund” is 10 and 12 years, respectively, and for the “Jubileu Bonus” 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 pension fund and Jubileu Bonus would correspond to the following impacts on the Group's liabilities as at December 31, 2019 and 2018:

2019	Rate	VIVA Plan*	Jubileu Bonus
Annual discount rate of pensions	1.50%	57,705,494	100,979,484
0.25% increase in the discount rate	1.75%	56,856,420	97,426,235
0.25% decrease in the discount rate	1.25%	58,583,136	104,699,357

* Includes "VIVA Pensions" and "VIVA Fund"

2018	Rate	VIVA Plan*	Jubileu Bonus
Annual discount rate of pensions	2.00%	61,987,497	83,939,828
0.25% increase in the discount rate	2.25%	60,911,890	80,916,095
0.25% decrease in the discount rate	1.75%	63,102,227	87,107,688

* Includes "VIVA Pensions" and "VIVA Fund"

✈ Growth rate 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 2019 and 2018 is as follows:

	Rate	2019	2018
Annual growth rate of medical costs	1.50%	3,224,073	3,036,709
1% increase in the growth rate of medical costs	2.50%	3,481,516	3,264,603
1% decrease in the growth rate of medical costs	0.50%	2,996,387	2,833,677

✈ Pension growth rate

If the pension growth rate increase or decreases by 0.25 percentage points, the respective impact on the Group's liabilities as at 31 December 2019 and 2018 is as follows:

	Rate	2019	2018
Growth rate of VIVA Pension fund (*)	1.00%	57,705,494	61,987,497
0.25% increase in the Pension growth rate	1.25%	58,472,211	62,895,707
0.25% decrease in the Pension growth rate	0.75%	56,961,597	61,108,328

* Includes "VIVA Pensions" and "VIVA Fund"

Evolution of liabilities from past services

The movement of the liabilities from past services, reflected in the consolidated statement of financial position, as at December 31, 2019 and 2018, is as follows:

	2019					
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Liabilities at the beginning of the year	10,955,825	51,031,672	3,036,709	83,939,828	16,919,499	165,883,533
Currency translation differences	-	-	-	-	-	-
Values recorded through profit or loss for the year:						
Current services	20,686	-	-	4,246,404	-	4,267,090
Net interest	219,116	1,834,781	60,735	1,229,963	-	3,344,595
Reestructuring - early retairment (Note 28)	-	2,035,816	-	-	-	2,035,816
Actuarial gain and losses	(118,121)	2,404,426	126,629	15,142,218	-	17,555,152
Benefits paid	(764,840)	(9,913,867)	-	(3,578,929)	-	(14,257,636)
Changes in plans	-	-	-	-	-	-
Liabilities at the end of the year	**10,312,666**	**47,392,828**	**3,224,073**	**100,979,484**	**16,919,499**	**178,828,550**

	2018					
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Liabilities at the beginning of the year	10,591,863	35,020,845	2,773,101	70,210,638	17,058,710	135,655,157
Currency translation differences	-	-	-	-	(456,065)	(456,065)
Values recorded through profit or loss for the year:						
Current services	21,891	-	-	4,437,586	-	4,459,477
Net interest	211,837	700,417	55,461	1,535,840	316,854	2,820,409
Reestructuring - early retairment (Note 28)		17,305,876				
Actuarial gain and losses	867,369	1,967,522	208,147	13,822,725	-	16,865,763
Benefits paid	(737,135)	(3,962,988)	-	(6,066,961)	-	(10,767,084)
Changes in plans	-	-	-	-	-	-
Liabilities at the end of the year	**10,955,825**	**51,031,672**	**3,036,709**	**83,939,828**	**16,919,499**	**165,883,533**

Evolution of funds allocated to pensions benefit schemes

In 2019 and 2018 the fund assets evolution was as follows:

	2019			
	VIVA Fund	Jubileu Bonus	England Representation	Total
Opening balance	15,230,464	48,942,794	15,497,524	79,670,782
Contributions in the year	-	5,416,724	-	5,416,724
Net interest	1,271,562	921,721	-	2,193,283
Benefits paid	(764,840)	(4,023,807)	-	(4,788,647)
Return of plan assets (excluding net interest)	-	(19,945)	-	(19,945)
Closing Balance	**15,737,186**	**51,237,487**	**15,497,524**	**82,472,197**

	2018			
	VIVA Fund	Jubileu Bonus	England Representation	Total
Opening balance	16,398,887	48,296,222	15,625,035	80,320,144
Contributions in the year	-	5,871,000	328,554	6,199,554
Net interest	(431,287)	965,924	-	534,637
Benefits paid	(737,136)	(6,066,961)	-	(6,804,097)
Return of plan assets (excluding net interest)	-	(123,391)	-	(123,391)
Currency translation differences	-	-	(456,065)	(456,065)
Closing Balance	**15,230,464**	**48,942,794**	**15,497,524**	**79,670,782**

The composition of the funds and its category as at December 31, 2019 and 2018 is as follows:

	2019				
	Fair value level	VIVA Fund	Jubileu Bonus	England Representation	Total
Shares	1	4,168,874	-	13,618,325	17,787,199
Bonds	1	6,300,699	49,700,362	1,666,797	57,667,858
Public debt	1	3,985,378	-	-	3,985,378
Real estate	2	321,915	-	-	321,915
Liquidity	1	960,320	1,537,125	-	2,497,445
Other current investments	1	-	-	212,402	212,402
		15,737,186	**51,237,487**	**15,497,524**	**82,472,197**

	2018				
	Fair value level	VIVA Fund	Jubileu Bonus	England Representation	Total
Shares	1	4,376,374	-	13,618,325	17,994,699
Bonds	1	5,925,756	47,885,630	1,666,797	55,478,183
Public debt	1	3,728,897	-	-	3,728,897
Real estate	2	473,919	-	-	473,919
Liquidity	1	725,518	1,057,164	-	1,782,682
Other current investments	1	-	-	212,402	212,402
		15,230,464	**48,942,794**	**15,497,524**	**79,670,782**

Expenses related to pensions and other post-employment benefits

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

	2019					
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Current Services	20,686	-	-	4,246,404	-	4,267,090
Net interest	644,289	721,322	60,735	308,242	-	1,734,588
	664,975	**721,322**	**60,735**	**4,554,646**	**-**	**6,001,678**
Reestructuring - early retairment (Note 28)	-	2,035,816	-	-	-	2,035,816
	664,975	**2,757,138**	**60,735**	**4,554,646**	**-**	**8,037,494**

	2018					
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Current Services	21,891	-	-	4,437,586	-	4,459,477
Net interest	643,124	700,417	55,461	569,916	316,854	2,285,772
	665,015	**700,417**	**55,461**	**5,007,502**	**316,854**	**6,745,249**
Reestructuring - early retairment (Note 28)	-	17,305,876	-	-	-	17,305,876
	665,015	**18,006,293**	**55,461**	**5,007,502**	**316,854**	**24,051,125**

As previously mentioned, the pilots of TAP S.A., admitted after 1 June 2007, benefit from a defined contribution plan. During 2019 a cost was recognised in the heading “Employee costs - expenses related to post-employment benefits obligation" in the amount of Euro 750 thousand (2018: Euro 1,818 thousand), relative to the contributions made during the year in favour of its employees (Note 25).

The expenses relative to pensions and other post-employment benefits for 2019 and 2018 are recorded under the caption "Employee costs" (Note 25).

Remeasurement gains/losses

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

	2019					
	VIVA Fund	VIVA Pensons	Health Care	Jubileu Bonus	England Representation	Total
Remeasurements						
Return of assets, excluding amounts included in net income	-	-	-	19,945	-	19,945
	-	**-**	**-**	**19,945**	**-**	**19,945**
(Gains)/losses due to demographics	-	-	-	-	-	-
(Gains)/losses due to changes in financial assumptions	-	-	-	11,684,871	-	11,684,871
(Gains)/losses due to experience	(118,121)	2,404,426	126,629	3,457,347	-	5,870,281
	(118,121)	**2,404,426**	**126,629**	**15,142,218**	**-**	**17,555,152**
Total remeasurements	**(118,121)**	**2,404,426**	**126,629**	**15,162,163**	**-**	**17,575,097**

	2018					
	VIVA Fund	VIVA Pensons	Health Care	Jubileu Bonus	England Representation	Total
Remeasurements						
Return of assets, excluding amounts included in net income	-	-	-	123,391	-	123,391
	-	**-**	**-**	**123,391**	**-**	**123,391**
(Gains)/losses due to demographics	-	-	-	-	-	-
(Gains)/losses due to changes in financial assumptions	-	-	-	12,819,605	-	12,819,605
(Gains)/losses due to experience	867,369	1,967,522	208,147	1,003,120	-	4,046,158
	867,369	**1,967,522**	**208,147**	**13,822,725**	**-**	**16,865,763**
Total remeasurements	**867,369**	**1,967,522**	**208,147**	**13,946,116**	**-**	**16,989,154**

The actuarial gains / losses due to changes in financial assumptions recognised in 2019, amounting to Euro 11,684,871, result from the salary review and agreements established in 2019 with technical navigation personnel.

The remeasurement gains/losses were recognised directly in the Group comprehensive income.

20. Other payables

As at December 31, 2019 and 2018, the caption "Other payables" is detailed as follows:

	2019		2018	
	Current	Non-Current	Current	Non-Current
Suppliers	159,050,253	-	236,954,507	-
Accrued expenses	267,846,567	-	308,895,811	49,741,211
Advances from customers	780,485	-	835,687	-
Other	144,041,311	-	120,806,723	-
	571,718,616	**-**	**667,492,728**	**49,741,211**

✈ Suppliers

As at December 31, 2019 and 2018, the caption "Suppliers" is detailed as follows:

	2019	2018
Suppliers - current account	43,124,554	92,617,537
Suppliers - related parties (Note 34)	24,272,384	60,006,523
Suppliers - pending invoices	91,653,315	84,330,447
	159,050,253	**236,954,507**

✈ Accrued expenses

As at December 31, 2019 and 2018, the caption "Accrued expenses" is detailed as follows:

	2019		2018	
	Current	Non-Current	Current	Non-Current
Remunerations	104,486,573	-	93,556,918	-
Maintenance - leases (Note 2.2)	-	-	54,197,716	49,741,211
Aircraft fuel and CO2 emission licences	55,014,529	-	49,429,139	-
Swaps jet fuel	-	-	41,322,387	-
Remuneration - air crew	23,985,431	-	18,799,079	-
Navigation fees	13,777,851	-	5,057,486	-
Special sales charges	11,340,873	-	10,002,238	-
Specialized w orks	7,877,443	-	4,997,659	-
Related parties (Note 34)	2,152,649	-	6,523,323	-
Handling services	5,200,894	-	5,693,489	-
Insurance to be settled	4,828,488	-	5,279,991	-
Other accrued expenses	39,181,836	-	14,036,386	-
	267,846,567	**-**	**308,895,811**	**49,741,211**

The decrease of accrued expenses occurred in the year 2019 results mainly from the adoption of IFRS 16 (Note 2). At December 31, 2018, the balance of this caption includes to the estimated structural maintenance charges for aircraft under lease contracts without purchase option, less the maintenance reserves paid that are estimated to be recoverable considering the current contractual conditions established with the lessors and the estimate of the respective charges for the structural maintenance of these aircraft. In addition, the decrease in the accrued expenses is mainly due to the fair value of jet fuel swaps and the general increase in expenses with personnel and external supplies and services, directly associated with the increase in the Group activity.

The increase recorded in remunerations is related to the average salary and employees increase in 2018 (Note 27).

The caption maintenance - operating lease corresponds to the estimated structural maintenance costs of the aircraft in lease contracts without purchase option, taking into account the existing contractual responsibility with lessors (Note 2.34.), deducted from the maintenance reserves paid that are estimated to be recoverable, considering the current contractual conditions established with the lessors and the estimation of the respective charges for the structural maintenance of these aircraft.

The increase recorded in aircraft fuel and CO2 emission licenses results mainly from the effect of the increase in international fuel and CO2 reference prices.

The special sales charges refer to commissions granted to agents according with the flight revenue of the year obtained through this sale channel.

✈ **Other – payables current**

As of December 31, 2019, and 2018, the caption other payables current is detailed as follows:

	2019	2018
Taxes and fees	116,644,678	88,733,129
Fixed assets suppliers	12,648,319	16,283,365
Customers payables	3,581,126	3,057,731
Related Parties (Note 34)	929,836	2,588,237
Indemnities	936,699	937,034
Other	9,300,653	9,207,227
	144,041,311	**120,806,723**

The caption Taxes and fees refers, essentially, to amounts payable to several entities, related to taxes and fees charged to customers on the issued tickets.

21. Liabilities from unused flight documents

As at December 31, 2019 and 2018, the Group's liabilities relative to unused flight documents were as follows:

	2019	2018
Passengers	480,330,860	393,260,983
Cargo	431,617	204,729
	480,762,477	**393,465,712**

22. Other current liabilities

As at December 31, 2019 and 2018, the caption other current liabilities are detailed as follows:

	2019	2018
Deferred income	55,823,690	58,594,413
State	38,989,195	35,736,669
	94,812,885	**94,331,082**

✈ Deferred income

As of December 31, 2019, and 2018, the caption deferred income is detailed as follows:

	2019	2018
Customer loyalty program	46,664,431	52,035,848
Leasing contracts	-	3,230,195
Investment grants	276,787	2,882,523
Related Parties (Note 34)	359,021	348,496
Other deferred income	8,523,451	97,351
	55,823,690	**58,594,413**

In the scope of application of IFRS 15 - Revenue from contracts with customers, at the initial miles allocation to customers adhering to the loyalty program called "TAP Miles & Go", a contractual obligation is recognised based on the unit value of the mile (Nota 2). An impact of 1% of the appreciation of the value of the mile corresponds to 1% of variation in the value of the liability.

As of December 31, 2019, the caption Other deferred revenue is related to services fee invoiced to customer to be recorded when the flight occurs.

✈ State

For the years ended December 31, 2019 and 2018, the balance of this caption is detailed as follows:

	2019	2018
Social security contribution	20,791,154	18,867,431
Personal income tax	18,162,559	16,832,098
Others	35,482	37,140
	38,989,195	**35,736,669**

23. Operating income

Operating income incurred during 2019 and 2018 were as follows:

	2019				
	Passenger	Maintenance	Cargo and Mail	Other	Total
Revenue					
Sales	-	1,788,321	-	103,196	1,891,517
Services provided	2,914,005,095	209,500,930	137,392,757	9,582,392	3,270,481,174
Other income	-	-	-	26,380,835	26,380,835
	2,914,005,095	**211,289,251**	**137,392,757**	**36,066,423**	**3,298,753,526**

	2018				
	Passenger	Maintenance	Cargo and Mail	Other	Total
Revenue					
Sales	-	2,352,073	-	151,298	2,503,371
Services provided	2,782,440,616	225,817,761	134,684,113	7,937,972	3,150,880,462
Other income	-	-	-	23,849,565	23,849,565
	2,782,440,616	**228,169,834**	**134,684,113**	**31,938,835**	**3,177,233,398**

✈ Sales and services rendered

As at December 31, 2019 and 2018, the sales and services rendered, by external and internal market, are presented as follows:

The sales and services rendered by geographic market is as follows:

	2019					2018				
	Air Transport	Maintenance	Cargo and Mail	Other	Total	Air Transport	Maintenance	Cargo and Mail	Other	Total
Mainland and islands	226,759,827	18,589,560	8,414,999	6,421,420	260,185,806	200,327,847	3,782,077	7,579,503	5,822,531	217,511,958
Europe	1,190,760,336	140,237,733	12,641,723	2,265,914	1,345,905,706	1,160,531,940	200,497,681	13,251,006	1,635,962	1,375,916,589
South Atlantic	743,871,104	637,436	73,612,870	443,699	818,565,109	793,717,242	94,510	77,134,484	296,613	871,242,849
North Atlantic	403,933,173	45,985,248	25,087,134	239,344	475,244,899	302,718,382	2,300,528	20,171,431	136,399	325,326,740
Mid Atlantic	15,268,757	5	1,349,884	8,982	16,627,628	20,630,581	7	1,334,162	7,799	21,972,549
Africa	314,705,283	650,141	16,214,388	287,559	331,857,371	304,514,624	12,401,473	15,213,527	189,966	332,319,590
Other	18,706,615	5,189,128	71,759	18,670	23,986,172	-	9,093,558	-	-	9,093,558
	2,914,005,095	**211,289,251**	**137,392,757**	**9,685,588**	**3,272,372,691**	**2,782,440,616**	**228,169,834**	**134,684,113**	**8,089,270**	**3,153,383,833**

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.

✈ Other operating income

During 2019 and 2018, this caption is presented as follows:

	2019	2018
Recovered warehouse material	4,554,793	5,951,797
Shared Services	9,582,392	5,240,731
Rents and Subleases	3,596,659	4,157,589
Publicity	2,190,204	2,401,635
Gains from tangible fixed assets	7,686,635	1,768,730
Operating government grants	2,188,306	1,582,435
Commissions	674,222	1,288,065
Fair value variation	17,800	1,292,804
Other supplemental operating income	5,575,412	8,255,049
	36,066,423	**31,938,835**

The gains recorded in 2019, in the caption gains from tangible fixed assets refer essentially to the added value resulting from the disposal of three aircrafts and one engine (Note 4).

24. Expenses by nature

During 2019 and 2018, the operating expenses by nature are as follows:

	2019	2018
Aircraft fuel	789,677,244	798,623,576
Traffic operating costs	807,340,162	939,590,284
Aircraft rents	-	151,978,065
Aircraft maintenance costs	56,127,269	89,930,145
Cost of materials consumed	141,326,887	166,035,350
Comercial, communication and marketing costs	153,171,796	186,503,880
	1,947,643,358	**2,332,661,300**

✈ Aircraft fuel

The caption aircraft fuel is as follows for the years ended December 31, 2019 and 2018:

	2019	2018
Aircraft fuel	767,293,767	768,910,594
CO_2 emission licences	22,383,477	29,712,982
	789,677,244	**798,623,576**

The decrease in aircraft fuel costs is due to the combined effect of the increase in the quantities consumed and the decrease of the average price of jet fuel.

✈ Traffic operating costs

The caption traffic operating costs has the following composition for the years ended December 31, 2019 and 2018:

	2019	2018
Handling services	203,686,746	200,796,482
Navigation fees	166,324,400	166,416,066
In-flight expenses	107,359,237	97,291,540
Landing charges	107,348,423	95,866,749
Operational irregularities	70,319,848	57,188,290
Accommodation and meals during stopovers	35,503,538	30,406,522
Facilities at airports	31,431,922	25,228,802
Air traffic control charges	27,960,894	17,104,761
Baggage, cargo and mail charges	23,246,687	23,076,866
Ground costs related to executive class passengers	13,428,385	12,337,959
Aircraft charters	10,189,737	205,302,804
Other traffic operating costs	10,540,345	8,573,443
	807,340,162	**939,590,284**

The variation in the caption “Aircraft charters” is related to the IFRS 16 adoption (Note 2.2).

✈ Aircraft rents

Aircraft rents is as follows for the years ended December 31, 2019 and 2018:

	2019	2018
Aircraft operating leases	-	139,024,066
Spare parts operating leases	-	12,953,999
	-	**151,978,065**

The variation occurred in the caption “Aircraft rents” refers to the adoption of IFRS 16 (Note 2.2).

✈ Aircraft maintenance costs

Aircraft maintenance costs is as follows for the years ended December 31, 2019 and 2018:

	2019	2018
Consumed inventories	28,142,606	63,471,139
Maintenance subcontracting of TAP flight equipment	27,984,663	26,459,006
	56,127,269	**89,930,145**

The variation in the aircraft maintenance expenses caption is related to the adoption of IFRS 16 (Note 2.2.), since as of January 1, 2019, the recurring line maintenance of TAP aircraft is recorded in this caption.

✈ Costs of materials consumed

The costs of materials consumed in rendering maintenance services to third parties for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Sold and consumed inventories	112,524,874	139,407,195
Maintenance subcontracting for third parties flight equipment	28,802,013	26,628,155
	141,326,887	**166,035,350**

✈ Commercial, communication and marketing costs

The items for commercial, communication and marketing costs are as follows for the years ended December 31, 2019 and 2018:

	2019	2018
Booking fees	45,394,158	69,938,630
Commissions	44,737,219	47,041,052
Special sales charges - air transport	29,180,723	36,753,361
Publicity	24,085,053	21,849,170
Specialised w ork	9,322,059	10,468,679
Other comercial, communication and marketing expeses	452,584	452,988
	153,171,796	**186,503,880**

The variation in the caption Booking fees concern, essentially, the renegotiation of the commission contracts with agents.

25. Employee costs

Employee costs incurred during 2019 and 2018 were as follows:

	2019	2018
Fixed remuneration	339,380,013	305,266,113
Variable remuneration	176,259,664	153,783,708
Social security contributions	111,154,146	95,978,215
Insurance	13,492,936	11,462,251
Social action costs	11,193,138	10,719,570
Post-employment benefits (Note 19)	6,751,678	8,563,675
Training and recruitment	3,231,638	7,136,407
Work accident insurance	8,536,803	6,989,374
Meals allow ance	6,022,685	4,820,842
Uniform and w ork clothes	1,738,801	1,674,218
Other expenses w ith employees	874,198	1,382,350
	678,635,700	**607,776,723**

The increase in employee expenses is due to the headcount variation, and related training expenses, the average salary increase and the increase in variable remuneration, as a result of the strong growth of the operation and of the agreements established with the employees and their representants in 2019 and 2018.

The variation in the caption post-employment benefits concern to the decrease in the service cost and interests between 2019 and 2018.

The remunerations attributed to the Statutory Bodies, in 2019 and 2018, were:

	2019	2018
Remunerations		
Employees	678,593,700	607,727,723
Statutory Bodies (*)	42,000	49,000
	678,635,700	**607,776,723**

(*) This caption includes exclusively the remunerations related to the Supervisory Board, with the remaining Board are being remunerated at TAP SGPS.

During 2019 and 2018, the average number of employees working for the group and all its subsidiaries was 8,939 and 8,081, respectively:

	2019	2018
Head office		
Cabin Crew employees	3,561	3,181
Maintenance and engineering employees	1,848	1,843
Ground employees	1,880	1,618
Technical flight employees	1,274	1,063
Representations		
Brazil	99	102
USA	42	38
Spain	33	32
France	29	32
Angola	27	27
Germany	24	25
Italy	25	23
UK/Ireland	21	21
Venezuela	8	11
Switzerland	4	9
Belgium / Luxembourg	3	3
Other	61	53
	8,939	**8,081**

26. Impairment losses in inventories, receivables and provisions

As at December 31, 2019 and 2018, this caption is detailed as follows:

	2019	2018
Inventory impairment (Note 11)	430,351	(902,872)
Receivables impairment (Note 10)	(3,384,029)	(1,072,273)
Provisions (Nota 16)	2,958,327	(5,026,574)
	4,649	**(7,001,719)**

27. Other expenses

The caption other operating expenses is detailed as follows:

	2019	2018
Specialised w ork and subcontracts	77,264,939	93,495,554
Conservation and repair of other assets	13,394,138	9,061,732
Rents	7,407,952	6,682,876
Transportation	5,131,519	4,171,750
Comunication	11,261,956	3,962,278
Travel costs	4,015,568	3,050,352
Insurance	3,470,673	3,042,832
Surveillance and security	3,571,487	3,014,966
Fees	3,599,154	2,621,340
Books and technical documentation	2,038,435	1,897,721
Taxes	1,712,864	1,856,074
Electricity	2,070,798	1,758,363
Cleaning, hygiene and comfort	1,635,589	1,758,258
Other operating expenses	7,493,160	4,811,595
	144,068,232	**141,185,691**

The caption ”Rents” includes short term lease contracts, regarding, essentially, offices and software.

28. Restructuring

The detail of the restructuring expenditure caption is presented in the following table:

	2019	2018
Early retirements (Note 19)	2,035,816	17,305,876
Employee indemnities	2,947,281	7,344,730
	4,983,097	**24,650,606**

In 2017, the Group began a restructuring programme in Portugal. This program joined 18 and 133 employees in 2019 e 2018, respectively.

In addition, as a result of the ongoing transformation process in the Group, an early retirement program was launched in July 2018 for cabin crew and ground employees and / or situations duly approved by the Executive Committee. The Group signed 83 early retirement agreements, corresponding to a total liability of Euro 16,675 thousand, as presented in Note 19.

29. Other non-recurring items

The detail of the caption other non-recurring beyond the restructuring (Note 28) items results mainly from agreements celebrated with labour unions as follows:

	2019	2018
Pilots special payment	-	12,715,749
Seniority - compensatory benefits to crew employees	501,098	4,737,860
SNPVAC - Pregnancy Complement	-	2,686,765
	501,098	**20,140,374**

Following the Regulation of Recourse to Outsourcing ("RRCE" – “Regulamento de Recurso à Contratação Externa”) celebrated on 14 May 2018 with the Civil Aviation Pilots Union ("SPAC" – “Sindicato dos Pilotos da Aviação Civil)”, which replaced the Regulation of Internal Employees and Recourse to Outsourcing ("RERCE " – “Regulamento de Efetivos e de Recurso à Contratação Externa)” from 30 July 1998, that establishes new conditions for outsourcing, it has been agreed the payment of extraordinary benefits for the year 2018 in the total amount of Euro 12,716 thousand.

The Group signed on 17 May 2016 a memorandum of understanding on the seniority attribution model to TAP pilots. Within the scope of this memorandum, it was defined that will reinstate until 2019, without any retroactive effects, the seniorities for the years 2011 to 2016, included in the scope of the prohibition of salaries increase imposed by the budgetary regimes in force at that date. This measure generated a total cost of Euro 680 thousand in 2019 and Euro 4,878 thousand in 2018.

Within the scope of the agreement signed on 30 January 2018 with the Civil Aviation Flight Personnel Union ("SNPVAC" – “Sindicato Nacional do Pessoal de Voo da Aviação Civil”), the payment of pregnancy supplement was agreed in situations previously not covered, referring to previous years, in the total amount of Euro 2,687 thousand.

Due to their nature, these situations were considered by the Board of Directors to be non-recurring in the context of these financial statements.

30. Depreciation, amortisation and impairment losses

For the years ended as at December 31, 2019 and 2018, this caption is detailed as follows:

	2019	2018
Depreciation of Tangible Fixed Assets (Note 4)		
Buildings and other constructions	5,431,247	5,409,679
Basic equipment	62,424,035	56,639,172
Transport equipment	54,293	91,089
Tools and utensils	697,722	674,540
Administrative equipment	1,544,262	880,014
Other tangible fixed assets	342,795	332,964
	70,494,354	**64,027,458**
Depreciation of Right-of-use (Note 4)		
Buildings and other constructions	714,284	-
Basic equipment	393,181,811	-
Transport equipment	254,838	-
	394,150,933	**-**
Amortisation of Intangible Assets (Note 7)		
Computer Programs	8,359,097	2,492,247
	8,359,097	**2,492,247**
Impairment losses in tangible assets (Note 4)		
Basic equipment	2,740,781	4,186,407
Total	**475,745,165**	**70,706,112**

The impairment losses recognised in 2019 and 2018, are mainly due to spare parts and other equipment related with the aircraft phase-in and phase-out.

31. Finance results

The detail of the finance results for the years 2019 and 2018 is as follows:

	2019	2018
Interest expenses	(39,523,075)	(31,723,072)
Lease interests related with contracts without purchase option	(119,769,279)	-
Other financial expenses	(26,138,790)	(11,499,263)
Interests and similar expenses	**(185,431,144)**	**(43,222,335)**
Interest income	33,820,521	36,911,444
Interests and similar income	**33,820,521**	**36,911,444**
	-	**-**
Net foreign exchange differences	(21,283,835)	(49,073,869)
Net currency exchange	**(21,283,835)**	**(49,073,869)**
	-	**-**
	(172,894,458)	**(55,384,760)**

The caption Net foreign exchange differences includs foreign exchange differences regarding the lease contracts without purchase option in the amount of, approximately, Euro 13.7 million, regarding variation of the Dollar versus Euro.

Interest expenses related to lease contracts without purchase option result from the adoption of IFRS 16 as of January 1, 2019.

The unfavourable exchange rate differences that occurred in the year ended December 31, 2019 and 2018 were mainly due to the devaluation of the Brazilian real and the kwanza, as well as the appreciation of the dollar considering the debt in this currency.

32. Income tax for the year

TAP SA is taxed through the special regime for the taxation groups of companies (“RETGS”), and the tax result was determined in TAP SGPS. However, the Company's income tax accrual is recorded based on its individual taxable income.

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 9% 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 31.5%.

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 31 December 2019 and 2018.

For the year ended as at December 31, 2019 and 2018, the caption "Income tax for the year" is detailed as follows:

	2019	2018
Deferred taxes (Note 9)	(30,335,538)	(21,901,339)
Current taxes (Note 12)	354,236	199,289
Differences from tax estimates	(94,198)	(2,506,479)
	(30,075,500)	**(24,208,529)**

The reconciliation of the effective tax rate for 2019 and 2018 is detailed as follows:

	2019	2018
Net income/(loss) before income tax	(125,712,933)	(82,273,887)
Nominal tax rate	21.0%	21.0%
Expected tax	(26,399,716)	(17,277,516)
Permanent differences	(3,935,822)	(4,623,823)
Autonomous taxation	354,236	199,289
Differences from tax estimates for the previous year	(94,198)	(2,506,479)
	(30,075,500)	**(24,208,529)**
Effective tax rate	24%	29%

33. Segment reporting

The following business segments have been identified: air transport and maintenance. 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 activities aggregated in "Other" do not qualify to report separately.

The financial information by operational segment for 2019 is detailed as follows:

	2019				2018			
	Air Transport	Maintenance and engeneering	Other	Total	Air Transport	Maintenance and engeneering	Other	Total
Operating Income	3,070,330,492	218,915,522	9,507,512	3,298,753,526	2,919,997,369	228,169,834	29,066,195	3,177,233,398
Operating results	15,679,547	44,783,638	(13,281,660)	47,181,525	(39,359,671)	29,135,902	(16,665,358)	(26,889,127)
External net financial results	(174,516,441)	1,621,983	-	(172,894,458)	(55,737,596)	352,836	-	(55,384,760)
Income tax	37,304,221	(10,127,209)	2,898,488	30,075,500	27,981,720	(8,676,859)	4,903,668	24,208,529
Net Income	**(121,532,673)**	**36,278,412**	**(10,383,172)**	**(95,637,433)**	**(67,115,547)**	**20,811,879**	**(11,761,690)**	**(58,065,358)**

34. 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. See remuneration disclosed in Note 25.

As at 31 December 2019 and 2018, the balances with related parties are detailed as follows:

	2019 - Assets							
	Customers (Note 10)	Advances to suppliers (Note 10)	Accrued income (Note 10)	Deferred expenses (Note 13)	Income tax receivable (Note 12)	Right-of-use assets	Other receivables current (Note 10)	Total
TAP SGPS	9,082	-	1,563,885	-	539,123	-	835,105,332	**837,217,422**
Azul S.A.	309,669	-	-	-	-	-	1,562	**311,231**
TAPGER	615,000	-	-	-	-	-	-	**615,000**
PGA	-	-	841,051	-	-	211,066,341	22,351	**211,929,743**
SPdH	966,959	-	3,619,421	1,471,775	-	-	334,512	**6,392,667**
TAP ME Brasil	14,974,994	2,742,637	-	-	-	-	7,904,991	**25,622,622**
Cateringpor	268,260	-	-	-	-	-	276,776	**545,036**
UCS	111,211	1,000	-	1,408,651	-	-	37,544	**1,558,406**
Aigle Azur Compagnie de Transport Aérien	595,467	-	-	-	-	-	380,096	**975,563**
Barraqueiro Group	2,411	-	-	-	-	-	-	**2,411**
	17,853,053	**2,743,637**	**6,024,357**	**2,880,426**	**539,123**	**211,066,341**	**844,063,164**	**1,085,170,101**

	2019 - Liabilities						
	Suppliers (Note 20)	Accrued expenses (Note 20)	Deferred income (Note 22)	Lease liabilities without purchase option non-current	Lease liabilities without purchase option current	Other payables current (Note 20)	Total
TAP SGPS	(613,561)	-	-	-	-	-	**(613,561)**
Azul S.A.	(35,298)	(32,046)	-	-	-	-	**(67,344)**
TAPGER	-	-	-	-	-	-	**-**
PGA	(7,351,988)	(28,254)	-	(121,685,681)	(101,131,623)	(908,189)	**(231,105,735)**
SPdH	(9,220,206)	(926,001)	(126,510)	-	-	(82)	**(10,272,799)**
TAP ME Brasil	(1,385,147)	(17,716)	-	-	-	-	**(1,402,863)**
Cateringpor	(3,550,531)	(995,837)	(203,675)	-	-	-	**(4,750,043)**
UCS	(1,742,097)	(152,795)	(28,836)	-	-	(21,565)	**(1,945,293)**
Aigle Azur Compagnie de Transport Aérien	(315,925)	-	-	-	-	-	**(315,925)**
Barraqueiro Group	(57,631)	-	-	-	-	-	**(57,631)**
	(24,272,384)	**(2,152,649)**	**(359,021)**	**(121,685,681)**	**(101,131,623)**	**(929,836)**	**(250,531,194)**

	2018 - Assets							
	Customers (Note 10)	Advances to suppliers (Note 10)	Accrued income (Note 10)	Deferred expenses (Note 13)	Income tax receivable (Note 12)	Other receivables non current (Note 10)	Other receivables current (Note 10)	Total
TAP SGPS	3,243	-	885	-	8,329,644	-	808,491,987	**816,825,759**
Azul S.A.	3,220,887	-	-	-	-	-	16,269	**3,237,156**
TAPGER	615,000	-	-	-	-	-	329	**615,329**
PGA	166,842	-	5,781,144	616,182	-	-	308,623	**6,872,791**
SPdH	983,757	-	2,760,000	-	-	-	655,665	**4,399,422**
MEGASIS	356,771	-	-	-	-	-	1,805,184	**2,161,955**
TAP ME Brasil	14,170,372	20,371,710	-	-	-	-	6,037,598	**40,579,680**
Cateringpor	42,780	-	-	-	-	-	404,156	**446,936**
UCS	295,942	-	-	-	-	-	2,009,972	**2,305,914**
Aigle Azur Compagnie de Transport Aérien	64,472	-	-	4,080,786	-	372,926	-	**4,518,184**
Barraqueiro Group	2,382	-	-	-	-	-	-	**2,382**
	19,922,448	**20,371,710**	**8,542,029**	**4,696,968**	**8,329,644**	**372,926**	**819,729,783**	**881,965,508**

	2018 - Liabilities				
	Suppliers (Note 20)	Accrued expenses (Note 20)	Deferred income (Note 22)	Other payables current (Note 20)	Total
TAP SGPS	(362,279)	(2,483,200)	-	(30,581)	**(2,876,060)**
Azul S.A.	(36,681)	(152,838)	-	-	**(189,519)**
PGA	(9,659,422)	-	-	-	**(9,659,422)**
SPdH	(11,105,356)	(1,530,825)	(103,113)	-	**(12,739,294)**
MEGASIS	(6,337,242)	-	(16,368)	(2,540,663)	**(8,894,273)**
TAP ME Brasil	(24,533,545)	-	-	-	**(24,533,545)**
Cateringpor	(4,372,245)	(2,356,460)	(200,507)	-	**(6,929,212)**
UCS	(3,095,617)	-	(28,508)	(16,993)	**(3,141,118)**
Aigle Azur Compagnie de Transport Aérien	(502,183)	-	-	-	**(502,183)**
Barraqueiro Group	(1,953)	-	-	-	**(1,953)**
	(60,006,523)	**(6,523,323)**	**(348,496)**	**(2,588,237)**	**(69,466,579)**

During the years ended as at December 31, 2019 and 2018, the transactions with related parties are as follows:

	2019 - Transactions						
	Operating income	Operating expenses	Depreciation right-of-use	Interest income	Interest expenses and net currency exchange	Income tax	Total
TAP SGPS	-	(4,921,060)	-	30,666,784	(4,734)	(554,450)	25,186,540
Azul S.A.	1,004,782	(302,289)	-	-	-	-	702,493
TAPGER	500,000	-	-	-	-	-	500,000
PGA	2,855,756	(14,099,325)	(92,733,424)	-	(22,386,558)	-	(126,363,551)
SPdH	7,360,975	(104,232,556)	-	-	-	-	(96,871,581)
TAP ME Brasil	455,370	(10,834,815)	-	-	-	-	(10,379,445)
Cateringpor	1,670,672	(54,347,920)	-	-	-	-	(52,677,248)
UCS	988,212	(5,087,905)	-	-	-	-	(4,099,693)
Aigle Azur Compagnie de Transport Aérien	204,614	(741,945)	(6,555,381)	-	(125,485)	-	(7,218,197)
Barraqueiro Group	1,759	(154,625)	-	-	-	-	(152,866)
	15,042,140	**(194,722,440)**	**(99,288,805)**	**30,666,784**	**(22,516,777)**	**(554,450)**	**(271,373,548)**

	2018 - Transactions			
	Operating income	Operating expenses	Interest income	Total
TAP SGPS	-	(6,039,157)	31,247,064	25,207,907
Azul S.A.	2,964,409	(416,531)	-	2,547,878
TAPGER	500,000	-	-	500,000
PGA	1,460,097	(118,906,588)	-	(117,446,491)
SPdH	6,203,652	(104,470,969)	-	(98,267,317)
MEGASIS	2,509,084	(35,730,977)	-	(33,221,893)
TAP ME Brasil	202,671	(8,780,289)	-	(8,577,618)
Cateringpor	1,878,587	(44,799,821)	-	(42,921,234)
UCS	743,293	(4,284,286)	-	(3,540,993)
Aigle Azur Compagnie de Transport Aérien	2,949,591	(6,712,591)	-	(3,763,000)
Barraqueiro Group	561	(83,921)	-	(83,360)
	19,411,945	**(330,225,130)**	**31,247,064**	**(279,566,121)**

The transactions with SPdH refers to ground handling services provided by SPdH to support aircraft, passengers, baggage, cargo and mail.

In addition to the mentioned operations, the Group in the scope of the normal development of its air transport business, maintains code-share commercial relationships with Azul and Aigle Azur. These transactions are carried out on terms and conditions like those agreed with other airlines.

In addition, the related parties in 2019 is:

Aeropar	Frota Azul (Algarve), Lda.	Rodoviária do Alentejo, S.A.
Aigle Azur Compagnie de Transport Aérien	Laso Transportes, SA	Rodoviária do Tejo, S.A.
Atlantic Cargo-Soc.Transportes, S.A.	MTS - Metro Transportes do Sul, S.A.	SPdH - Serviços Portugueses de Handling, S.A.
Atlantic Gateway, SGPS	Parpública - Participações Públicas, SGPS, S.A.	TAP ME Brasil
Azul Linhas Aéreas Brasileiras	PGA	TAP SGPS
Barraqueiro Transportes, S.A.	RDL - Rodoviária do Lis, Lda.	TAPGER
Cateringpor	RDO – Rodoviária do Oeste, Lda	UCS
Cityrama - Viagens e Turismo, S.A.	RNE - Rede Nac. Expressos, Lda	
Eva Transportes, S.A.	Rodo Cargo - Transp. Rodoviário de Mercadorias,S.A.	
Fertagus-Travessia do Tejo Transportes, S.A.	Rodoviária de Lisboa, S.A.	

35. Contingencies

Contingent assets and liabilities

As at December 31, 2019 and 2018, the Group have no contingent assets.

As at December 31, 2019 and 2018, the Group have contingent liabilities as detailed below:

	2019	2018
Tax contingencies	7,574	-
Civil contingencies	7,704,097	-
Regulatory contingencies	9,291,545	405,278
Total	**17,003,216**	**405,278**

The Regulatory contingencies includes, essentially, processes brought by customers regarding operational irregularities. The Group, supported by the opinion of its legal advisors, considers that the unfavorable outcome of these processes is not likely.

Pledged Guarantees

As at December 31, 2019 and 2018, the pledged guarantees by the Group are detailed as follows:

	2019	2018
Bank guarantees provided by Head Office		
Aircrafts	93,241,143	57,092,188
INEA - "Spice" project	-	2,974,169
Fuel	1,540,155	1,523,362
Portuguese State - Operation of the Azores routes	1,653,985	1,653,985
Airports	1,028,088	-
Clean Sky - Investigation project - M&E	-	1,612,116
Labour Court	521,842	374,530
Other	6,098,452	6,463,628
Bank guarantees provided by Representations	2,145,382	1,969,596
	106,229,046	**73,663,574**

The reinforcement pledged guarantees provided by head office during the current year is essentially related to the lease contracts without purchase option.

The actual guarantees provided under lease agreements with purchase option are disclosed in Note 18.

As mentioned in the Introductory Note, the General Meeting of TAP SGPS, on 8 March 2016, approved the recognition of the full effects of the bonds issuance by TAP SGPS as well as the effects of the guarantee agreement concluded within the scope of the aforementioned bond issuance, between TAP SGPS, TAP SA, Megasis - Sociedade de Serviços de Engenharia e Informática, SA, Azul SA and Bondholders, SL.

36. Financial assets and liabilities

The accounting policy described in Note 2.11 was applied according to the categories presented below:

	2019				
	Financial assets and liabilities at amortised cost	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and liabilities at fair value through profit or loss	Financial assets and liabilities out of IFRS 9 scope	Total
Assets					
Other financial assets	5,361,386	-	-	-	5,361,386
Other receivables	1,327,860,319	23,966,714	-	52,558,098	1,404,385,131
Cash and cash equivalents	426,240,329	-	-	-	426,240,329
Total Assets	**1,759,462,034**	**23,966,714**	**-**	**52,558,098**	**1,835,986,846**
Liabilities					
Borrowings and Lease liabilities with purchase option	(1,358,295,244)	-	-	-	(1,358,295,244)
Lease liabilities without purchase option	(2,278,678,486)	-	-	-	(2,278,678,486)
Other payables	(570,938,131)	-	-	(780,485)	(571,718,616)
Total Liabilities	**(4,207,911,861)**	**-**	**-**	**(780,485)**	**(4,208,692,346)**

	2018				
	Financial assets and liabilities at amortised cost	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and liabilities at fair value through profit or loss	Financial assets and liabilities out of IFRS 9 scope	Total
Assets					
Other financial assets	13,705,761	-	-	-	13,705,761
Other receivables	1,190,896,707	-	-	24,861,437	1,215,758,144
Cash and cash equivalents	223,714,593	-	-	-	223,714,593
Total Assets	**1,428,317,061**	**-**	**-**	**24,861,437**	**1,453,178,498**
Liabillities					
Borrowings and Lease liabilities with purchase option	(775,939,830)	-	-	-	(775,939,830)
Other payables	(675,075,865)	(41,322,387)	-	(835,687)	(717,233,939)
Total Liabilities	**(1,451,015,695)**	**(41,322,387)**	**-**	**(835,687)**	**(1,493,173,769)**

The following tables present the assets and liabilities measured at fair value as at 31 December 2019 and 2018, according to the following fair value hierarchical levels established in IFRS 13:

	2019		
	Level 1	Level 2	Level 3
Non-financial assets			
Investment Properties	-	2,148,564	-
Financial assets			
Derivate financial instruments	-	23,966,714	-
Financial liability			
Derivate financial instruments	-	-	-

	2018		
	Level 1	Level 2	Level 3
Non-financial assets			
Investment Properties	-	1,925,764	-
Financial liability			
Derivate financial instruments	-	(41,322,387)	-

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.

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 2019 and 2018, 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 15.

37. Commitments

✈ Purchase commitments

Airbus SAS ("Airbus") is contracted to supply 53 aircraft (39 A320 NEO Family and 14 A330 NEO), which are expected to be received between 2018 and 2025. This order results from the novation to TAP SA of the previously negotiated acquisition agreement signed between Airbus and DGN Corporation. Until the present date, 17 of the referred aircraft were assigned to lessors with subsequent leaseback contracts (8 A320 NEO Family and 9 A330 NEO), of which up to December 31, 2019 two A321 NEO, two A321 NEO LR and twelve A330 NEO were received.

A contract is also in force with CFM International Inc., S.A., for the purchase of 83 LEAP-A1 engines, including 5 reserve engines, which will equip and serve the new fleet of A320 NEO Family aircraft. Highlighting that these engines will be acquired directly by Airbus, except for the reserve engines.

Contracts were also signed with Rolls-Royce, which include maintenance support for all TRENT 7000 engines, which equip the A330 NEO aircraft, as well as the acquisition of 3 spare engines. With respect to the reserve engines, as of September 30, 2019, two engines have already been acquired and financed under lease contracts with purchase option, and the third reserve engine has been contracted for financing, which is expected to be delivered by May 2020.

✈ Other commitments

Lease agreements are signed for aircraft whose phase-in is expected to occur in the years ended December 31, 2020 and 2021, whose minimum non-cancellable future payments amounts to approximately Euro 370,899 thousand as at December 31, 2019.

38. Earnings per share

There are no convertible financial instruments on the shares of TAP S.A., therefore there is no dilution of results.

	2019	2018
Net income/(loss) for the year	(134,292,038)	(58,065,358)
Wheighted average number of shares	8,300,000	8,300,000
Basic and diluted earnings per share	(16.2)	(7.0)

39. Subsequent events

On February 6, 2020, TAP SA formalized a commercial cooperation agreement with Azul Linhas Aéreas Brasileiras S.A. (“Azul”). The Cooperation Agreement aims to define a model of commercial cooperation between TAP SA and Azul, usually used in the aviation industry, for the provision of the joint air transport services, in order to increase the efficiency and the diversifications of products and services that are available to the passengers, currently in terms of frequency, available times and number of sources and destinations served in combination. This cooperation agreement does not imply any change in the level of TAP SA or Azul. The implementation of the Cooperation Agreement is subject to the use of authorizations and / or the execution of communications with the enforcement and competition authorities is not prohibited.

On February 12, 2020, TAP SA amortized a loan with an indicator of Portuguese banks in the amount of EUR 158,6 million. With this amount, TAP has amortized since the beginning of 2019 a total of EUR 322,2 million referring to this financing, with the remaining amount currently outstanding of EUR 142 million.

In recent weeks, a growing number of cases of infection of populations with the Covid-19 virus have been reported, nationally and internationally, with several governments, authorities and economic agents implementing a set of initiatives with an impact on population mobility and the global economy. The effects of the spread of the virus are still being analyzed by the competent authorities, and it is expected that new initiatives will be implemented with an impact on the current situation.

In view of the nature of the measures already implemented and possible future initiatives, the Tourism sector is expected to be one of the most affected worldwide. In this context, it is already possible to observe a decrease in demand for air transport services worldwide, with TAP's Management monitoring the situation based on the information available and current expectations regarding the evolution of the spread of the virus.

Considering the context of uncertainty described above, TAP's Management, in conjunction with the health and civil aviation authorities, and other relevant national and international entities, implemented a set of measures aimed at protecting the health of its workers and passengers , as well as the adequacy of its offer to the constant changes in demand, including the reduction in the number of flights for the months of March (-7%), April (-11%) and May (-19%) of 2020 and several initiatives to control and reduce costs, including suspending or postponing non-critical investments, renegotiating contracts and payment terms, reduce ancillary expenses, suspending the hiring of new workers, progression and training, as well as implementing license temporary programs.

The measures implemented to protect TAP's financial position were determined on the basis of the best information available at this date, noting however the existence of a context of uncertainty associated with the future evolution of the dissemination of Covid-19.

40. Legal account review costs

During the period under review, and following the decision of the General Meeting of December 17, 2019, TAP SA changed its Statutory Auditor, with reference to the year of 2019, to PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda.

The fees for the year 2018 respect the billing issued by the former Statutory Auditor, Oliveira, Reis & Associados - Sociedade de Revisores Oficiais de Contas, Lda, in functions until the appointment of PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda.

The fees provided by the Statutory Auditor for the years 2019 and 2018 amount to 80,750 Euro and 101,150 Euro, respectively.

It should also be noted that other non-audit services were not provided by the Statutory Auditors in office in the 2019 and 2018 financial year.

41. Note added for translation

The accompanying consolidated financial statements are a translation of financial statements originally issued in Portuguese. In the event of any discrepancies, the Portuguese version prevails.

CHARTERED ACCOUNTANT

João Carlos da Silva Bernardes

BOARD OF DIRECTORS

Humberto Manuel dos Santos Pedrosa
Chairman

David Gary Neeleman
Member

Antonoaldo Grangeon Trancoso Neves
Chairman of the Executive Committee

David Humberto Canas Pedrosa
Executive Committee Member

Raffael Guarita Quintas Alves
Executive Committee Member

Statutory Audit Report and Auditors' Report

(Free translation from the original in Portuguese)

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Transportes Aéreos Portugueses, S.A. (the Group), which comprise the consolidated statement of financial position as at December 31, 2019 (which shows total assets of Euros 5,152,800,895 and total shareholders' equity of Euros 134,536,923 including a net loss of Euros 95,637,433), the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Transportes Aéreos Portugueses, S.A. as at December 31, 2019, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. In accordance with the law we are independent of the entities that are included in the Group and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis

We draw attention to the disclosures considered in note 39 to the consolidated financial statements, namely with regards to the impact of COVID-19 virus in the air transportation industry and uncertainty that it may cause on the future operational activity of the Group.

Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	***Summary of the Audit Approach***
Revenue recognition, including liabilities from unused flight documents and customer loyalty program *Disclosures related to revenue are presented in notes 2.27, 2.33, 21, 22 and 23 to the consolidated financial statements.* As of 31 December 2019, the operating income amounts to Euro 3,298.8 million, which correspond, mainly, to passenger transportation. As disclosed in note 2.27 to the consolidated financial statements, when the sale is made, the amount is recorded as a liability in the caption Liabilities from unused flight documents, which, as at December 31, 2019, amounts to Euro 480.8 million, being the respective revenue recognized when the transport is carried out or the ticket expires, for which case are considered the commercial conditions and respective estimate regarding the likelihood for the passenger to request the reimbursement or claim the issuance of a new ticket. Regarding “TAP Miles&Go” program, as disclosed in notes 2.27 and 2.33 to the consolidated financial statements, the Group recognizes a performance obligation based on the historical miles awarded and not claimed, adjusted by the estimate of miles that will expire without being used. The miles are valued based on the stand alone price considering the historical redemption of miles. The liability related to the customer loyalty program, as at December 31, 2019, amounts to Euro 46.7 million.	Our audit procedures included, among others, the understanding and evaluation of the several information technology systems related to the revenue recognition of passenger transportation, the identification and evaluation of the operational effectiveness of the Group’s internal control framework related to the IT systems management process, having for this purpose resorted to our specialists in audit of IT systems, as well as the evaluation of the respective key controls that insure the correct, complete and timely revenue recognition of passenger transportation. We also carried out specific substantive tests on revenue recognition of passenger transportation and on the balance of Liabilities from unused flight documents, namely the reconciliation of information extracted from several support systems to the accounting records, validation, on a sample basis, of the several inputs considered in the unused flight documents listing and analysis of bank reconciliations. We have also carried out some analytical procedures for the several revenue of passenger transportation types, namely, fares, fees and commissions. We have also validated the percentage of expired tickets for which the respective revenue was recognized based on the historical of documents not reimbursed or reissued. Regarding “TAP Miles&Go” program, the audit procedures that we have applied included, among others, the assessment of the model, internally developed, for the measurement of the liabilities with unused miles, as well as the reasonableness of the assumptions embodied in it, and the validation of the respective

Key Audit Matter	*Summary of the Audit Approach*
The Management carries out a periodic analysis, either of the caption Liabilities from unused flight documents, in order to evaluate if the tickets were already used or have expired, either of the caption Customer loyalty program, in order to evaluate the utilization and the validity of the miles. Given the amounts involved and the degree of judgment inherent to the revenue recognition, this issue was considered to be a relevant matter for the purposes of our audit.	calculations considered in the determination of the stand alone price. We have challenged the Management on the reasonableness of the assumptions considered, and performed sensitivity analyses to assess the potential impacts on the liabilities with customer loyalty program arising from variations on the unitary value of the mile and estimated rate of miles that will expire. We also reviewed the adequacy of the disclosures presented in the consolidated financial statements, based on the applicable accounting standards and in what we considered relevant.
IFRS 16 adoption for aircrafts and engines operating leases *Disclosures related to IFRS 16 are presented in notes 2.2, 2.3, 2.25, 2.33, 4, 17, 30 and 31 to the consolidated financial statements.* As disclosed in note 2.2 to the consolidated financial statements, the Group has adopted IFRS 16 – Leases in the current year, through the modified retrospective model, without restating comparative figures. In the implementation, the Group has considered some of the exemptions foreseen in the standard, namely, the application of the accounting treatment to contracts that were previously identified as leases and the measure of the right-of-use asset based on the lease liability as at January 1, 2019. With the adoption of IFRS 16, the Group recognizes right-of-use assets and lease liabilities considering the estimate of non-cancellable payments to be incurred until the end of the lease agreement, which cash flows are discounted based on the implicit rate, if available, or on the incremental rate in the other circumstances.	Our audit procedures included, among others, obtaining the calculation for IFRS 16 adoption prepared by the Group's Management, in order to assess the alignment of the methodology and adequacy of the assumptions considered with the respective standard. We have tested the fleet considered in the above mentioned calculation based on the confirmation obtained by the lessors in order to guarantee the completeness of the fleet, considering the lease definition foreseen in the standard. We have obtained and analyzed the relevant lease contracts and we have assessed the adequacy of its accounting records under the IFRS 16 requirements, taking into consideration the contractual clauses, the amounts and charges to be incurred, as well as the lease term. We have also tested the calculation of the implicit rate and verified that the conditions are in accordance with the respective agreements.

Key Audit Matter	Summary of the Audit Approach
The adoption of IFRS 16 lead to the recognition of right-of-use assets and lease liabilities of some Euro 1,167 million, as well as an increase of the total equity of some Euro 91 million, which results from the fact that the structural maintenances are now capitalized in the respective right-of-use of the aircrafts, instead of being recognized based on their utilization. Given the amounts involved and the degree of judgment inherent to the assumptions and estimates considered in the implementation of IFRS 16, this issue was considered to be a relevant matter for the purposes of our audit.	For the cases where it was not available, we have assessed the incremental rate, considering the specific characteristics of each lease agreement and respective aircraft. We have reperformed the calculation of the right-of-use assets and lease liabilities amounts in the transition date and as at December 31, 2019, as well as the respective impacts in the income for 2019. We also reviewed the adequacy of the disclosures presented in the consolidated financial statements, based on the applicable accounting standards and in what we considered relevant.
Estimate for maintenance works *Disclosures related to maintenance works are presented in notes 2.2, 2.3, 2.7, 2.25, 2.33, 4, 10 and 16 to the consolidated financial statements.* As disclosed in note 2.33 to the consolidated financial statements, the estimates for maintenance works require a definition of several significant assumptions by the Management, based on forecasts with a significant level of judgement, namely, the use and condition of the aircraft, intervention costs, contractual conditions and possible renegotiations of the lease agreements. These estimates impact the accounting records of the maintenances performed immediately before the delivery of aircraft under operating lease agreements, designated by redelivery works, as well as the determination of the useful life of the structural maintenance and the recoverability of	We have developed several auditing procedures to evaluate the reasonableness of the maintenance works estimates for the fleet, namely the understanding and assessment of the internal control processes and procedures followed by the Group for the establishment of these estimates. We have obtained the data supporting to the calculation of the maintenance works estimates, approved by the Group's Management, and evaluated the reasonableness of the assumptions considered. We have questioned the internal technicians of the maintenance department and the Management on the reasonableness of the assumptions and verified the adequacy of the calculations made. We have also assessed the timeline considered in the estimates, as well as the specific characteristics of each aircraft, and the respective future expenses to be incurred, based on the contractual conditions and the

Key Audit Matter	*Summary of the Audit Approach*
the maintenance reserves delivered to the lessors. The expenses for redelivery works are recognized, provided they can be reliably estimated, as provisions, through the respective right-of-use asset, which is depreciated on a straight-line basis over the lease term. With regards to the structural maintenances, that increase the useful life of the related assets, are included as a complement to the right-of-use assets and are subsequently depreciated until the new maintenance event. The estimate for the timeline until the next maintenance is defined based on the Management best judgment and it is reassessed at each year end. The timeline for the structural maintenances for the aircrafts under lease agreements, as well as the estimate for the respective expenses, also influence the recoverability of the maintenance reserves delivered to the lessors, which are recovered through maintenance works. Given the amounts involved and the degree of judgment inherent to the assumptions considered in the estimate for maintenance works, this issue was considered to be a relevant matter for the purposes of our audit	information provided by the internal engineers with expertise on this matter. We have revised the historical consistency on the maintenance estimates compared to the events that have actually occurred, as well as the reasonableness of the discount rate used. We also reviewed the adequacy of the disclosures presented in the consolidated financial statements, based on the applicable accounting standards and in what we considered relevant.

Responsibilities of management and supervisory board for the consolidated financial statements

Management is responsible for:

a) the preparation of the consolidated financial statements, which present fairly the financial position, the financial performance and the cash flows of the Group in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

b) the preparation of the Directors' Report in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Group's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Group's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Group's financial information.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion;

g) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

h) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the consolidated financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

i) confirm to the supervisory board that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the consolidated financial statements and verifying that the non-financial statement was presented.

Report on other legal and regulatory requirements

Directors' report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our opinion that the Directors' report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified. As set forth in paragraph 7 of article No. 451 of the Portuguese Company Law, this opinion is not applicable to the non-financial statement included in the Directors' report.

Non-financial statement set forth in article No. 508-G of the Portuguese Company Law

In compliance with paragraph 6 of article No. 451 of the Portuguese Company Law, we hereby inform that the entity included in its Directors' report the non-financial statement set forth in article No. 508-G of the Portuguese Company Law.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of Transportes Aéreos Portugueses, S.A. in the Shareholders' General Meeting of December 17, 2019 for the period from 2019 to 2020.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the consolidated financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Group's supervisory board as of March 11, 2020.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Group in conducting our audit.

March 11, 2020

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

António Joaquim Brochado Correia, R.O.C.

(Free translation from the original in Portuguese.
In case of doubt, the Portuguese version shall prevail.)

REPORT AND OPINION OF THE SUPERVISORY BOARD

(CONSOLIDATED ACCOUNTS)

To the Shareholder of

Transportes Aéreos Portugueses, S.A.

In accordance with the legislation in force and the mandate entitled to us, we hereby submit to your appreciation our Report and Opinion that covers the activity developed by us and the management report and the consolidated financial statements of Transportes Aéreos Portugueses, S.A. ("Company"), in relation to the year ended 31 December 2019, which are the responsibility of the Board of Directors.

We have accompanied, with the frequency and to the extent we deemed appropriate, the evolution of the Company and its subsidiary, the regularity of its accounting records and the fulfilment of the legal and statutory requirements in force, having received from the Board of Directors and the several services of the Company and its subsidiary, the information and explanations requested.

Within our duties, we have examined the consolidated Statement of Financial Position as of 31 December 2019, the consolidated Income Statement, consolidated Statement of Comprehensive Income, consolidated Statement of Cash Flows and consolidated Statement of Changes in Equity for the year ended as of that date and the accompanying notes. Additionally, we have reviewed the consolidated Management Report for 2019 prepared by the Board of Directors, having verified that in the accompanying notes to the financial statements a disclosure of the impact of COVID-19 virus is included. We have also reviewed the Consolidated Statutory Auditor's Report, issued by the Company's Statutory Auditor on the consolidated financial statements, which does not include any reserve and that includes an emphasis paragraph related to the impact of COVID-19 virus.

The Company's financial position shows that the provisions of article 35 of the Portuguese Companies Code are applicable to it, being desirable that the Board of Directors continues to develop and implement measures that are deemed adequate for the inversion of this situation.

Considering the above considerations, it is our opinion that the consolidated financial statements mentioned above and the consolidated Management Report, are according to the accounting, legal and statutory applicable provisions, and therefore may be approved at the General Shareholders' Meeting.

We would also like to express to the Board of Directors and to the employees of the Company and its subsidiary, our appreciation for their collaboration, namely by the availability of its employees in providing the explanations to the questions raised by the Supervisory Board.

Lisbon, 11 March 2020

Baker Tilly, PG & Associados, SROC, Lda.

Represented by Paulo Jorge Duarte Gil Galvão André

Chairman of the Supervisory Board

Susana Nereu de Oliveira Ribeiro

Member of the Supervisory Board

Maria Susana da Mota Furtado e Almeida Rodrigues

Member of the Supervisory Board