TAP GROUP

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

2019

MANAGEMENT REPORT AND CONSOLIDATED ACCOUNTS

A STAR ALLIANCE MEMBER

CONSOLIDATED

MANAGEMENT REPORT

2019

TABLE OF CONTENTS

1. CORPORATE GOVERNANCE

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

1.1 Governing Bodies

Under the terms of article 11 of TAP SGPS’ Articles of Association, the Company's governing bodies are the General Assembly, the Board of Directors, the Supervisory Board and the Certified Public Accountant or the Company of Certified Public Accountants.

Three-year period 2018-2020

Through deliberation at the General Assembly on January 31, 2018

General Assembly Committee

Chairman	Diogo Patrício de Melo Perestrelo
Company Secretary	Ana Maria Sirgado Malheiro

Pursuant to number 1 of article 14 of the Company’s Articles of Association

Competencies of the General Assembly

The General Assembly deliberates on all matters assigned by the law and the Articles of Association, as well as on any other matters not falling within by the sphere of competence of other corporate bodies.

The following are competencies of the General Assembly, under the terms of article 13 of TAP SGPS Articles of Association:

- To assess and deliberate on the management report of the Board of Directors, the balance sheet, the annual accounts and the opinions of the supervisory body, and deliberate on the application of the results of the financial year;
- To elect and dismiss the members of the General Assembly Committee, the Board of Directors, the Supervisory Board, as well as the respective chairmen and vice-chairmen, if any, and the Certified Public Accountant or the Company of Certified Public Accountants, in this case on a proposal from the Supervisory Board;
- To decide on any changes to the Company’s Articles of Association, including increases and reductions in share capital, merger, division, transformation and/or dissolution of the Company;
- To deliberate on the remuneration of the members of the governing bodies and define the remuneration policy of management bodies members, including the criteria and performance standards for the assessment of the variable component of remuneration, in the case of directors with executive positions, and may, for this purpose, appoint a remuneration committee;
- To set the annual ceiling for the issuance of bonds or other securities;
- To decide on the performance and reimbursement of supplementary capital contributions and all related conditions, including in the form of shareholder loans, without prejudice to the conditions imposed under the terms of Article 10 of the Company's Articles of Association, in relation to supplementary payments to be made by the shareholders Parpública - Participações Publicas (SGPS), SA and Atlantic Gateway, SGPS, Lda;

- To decide on matters relating to the management of the Company, when required by the Board of Directors;
- To deliberate on any other matters for which it has been summoned.

General Assembly Meetings

Throughout 2019, the General Assembly of TAP SGPS met once (on 29 April 2019).

Board of Directors

Chairman	Miguel Jorge Reis Antunes Frasquilho
Member	Ana Maria Almeida Leite de Pinho Macedo Silva
Member	António José Vasconcelos Franco Gomes de Menezes
Member	Antonoaldo Grangeon Trancoso Neves
Member	Bernardo Luís Amador Trindade
Member	David Gary Neeleman
Member	David Humberto Canas Pedrosa
Member	Diogo Campos Barradas de Lacerda Machado
Member	Esmeralda da Silva Santos Dourado
Member	Humberto Manuel dos Santos Pedrosa
Member	Maximilian Otto Urbahn (*)
Member	Raffael Guarita Quintas Alves

(*) Following the resignation of Board Member Li Neng, the Board of Directors, at a meeting held on March 21, 2019, deliberated to appoint Maximilian Otto Urbahn, for the remainder of the three-year period 2018-2020, decision that has been ratified by the General Assembly on April 29, 2019.

Competencies of the Board of Directors

The Board of Directors is composed of 12 (twelve) members, all elected by the General Assembly, which also appoints the respective chairman from among them.

The Board of Directors is responsible for representing TAP SGPS and performing all necessary acts to ensure the management of its business. In particular, and pursuant to the provisions of Article 19 of TAP SGPS Articles of Association, the powers of the Board of Directors are:

- To manage corporate affairs and practice all acts and operations related to the corporate purpose that do not fall within the competence conferred on other bodies of the Company;
- To represent the Company, in court and out of it, actively and passively, with powers to withdraw, compromise and confess in any disputes, as well as, enter into arbitration agreements;
- To acquire in any form and dispose of or encumber rights or assets, movable or immovable;
- To constitute companies and subscribe to, acquire, on an original or derivative basis, encumber and dispose of equity stakes;
- To take on loans in the domestic or foreign financial market;

- To deliberate on the issuance of bonds or other securities, within the limits for that purpose laid down annually by the General Assembly, pursuant to the provisions of paragraph 2 e) of Article 13 of the Company's Articles of Association, and within legal limits;
- To establish the technical and administrative organization of the Company and its internal rules of operation, namely on personnel and their remuneration;
- To appoint representatives with such powers as they deem appropriate, including those to delegate;
- To appoint a Company Secretary;
- To set the objectives and management policies of the Company;
- To draw up the annual business plans and budgets, including the operational, investment and financial components, as well as promoting the participation of the Company's services in the preparation of the sustainability report;
- To prepare TAP Group's strategic plan and its revisions or updates;
- To exercise any other powers conferred upon it by law, the Articles of Association or the General Assembly.

The Board of Directors cannot deliberate unless the majority of its members are present or duly represented. Without prejudice to this rule, the Directors can participate and intervene in the Board of Directors' meetings through means of communication, such as videoconference and teleconference, which ensure, in real time, the transmission and reception of voice and image.

In addition, pursuant to the provisions of article 20 of the Articles of Association, the Chairman of the Board of Directors has the following powers:

- To represent the Board of Directors;
- To summon and chair the respective meetings;
- To ensure the correct implementation of the Board of Directors' deliberations.

In the event of absence and impediment of the Chairman of the Board of Directors, the Vice-Chairman shall replace him or, where there is no Vice-Chairman, by a member of the Board of Directors appointed by the Chairman for this purpose.

As provided for in paragraph 2 of article 24 of the Articles of Association, the Chairman of the Board of Directors has the casting vote in the deliberations of the Board of Directors, pursuant to paragraph 3 of Article 395 of the Portuguese Companies Code.

According to the provisions of number 1 of article 21 of TAP SGPS Articles of Association, regarding the Delegation of Powers, *"The Board of Directors may delegate, within the limits established by law, the day-to-day management of the Company to one or more delegated directors or Executive Committee".*

Board of Directors Meetings

Pursuant to article 23 of the Company's Articles of Association, the Board of Directors must meet at least once every quarter, and extraordinarily whenever summoned by its Chairman, by two Directors or at the request of the Supervisory Body. Throughout 2019, the Board of Directors held 9 meetings, 4 ordinary and 5 extraordinary.

Executive Committee

By deliberation of the Board of Directors of TAP - Transportes Aéreos Portugueses, SGPS, S.A in a meeting held on June 18, 2018

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

Competencies of the Executive Committee

The Board of Directors has decided to approve the delegation to the Company's Executive Committee for the day-to-day management of the Company, which shall include, inter alia, and within the framework of the general policies approved by the Board of Directors, the practice of the following acts:

- To manage the Company's activities according to the annual budget approved by the Company's Board of Directors;
- To prepare the Company's annual budget to be approved by the Company's Board of Directors;
- To hire and exercise the disciplinary, management and supervising powers of the Company's personnel, as well as representing the Company in its relations with its personnel;
- To prepare and present to the Company's management, at least 8 (eight) days in advance, all the elements necessary for the deliberations to be undertaken by the Company's Board of Directors, in accordance with the agenda of the respective meeting;
- To present to the Company's Board of Directors matters that require specific technical studies;
- The financial, operational, commercial, administrative, advertising and promotional management of the Company;
- The negotiation and conclusion of all contracts necessary or suitable for the pursuit of the Company's business objective, except contracts that imply (or are related to) the take out, amendment or termination of any loans or issuance of debt securities, to which TAP SGPS is a party and/or of any owned companies, of an individual amount exceeding 30% of the total assets of TAP SGPS and the TAP Group; the provision of guarantees by TAP SGPS and/or any of its subsidiaries; the approval of investments or other capital expenditures of TAP SGPS and/or its subsidiaries with an individual amount exceeding 30% of the consolidated revenues of the TAP Group; the approval, amendment or termination of partnership or joint-venture contracts of which TAP SGPS and/or any of its subsidiaries are parties, with an individual amount exceeding 30% of the consolidated revenues of the TAP Group; the acquisition, encumbrance or sale of assets of TAP SGPS and/or of any of its subsidiaries, with an individual amount exceeding 30% of the consolidated revenues of the TAP Group; the acquisition or disposal of control over other companies by TAP SGPS; the transfer of representative shares of any TAP Group company.
- To open bank accounts, negotiate financial terms with banks, make payments, make deposits or withdraw money from the Company's bank accounts;
- To represent the Company before any Ministries, General Directorates, Governmental Departments, Municipalities and before any Public Offices or other entities, public or private; and
- To represent the Company before all Courts, namely civil, criminal, administrative, labor and tax courts in all instances, submitting petitions, requests, motions, applications, objections, counterclaims, submitting

evidence and seek both ordinary and extraordinary legal appeals; to compromise in all types of cases and disputes, to withdraw from cases or appeals, freely defining the conditions, agreements and obligations deemed appropriate; to compromise and withdraw in any Court, in all civil, criminal, administrative and tax proceedings, with the widest faculties, on behalf of the Company.

Executive Committee Meetings

Under the terms of article 5 of the Regulations for the functioning of the Executive Committee, approved in a Board of Directors' meeting held on January 31, 2018, the Executive Committee meets whenever it is summoned by its Chairman or by two of its members, at least 5 (five) days in advance, and must have a minimum monthly periodicity. The Executive Committee cannot deliberate unless the majority of its members and those who vote by correspondence are present or represented.

The Executive Committee's deliberations are reached by a simple majority of the votes, with the Chairman having the casting vote in the event of a tie.

Specialized committees of the Board of Directors

As provided for in Article 4 of the Regulations of the Board of Directors, approved in a meeting held on June 18, 2018, the Board of Directors may decide to set up a strategy committee and an audit and financial matters committee.

Audit and Financial Matters Committee

By deliberation of the Board of Directors of TAP - Transportes Aéreos Portugueses, SGPS, S.A in a meeting held on June 18, 2018

Chairman	Esmeralda da Silva Santos Dourado
Member	António José Vasconcelos Franco Gomes de Menezes
Member	David Humberto Canas Pedrosa
Member	Raffael Guarita Quintas Alves

Competencies of the Audit and Financial Matters Committee

The Audit and Financial Matters Committee is created with the aim of supporting the Board of Directors in matters that are specially entrusted to it.

Without prejudice to the legal powers conferred on the Supervisory Board, the competencies of the Audit and Financial Matters Committee, pursuant to the provisions of Article 2 of the Audit and Financial Matters Committee Regulation, approved by the Board of Directors in a meeting held on 18 June 2018, include monitoring, advising and reporting to the Board of Directors on:

- the activity of the Executive Committee within the scope of the tasks assigned to this Commission;
- the compliance with legal provisions and the Articles of Association;
- the development of the Company's economic and financial situation;

- the financial information preparation process, namely the one contained in the Company's financial statements;
- the analysis procedure and choice of the external auditor, ensuring its independence;
- the auditing of accounts and auditing of the Company's accounting documents;
- the preparation of the annual audit and internal control plan;
- the internal audit work, through the knowledge of its reports and information;
- the internal audit, internal control, compliance and risk management system.
- The members of the Audit and Financial Matters Committee are also responsible for:
- issuing a briefing note or a non-binding report on any matter submitted by the Board of Directors or the Executive Committee;
- presenting any matter to the Board of Directors' attention, that should be deliberated by it, in terms of its tasks;
- proposing any changes to the Audit and Financial Matters Committee Regulation.

Activity of the Audit and Financial Matters Committee

Over the period under review, the Audit and Financial Matters Committee held 4 ordinary meetings and 2 extraordinary meetings, in compliance with the provisions of the Regulations governing it. Other members of the Board of Directors and, by means of invitation or request, several members of other corporate bodies, management and personnel participated in meetings of this Commission, as well as consultants and third parties of recognized competence and expertise to provide advice, clarification and technical input on relevant matters.

Within the scope of the two major areas of competence, several topics were addressed at the meetings of this Audit and Financial Matters Committee.

With regard to the Audit aspect, it is worth highlighting the preparation and monitoring of the annual plan (and of the non-planned audits), the Company's Corporate Risk Management (CRM), and the compliance. Several specific topics such as cybersecurity, TAP ME Brasil, General Data Protection Regulation (GDPR), among others, have also received particular attention from this Commission.

With regard to the Financial Matters aspect, it is worth mentioning the monitoring, advice and regular reporting on the developments of the Company's economic and financial situation, with the frequent involvement of the External Auditor, as well as the process of preparing and monitoring the Budget and subsequent projections, as well as topics related to the evolution of cash flows, and other specific topics such as accounting policies and IFRS16.

Audit and Financial Matters Committee Meetings

Pursuant to article 4 of the Audit and Financial Matters Committee Regulation, the Committee must meet quarterly and extraordinarily whenever summoned by its Chairman or by any of its members. Throughout 2019, the Audit and Financial Matters Committee held four ordinary meetings and two extraordinary meetings.

Strategy Committee

By deliberation of the Board of Directors of TAP - Transportes Aéreos Portugueses, SGPS, S.A in a meeting held on June 18, 2018

Chairman	Diogo Campos Barradas de Lacerda Machado
Member	Antonoaldo Grangeon Trancoso Neves
Member	Bernardo Luís Amador Trindade
Member	Raffael Guarita Quintas Alves

Competencies of the Strategy Committee

The Strategy Committee was created with the aim of supporting the Board of Directors in matters that are specifically entrusted to it.

The following are the competencies of the Strategy Committee, under the terms of article 2 of the Regulations of the Strategy Committee, approved by the Board of Directors in a meeting held on June 18, 2018:

- To monitor the achievement of objectives defined in the Strategic Project;
- To issue a briefing note or a non-binding report on the achievement of the goals defined in the Strategic Project or on specific topics within the scope of its tasks, when requested by the Board of Directors or by the Executive Committee;
- To prepare a briefing note or non-binding report on the fulfillment of the Strategic Project's objectives, where appropriate;
- To draw up an annual report to the Board of Directors containing an assessment of the Commission's work carried out in the previous financial year.

Activity of the Strategy Committee

Over the period under review, the Strategy Committee held 4 ordinary meetings, in compliance with the provisions of the Regulations governing it. Other members of the Board of Directors and, by means of invitation or request, several members of other corporate bodies, management and personnel participated in meetings of this Commission, as well as consultants and third parties of recognized competence and expertise to provide advice, clarification and technical input on relevant matters.

At the Strategy Committee meetings, more than two-dozen topics of a strategic nature and/or relevance to the TAP Group were addressed. Dossiers such as Cooperation Agreements, verification of compliance with the Strategic Commitments signed between Shareholders, the evolution of the fleet, the operation and expansion of Humberto Delgado Airport and the construction of the new Montijo Terminal, the development of the new TAP campus, and the analysis of competition, trends, risks and opportunities, were some of the subjects most frequently analyzed and debated, among other specific topics with strategic impact.

Strategy Committee Meetings

In accordance with Article 3 of the Rules of Procedure of the Strategy Committee, the Commission must meet quarterly and extraordinarily whenever summoned by its Chairman or by any of its members. Throughout 2019, the Strategy Committee held 4 ordinary meetings.

Human Resources Commission

By deliberation of the Board of Directors of TAP - Transportes Aéreos Portugueses, SGPS, S.A, in a meeting held on June 27, 2019

Chairman	Antonoaldo Grangeon Trancoso Neves
Member	Ana Maria Almeida Leite de Pinho Macedo Silva
Member	Bernardo Luís Amador Trindade
Member	David Humberto Canas Pedrosa

Competencies of the Human Resources Commission

Pursuant to the provisions of Article 2 of the Regulation of the Human Resources Committee, approved by the Board of Directors in a meeting held on September 3, 2019, the following are competencies, among others, of the Human Resources Committee:

- To support the Board of Directors in matters that are specially entrusted to it;
- To analyze and monitor the human resources strategies and policies adopted by the Company and its subsidiaries;
- To issue recommendations regarding strategies and policies for the remuneration and benefits of the Company's personnel and its subsidiaries;
- To issue recommendations that promote the desired performance organizational culture, aligned with the TAP Group's mission, vision and values, and focused on building sustainable results;
- To issue a briefing note or a non-binding report on any matter submitted to it by the Board of Directors or the Executive Committee;
- To prepare an Annual Report on the activities of this Commission.

Activity of the Human Resources Commission

Over the period under review, and since this Committee was created in June 2019, the Human Resources Committee held 1 ordinary meeting. In addition to all of its members, other members of the Board of Directors were also present in the meeting of this Committee, as well as, by means of an invitation or request, TAP Group managers and remaining personnel, consultants of recognized expertise, in order to provide consultancy, clarifications, and add technical input on the relevant issues addressed. At the meeting of the Human Resources Commission, topics such as the performance management model, retributive benchmark and organizational environment study were addressed.

Human Resources Commission Meetings

According to article 3 of the Human Resources Commission Regulation, the Commission must meet twice a year and extraordinarily whenever it is summoned by its Chairman, on his own initiative, or at the request of any of the other members. Throughout 2019, the Human Resources Commission held 1 ordinary meeting.

Company Secretary

By appointment of the Company's Board of Directors on January 31, 2018

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

Supervision of the Company

By election at the General Assembly on January 31, 2018

Supervisory Board

Mandate (Start - End)	Position	Name	Appointment	Mandates held in the company	
				Number	Date of 1st appointment
2018-2020	Supervisory Board	Sérgio Sambade Nunes Rodrigues	General Meeting on 31.jan.2018	2	12.nov.2015
		Baker Tilly, PG & Associados, SROC, S.A.	General Meeting on 31.jan.2018	2	12.nov.2015
		Susana Nereu de Oliveira Ribeiro	General Meeting on 31.jan.2018	1	31.jan.2018
	Deputy	Maria Helena Maia Ferreira de Vasconcelos	General Meeting on 31.jan.2018	1	31.jan.2018

Certified Public Accountant

Both Permanent and Deputy Certified Public Accountants presented their resignations on October 21, 2019. The new Permanent and Deputy Certified Public Accountants, António Joaquim Brochado Correia or Hugo Miguel Patrício Dias, on behalf of PricewaterhouseCoopers & Associados, SROC, Lda., and Carlos José Figueiredo Rodrigues, respectively, were appointed for the remainder of the three-year period 2018-2020 at the General Assembly on March 2, 2020.

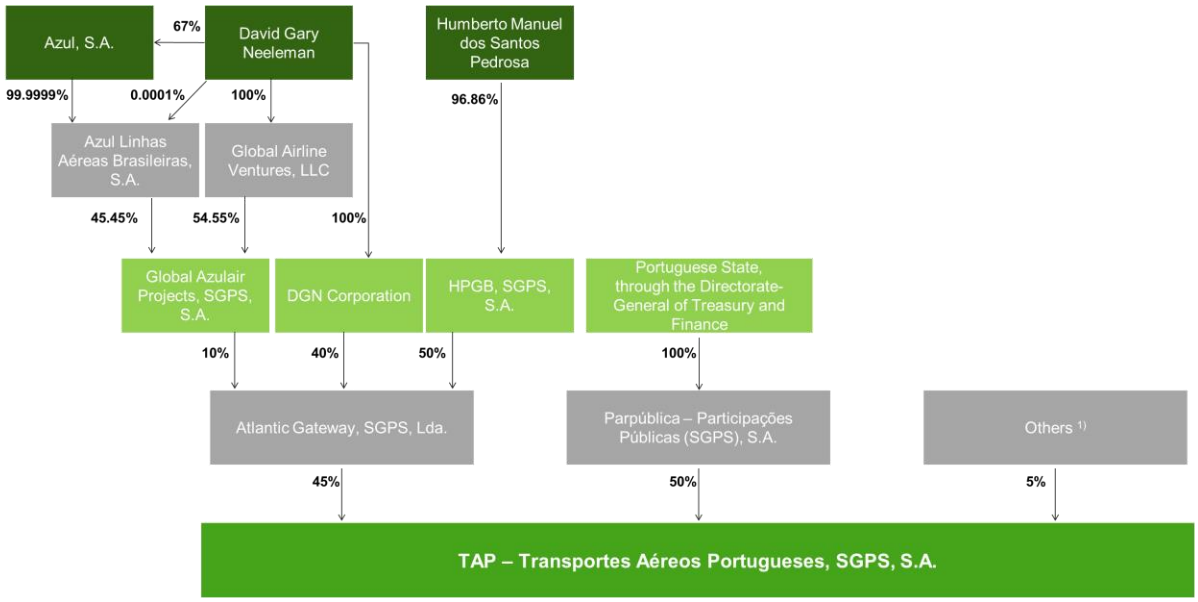
Permanent	Joaquim Oliveira de Jesus on behalf of Oliveira, Reis & Associados, SROC, Lda.
Deputy	Fernando Marques Oliveira

1.2 Shareholder Structure

As of December 31, 2019, the Shareholder Structure of TAP - Transportes Aéreos Portugueses, SGPS, S.A. was the following:

- 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, including TAP Group Employees jointly hold a total of 75,000 common shares, representing 5% of the share capital, voting rights and economic rights of TAP SGPS.

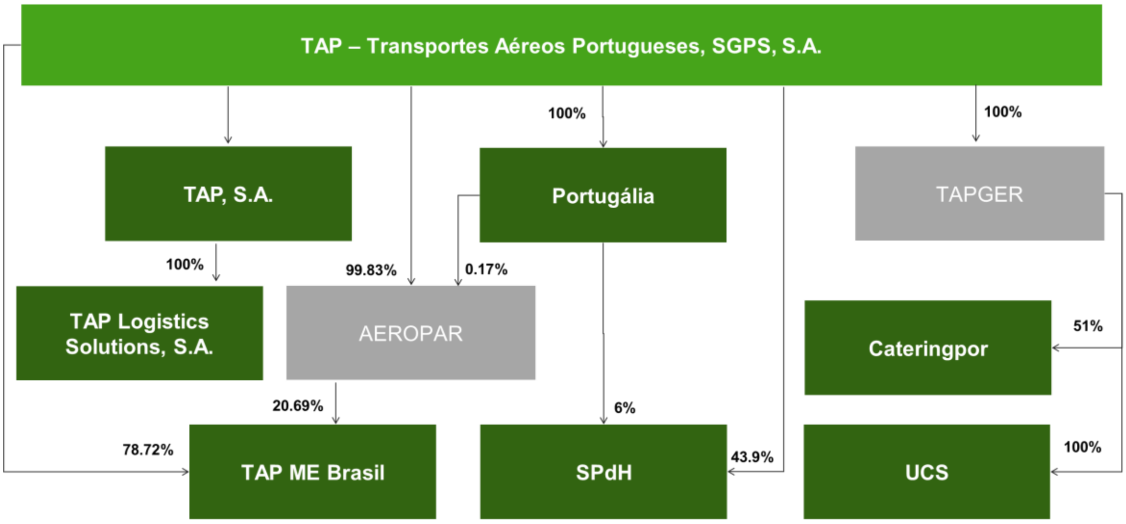
TAP SGPS Shareholder Structure



1) On April 10, 2017, 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.

1.3 Group Structure and Consolidation Method

As of December 31, 2019 TAP Group had the following structure:



The following companies were included in the consolidated financial statements as of December 31, 2019, by the full consolidation method:

- TAP–Transportes Aéreos Portugueses, SGPS, S.A. ("TAP", "TAP Group" or "Group")
  - Transportes Aéreos Portugueses S.A. ("TAP, S.A.")
  - TAP Logistics Solutions, S.A.
  - TAPGER–Sociedade de Gestão e Serviços, S.A. ("TAPGER")
  - CATERINGPOR–Catering de Portugal, S.A. ("Cateringpor")
  - U.C.S.–Cuidados Integrados de Saúde, S.A. ("UCS")
  - PORTUGÁLIA–Companhia Portuguesa de Transportes Aéreos, S.A. ("Portugália")
  - AEROPAR Participações, S.A. ("AEROPAR")
  - TAP–Manutenção e Engenharia Brasil, S.A. ("TAP ME Brasil").

The following entity qualifies as an associate and was recorded by the equity method:

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

On May 2, 2019, Megasis – Sociedade de Serviços e Engenharia informática, S.A. ("Megasis") was merged into TAP, S.A., producing accounting and tax effects as of January 1, 2019.

TAP Logistics Solutions, S.A. was incorporated on December 30, 2019, to operate in the cargo and mail activity.

2. KEY INDICATORS

TAP Group	2019	2018 [1)]	Change Abs.	Change %
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%
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 (€ cents) [3)]	6.85	7.08	-0.23	-3.2%
PRASK (€ cents) [3)]	5.49	5.73	-0.24	-4.3%
CASK [3)] (€ cents)	6.19	6.79	-0.60	-8.8%
CASK ex-fuel [3)] (€ cents)	4.70	5.14	-0.44	-8.6%
CASK fuel [3)] (€ 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.	
Total Active Staff (end of period) [4)]	10,952	10,363	589	+5.7%
Active Staff - TAP SA	9,006	8,145	861	+10.6%
Active Staff - TAP ME Brasil	559	742	-183	-24.7%
Active Staff - Other Companies	1,387	1,476	-89	-6.0%
Total Operating Income (million €)	3,345.1	3,250.8	94	+2.9%
Passenger Income (million €)	2,913.9	2,782.3	131.6	+4.7%
EBITDAR (million €) [5)]	477.3	211.4	265.9	+125.8%
EBITDAR margin	14.3%	6.5%	+7.8p.p.	
Operating Result (EBIT) (million €)	58.6	-44.0	102.6	n.m.
EBIT margin	1.8%	-1.4%	+3.1p.p.	
Net Income/ (loss) attributable to shareholders (million €)	-105.6	-118.0	12.4	n.m.
Net Income/ (loss) of Group Companies (million €) [6]				
Net Income - TAP, S.A.	-95.6	-58.1	-37.6	n.m.
Net Income - SPdH	5.8	6.0	-0.2	-3.7%
Net Income - TAPGER	1.7	1.8	-0.2	-8.2%
Net Income - Portugália	7.1	1.1	6.0	n.m.
Net Income - TAP Aeropar e M&E Brasil	-14.7	-51.6	36.9	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. May differ from total fleet in some periods due to aircraft in phase-in and phase-out.
3) Adjusted for stage length.
4) Excludes staff not placed and not active.
5) EBITDAR = Operating Result + Aircraft rents + Depreciation, amortization and impairment losses.
6) Values presented in relation to these companies are for their statutory accounts adjusted for consolidation purposes with the objective of aligning accounting standards.

3. BUSINESS DEVELOPMENTS IN 2019

3.1. Summary

IFRS 16 Note: TAP - Transportes Aéreos Portugueses, SGPS, 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 477.3 million in 2019 (an increase of EUR 265.9 million YoY) and Operating Result (EBIT) EUR 58.6 million, an improvement of EUR 102.6 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 North America 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 income grew by EUR 94.3 million in 2019 (+2.9% YoY) to EUR 3,345.1 million, with Passenger income increasing by EUR 131.6 million (+4.7%) to EUR 2,913.9 million, as a result of the 2H19 operating income growth, highlighting the routes of North America and domestic routes (Portugal Mainland and Islands), which saw an increase in passenger income of 33.4% and 13.2% YoY respectively in 2019. 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 8.8%, 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.
- Consolidation of the turnaround of TAP ME Brasil implemented in 2018 allowed for a positive EBITDAR to be achieved in this subsidiary in 2019, for the first time since its acquisition, and without any transfer of monetary resources from Portugal to Brazil.
- 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 105.6 million, an improvement of EUR 12.4 million compared to the previous year, with costs related to the fleet transformation process of approximately EUR 55 million. Recovery in net income during the second half of the year, with net income generated during this period positive in EUR 14.1 million, which represents an improvement of EUR 42.1 million compared to the second half of 2018.
- Strong liquidity position with cash and equivalents amounting to EUR 435.0 million at year end. Additionally, considering available credit card receivables from Brazil of EUR 105.9 million, total liquidity represented EUR 540.9 million or 16.2% of total operating income.
- Successful completion of several financing transactions during the year, following TAP's strategy of diversifying its funding sources and increasing its average debt maturity. The average maturity of TAP's financial debt (excluding lease liabilities without purchase option) increased from 2.9 years at the end of 2018 to 4.6 years at the end of 2019. The percentage of fixed rate debt also increased significantly from 22% at the end of 2018 to 69% in 2019.

3.2. 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%.

3.3. Operational and Economic-Financial Performance

Adoption of IFRS 16

TAP adopted on the effective date of mandatory application, January 1, 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 lease agreements without purchase option), (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 lease agreements without purchase option.

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

TAP Group EUR million	31-Dec-18	Impact of IFRS 16 adoption	1-jan-19
ASSETS			
Non-current assets	**895.1**	**1,009.1**	**1,904.2**
Tangible fixed assets	542.6	940.0	1,482.5
Other receivables	105.9	69.1	175.1
Other items of non-current assets	246.6	0.0	246.6
Current Assets	**732.4**	**0.0**	**732.4**
Total Assets	**1,627.5**	**1,009.1**	**2,636.6**
EQUITY AND LIABILITIES			
Equity and Reserves			
Retained earnings	-670.9	110.6	-560.3
Other items of Equity and Reserves	53.0	0.0	53.0
Total equity	**-617.9**	**110.6**	**-507.3**
Non-current liabilities	**902.1**	**720.7**	**1,622.8**
Provisions	22.4	32.2	54.6
Lease liabilities without purchase option	0.0	692.0	692.0
Deferred tax liabilities	19.0	46.3	65.3
Other payables	50.0	-49.7	0.2
Other items of non-current liabilities	810.7	0.0	810.7
Current liabilities	**1,343.3**	**177.9**	**1,521.1**
Lease liabilities without purchase option	0.0	232.0	232.0
Other payables	665.6	-54.2	611.5
Other items of current liabilities	677.6	0.0	677.6
Total liabilities	**2,245.4**	**898.6**	**3,143.9**
Total equity and liabilities	**1,627.5**	**1,009.1**	**2,636.6**

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 lease liabilities without purchase option 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 lease agreements without purchase option 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 and the corresponding liability resulted in an increase in depreciation expenses of, approximately, EUR 333.3 million and interest expenses of, approximately, EUR 103.8 million. Foreign exchange differences recognised in the income statement, related to lease liabilities, amounted to, approximately, EUR 13.7 million. On the other hand, the lease liabilities without purchase option and other contractual obligations expenses (recognised until December 31, 2018 in the captions “Aircraft rents” and “Traffic operating costs”) decreased by, approximately, EUR 346.0 million.

Additionally, the presentation of payments related to lease liabilities without purchase option resulted in a reclassification in the amount of, approximately, EUR 338.9 million, from cash flows from operating activities to cash flows from financing activities.

Operational Performance

TAP Group	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%
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.	
Regularity	99.2%	98.2%	+1.0p.p.	
Total Active Staff (end of period) [2]	10,952	10,363	589	+5.7%
Active Staff - TAP SA	9,006	8,145	861	+10.6%
Active Staff - TAP ME Brasil	559	742	-183	-24.7%
Active Staff - Other Companies	1,387	1,476	-89	-6.0%

1) Includes aircraft operated under wet-lease agreements. May differ from total fleet in some periods due to aircraft in phase-in and phase-out.
2) 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 Group EUR million	2019	2018 [1]	Change	
			Abs.	%
Operating Income	**3,345.1**	**3,250.8**	**94.3**	**+2.9%**
Passenger	2,913.9	2,782.3	131.6	+4.7%
Maintenance	234.3	280.7	-46.4	-16.5%
Cargo and mail	137.4	134.7	2.7	+2.0%
Gains and losses in associates	1.7	3.7	-2.1	-54.9%
Other operating income	57.9	49.4	8.5	+17.1%
Operating Costs	**3,286.5**	**3,294.8**	**-8.3**	**-0.3%**
Aircraft fuel	789.7	798.6	-8.9	-1.1%
Traffic operating costs	743.2	777.8	-34.6	-4.4%
Employee costs	751.9	702.8	49.1	+7.0%
Aircraft rents	0.0	177.9	-177.9	n.m.
Aircraft maintenance costs	60.8	111.7	-50.9	-45.6%
Cost of materials consumed	185.2	207.4	-22.2	-10.7%
Commercial, communication and marketing costs	153.1	186.6	-33.5	-18.0%
Impair. losses in inventories, receiv. and provisions	-2.5	9.6	-12.1	n.m.
Other operating expenses	179.7	170.1	9.6	+5.6%
Restructuring	6.0	54.5	-48.5	-89.0%
Other non recurrent items	0.7	20.3	-19.6	-96.6%
Depreciation, amortisation and impairment losses	418.7	77.5	341.2	+440.2%
EBIT (Operating Result)	**58.6**	**-44.0**	**102.6**	**n.m.**
EBIT margin	***1.8%***	***-1.4%***	**+3.1p.p.**	
Interest and similar income	3.2	6.0	-2.8	-46.1%
Interests and similar expenses	-178.3	-57.9	-120.4	+208.0%
Net currency exchange	-22.9	-49.4	26.5	-53.6%
Earnings before taxes	**-139.3**	**-145.3**	**6.0**	n.m.
Income Tax	34.1	28.0	6.1	n.m.
Net income/ (loss)	-105.2	-117.2	12.0	n.m.
Net income/ (loss) attributable to TAP SGPS shareholders	**-105.6**	**-118.0**	**12.4**	**n.m.**
EBITDAR [2]	**477.3**	**211.4**	**265.9**	**+125.8%**
EBITDAR margin	***14.3%***	***6.5%***	**+7.8p.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 3,345.1 million, an increase of EUR 94.3 million (+2.9%) 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 152.2 million (+8.8%) in total operating income occurred during the 2H19.

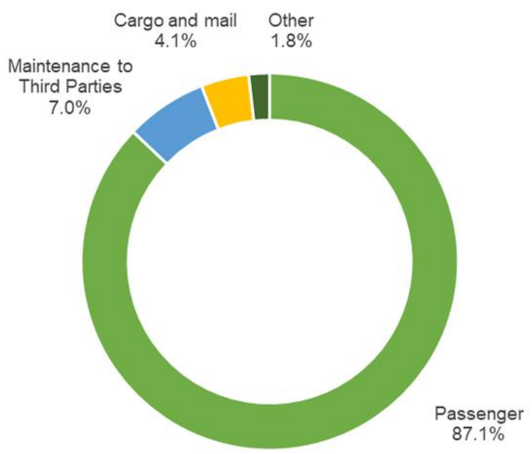
Passenger income reached EUR 2,913.9 million, a YoY increase of 4.7%, having represented 87.1% of total operating income. After a weak first quarter of 2019, with passenger income being particularly impacted by political and economic instability in Brazil, resulting in a YoY decrease of approximately 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.

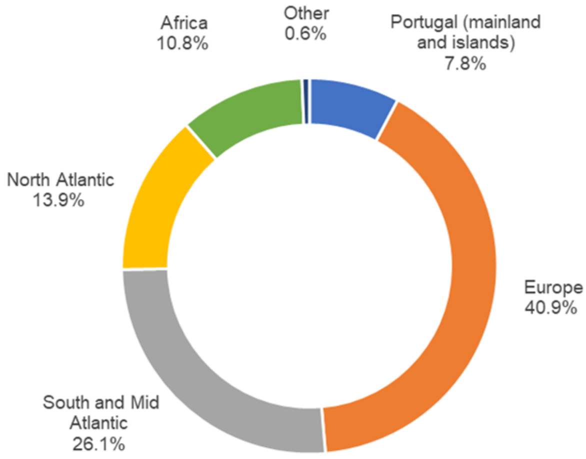
Income from maintenance to third parties decreased EUR 46.4 million YoY (-16.5%). In Portugal there was a decrease of EUR 17.9 million in income from maintenance activities (-7.9% YoY) in 2019, essentially due to the renewal of TAP's fleet and phase-out of older aircraft, which resulted in fewer hangar 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. TAP ME Brasil which is the maintenance operation in Brazil, decreased income by EUR 28.5 million (-53.7% YoY) as a result of the significant downsizing of the operation. This subsidiary presented for the first time since its acquisition, a positive EBITDAR of EUR 3.1 million, without the need for any cash transfers from the Group. This result endorses the successful turnaround made throughout 2018, when one of the 2 operations of the company was closed, and headcount was decreased accordingly.

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 3,286.5 million in 2019, a YoY decrease of EUR 8.3 million (-0.3%), while ASK grew 11.8%, which translated in a decrease in operational unit costs per ASK (CASK) of 8.8% compared to the previous year. This trend was even more positive in the 2H19 with CASK decreasing 10.0% 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 34.6 million (-4.4%) 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 49.1 million (+7.0%) is attributed to the hiring of employees in Portugal 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 50.9 million (-45.6%) mainly due to the capitalization of costs with structural maintenances of aircraft under lease agreements without purchase option, pursuant to IFRS 16.

The decrease in costs of materials consumed in EUR 22.2 million (-10.7%) 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 33.5 million (-18.0%) 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 341.2 million, includes the impact in depreciation expenses from the adoption of IFRS 16, as a result of the recognition of the right-of-use of assets under lease agreements without purchase option and the corresponding liability.

Operating Results

EBITDAR reached EUR 477.3 million in 2019 (+125.8% YoY), corresponding to an EBITDAR margin of 14.3%, of which EUR 372.7 million was generated during the 2H19, corresponding to an EBITDAR margin of 19.9%.

EBIT (Operating Result) was EUR 58.6 million in 2019, an improvement of EUR 102.6 million compared to the previous year, resulting in an EBIT margin of 1.8%, due to the performance in the 2H19 which generated EBIT of EUR 137.2 million, a YoY improvement of EUR 133.8 million, corresponding to an EBIT margin of 7.3% during the period.

Non-Operating Results

The increase in interest and similar expenses in 2019 is mostly explained by the increase in interest from lease liabilities without purchase option, 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 Group EUR million	31/Dec 2019	01/Jan 2019 [1]	31/Dec 2018 [2]
Total Assets	**4,449.8**	**2,636.6**	**1,627.5**
Non-current Assets	3,381.2	1,904.2	895.1
Current Assets	1,068.5	732.4	732.4
Equity	**-580.8**	**-507.3**	**-617.9**
Total Liabilities	**5,030.6**	**3,143.9**	**2,245.4**
Non-current Liabilities	3,340.5	1,622.8	902.1
Current Liabilities	1,690.0	1,521.1	1,343.3

Financing and Lease Liabilities

TAP Group EUR million	31/Dec 2019	01/Jan 2019 [1]	31/Dec 2018 [1]
Financial Debt [3]	**1,479.6**	**888.5**	**888.5**
Bank Loans	401.2	645.8	645.8
Lease liabilities with Purchase Options	275.3	132.5	132.5
Bonds	684.3	0.0	0.0
Convertible Bonds	118.8	110.2	110.2
Cash and cash equivalents	**435.0**	**233.2**	**233.2**
Net Financial Debt	**1,044.5**	**655.2**	**655.2**
Lease liabilities without Purchase Options	**2,095.7**	**924.0**	**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 Options.

At the end of 2019, TAP presented a cash and equivalents position of EUR 435.0 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 16.2% 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 lease liabilities without purchase option) increased from 2.9 years at the end of 2018 to 4.6 years at the end of 2019. The percentage of fixed rate debt also increased significantly from 22% at the end of 2018 to 69% 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.

3.4. 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.

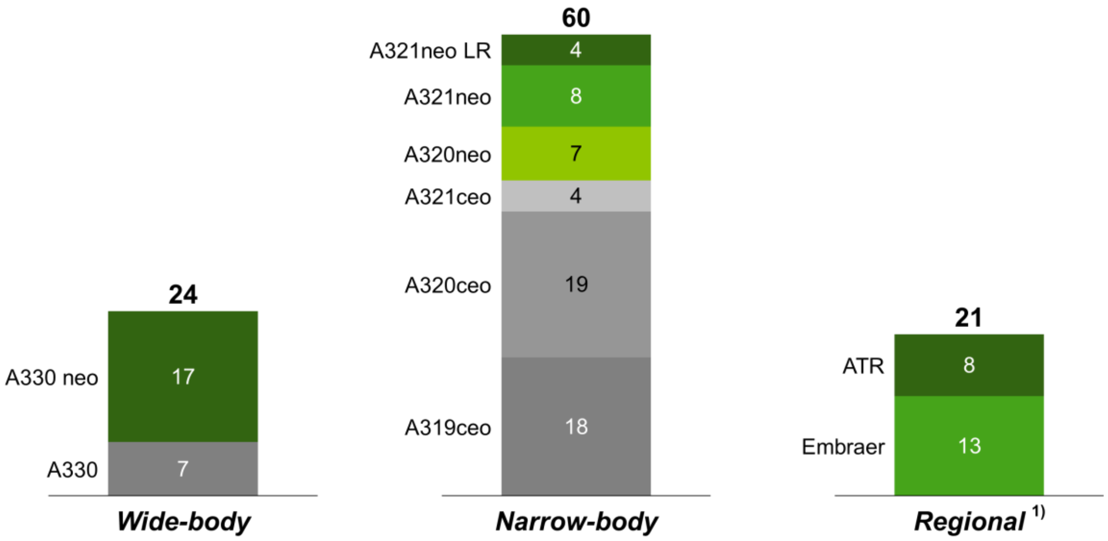
After starting operations of its first brand new A330neo at the end of 2018, for which TAP was the launch operator, during 2019, TAP added another 16 A330neo to the fleet, being at the end of this year, by far, the largest operator of the model. The addition of these aircraft enabled TAP to undergo a 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 CO_2 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) Includes White 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 improve 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 Group. Consequently, a total of 992 new candidates were hired, including 249 pilots, 320 flight attendants, 72 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 lease liabilities without purchase option) at the end of 2019 was 4.6 years, increasing from 2.9 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 TAP Group, signed with several Portuguese banking entities in the course of the privatization process, TAP Group amortized in 2019 a total of 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 Group amortized an additional EUR 160 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 Group'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 Group's commitment to Portugal. During 2019, the company continued to hire some of the best talent in the country (992 new hires) and generated a significant tax contribution. In 2019, TAP Group employee costs totaled EUR 751.9 million, placing TAP among the largest employers in the country.

TAP Group also contributes significantly to tax revenues and social contributions in Portugal, paying during 2019 circa EUR 277.7 million in taxes and social contributions (value net of taxes received).

3.5. 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.

4. 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 Group made a repayment towards a loan facility with a syndicate of Portuguese banks in the amount of EUR 160 million. With this amortization, since the beginning of 2019 TAP Group amortized a total of EUR 324 million of this loan facility, with approximately EUR 142 million currently outstanding. Additionally, on February 28, 2020 TAP Group 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 Group'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.

5. OUTLOOK FOR 2020

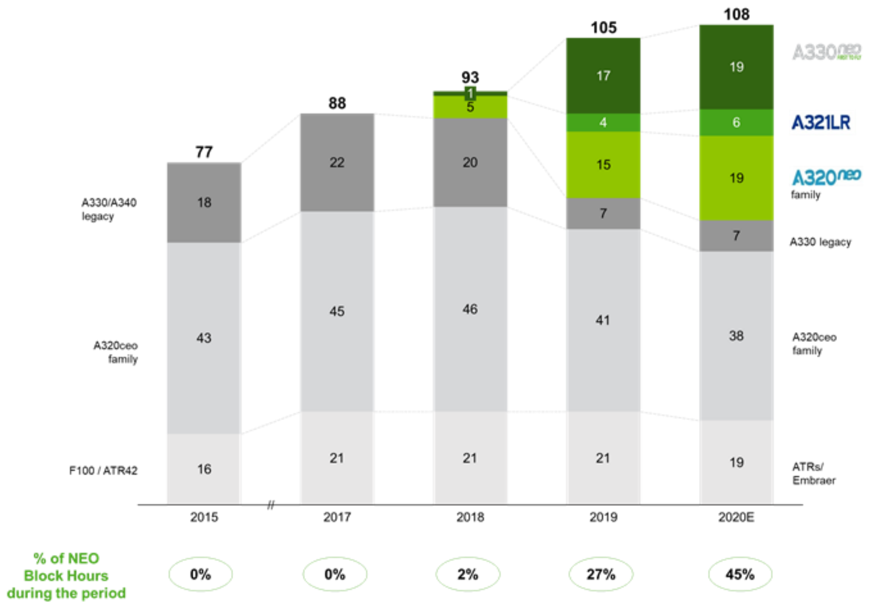
Fleet

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 and having in consideration market demand. During 2020 TAP Group 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.

Operational fleet (end-of-year) 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 Group 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 Group 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 the Group new maintenance providers. Finally, potential business with engine OEM's will be evaluated.

At TAP ME Brasil, after the good economic results of 2019 the focus will be to consolidate customers, grow operational profit and improve operational KPI's, as well as work along Maintenance in Portugal with regards to TAP's own fleet.

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.

6. 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 Group 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 Group 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 Corona Virus, 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 Group 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 Group depends on informatic 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 Group'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 Group'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;

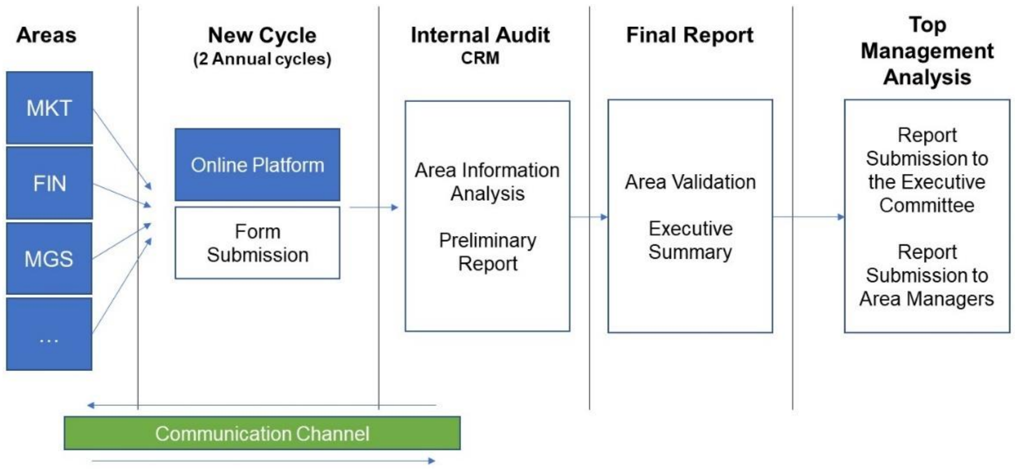
Another possible strategy is the refusal, the no-go of the process or action, whenever the level of risk is not appropriate to the intended operation and the 'appetite' profile of the organization.

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 Group 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 Companys'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.

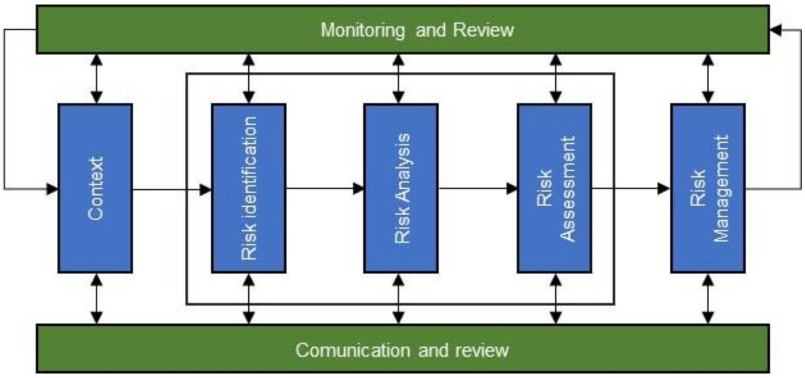
Regarding the flowchart of the CRM process, the following phases can be highlighted:

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 Group, 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)

The following members of the Board of Directors of TAP acquired bonds of TAP, S.A. during 2019:

- Antonoaldo Grangeon Trancoso Neves, Member of the Board of Directors of TAP and TAP, S.A., 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, S.A. ("Obrigações TAP 2019-2023"), maintaining this position as of December 31, 2019;
- Diogo Campos Barradas de Lacerda Machado, Member of the Board of Directors of TAP, acquired on June 24, 2019, a total of 5 (five) bonds, in an aggregate amount corresponding to €5,000 (five thousand euros), in the public subscription offer of bonds issued by TAP, S.A. ("Obrigações TAP 2019-2023"), maintaining this position as of December 31, 2019.

3. 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 21 "Related Parties" of the individual Financial Statements.

4. Authorisations granted for transactions between the directors and the Company

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

Terms and conditions agreed between the Company and related parties are similar to terms usually agreed between independent entities in comparable operations.

Please refer to note 36 "Related Parties" of the consolidated financial statements for businesses between the Company and its Board Members.

II - 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.

III – CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL YEAR OF 2019

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

INDEX

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

Amounts stated in thousand euros	Notes	2019	2018
ASSETS			
Non-current assets			
Tangible fixed assets	4	2,886,475	542,551
Investment properties	5	2,246	3,228
Goodwill	6	126,519	127,542
Intangible assets	7	25,537	11,323
Investments in subsidiaries and associates	8	1,973	3,322
Other financial assets	9	846	846
Deferred tax assets	10	132,058	100,325
Other non current assets	14	16,208	-
Other receivables	11	189,370	105,937
		3,381,232	**895,074**
Current assets			
Inventories	12	128,383	91,152
Other receivables	11	452,766	321,414
Income tax receivable	13	231	8,464
Other current assets	14	47,263	64,976
Other financial assets	9	4,880	13,225
Cash and cash equivalents	15	435,024	233,204
		1,068,547	**732,435**
Total assets		**4,449,779**	**1,627,509**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	15,000	15,000
Supplementary capital contributions	16	224,093	224,093
Other equity Instruments	16	36,297	36,297
Legal reserves	16	3,000	3,000
Foreign currency translation reserves	16	(76,359)	(74,495)
Hedge reserves	16	16,417	(29,132)
Equity holdings adjustment		(2,260)	(2,260)
Retained earnings	16	(689,323)	(670,874)
Group Net income/(loss) for the year	16	(105,607)	(118,039)
Total equity of the Group		**(578,742)**	**(616,410)**
Non-controlling interests	17	(2,053)	(1,449)
Total equity		**(580,795)**	**(617,859)**
Non-current liabilities			
Provisions	18	94,545	22,381
Borrowings	19	1,077,549	605,205
Lease liabilities with purchase option	19	239,271	102,010
Lease liabilities without purchase option	19	1,743,388	-
Post-employment benefits obligations	20	109,951	103,523
Deferred tax liabilities	10	75,125	19,024
Other payables	21	707	49,960
		3,340,536	**902,103**
Current liabilities			
Borrowings	19	126,735	150,762
Lease liabilities with purchase option	19	36,012	30,474
Lease liabilities without purchase option	19	352,333	-
Other payables	21	592,773	665,619
Income tax payable	13	17	19
Liabilities from unused flight documents	22	480,762	393,466
Other current liabilities	23	101,406	102,925
		1,690,038	**1,343,265**
Total liabilities		**5,030,574**	**2,245,368**
Total equity and liabilities		**4,449,779**	**1,627,509**

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 thousand euros	Notes	2019	2018
Operating income			
Revenue			
Passenger	24	2,913,870	2,782,292
Maintenance	24	234,269	280,694
Cargo and mail	24	137,393	134,684
Gains and losses in associates	25	1,686	3,737
Other operating income	24	57,895	49,419
		3,345,113	**3,250,826**
Operating costs			
Aircraft fuel	26	(789,677)	(798,624)
Traffic operating costs	26	(743,221)	(777,831)
Employee costs	27	(751,927)	(702,795)
Aircraft rents	26	-	(177,896)
Aircraft maintenance costs	26	(60,818)	(111,746)
Cost of materials consumed	26	(185,166)	(207,354)
Comercial, communication and marketing costs	26	(153,118)	(186,622)
Impairment losses in inventories, receivables and provisions	28	2,511	(9,578)
Other operating expenses	29	(179,704)	(170,110)
Restructuring	30	(5,979)	(54,450)
Other non recurrent items	31	(680)	(20,281)
Depreciation, amortisation and impairment losses	32	(418,694)	(77,513)
Operating income/(loss)		**58,640**	**(43,974)**
Interests and similar income	33	3,237	6,007
Interests and similar expenses	33	(178,258)	(57,876)
Net currency exchange	33	(22,924)	(49,427)
Net income/(loss) before income tax		**(139,305)**	**(145,270)**
Income tax for the year	34	34,123	28,044
Net income/(loss) for the year		**(105,182)**	**(117,226)**
Net income/(loss) attributable to owners of TAP SGPS		(105,607)	(118,039)
Net income/(loss) attributable to non-controlling interests	17	425	813
Basic earnings per share of continuing operations (Euros)	16	(70.4)	(78.7)
Diluted earnings per share of continuing operations (Euros)	16	(64.8)	(72.4)
Basic results per share (euros)	16	(70.4)	(78.7)
Diluted results per share (euros)	16	(64.8)	(72.4)

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 thousand euros	Notes	2019	2018
Net income/(loss) for the year		**(105,182)**	**(117,226)**
Items that may be reclassified to income statement:			
Gains and losses on translation of foreign operations	16	(1,789)	(15,357)
Gains and losses in derivative financial instruments - cash flow hedge	16	65,289	(41,322)
Deferred tax on derivative financial instruments - cash flow hedge	10	(19,740)	12,190
Items that will not be reclassified to income statement:			
Remeasurements of defined benefit plans	20	(17,431)	(20,739)
Deferred tax on remeasurements	10	6,458	5,012
Other comprehensive income/(loss) net of tax		**32,787**	**(60,216)**
Comprehensive income/(loss)		**(72,395)**	**(177,442)**
Attributable to:			
Owners of TAP SGPS		(72,888)	(178,656)
Non-controlling interests		493	1,214
		(72,395)	**(177,442)**
Comprehensive income/(loss) attributable to the owners of TAP SGPS arises from			
Continuing operations		(72,888)	(178,656)
Discontinued operations		-	-
		(72,888)	**(178,656)**

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 2019 TO 31 DECEMBER 2019

Amounts stated in thousand euros	Share Capital	Supplementary capital contributions (Note 16)	Other equity instruments	Legal reserves	Foreign currency translation reserves (Note 16)	Hedge reserves (Note 16)	Equity holdings adjustment	Retained earnings	Net income/(loss) for the year	Subtotal	Non-controlling interests (Note 17)	Total
Equity as at January 1, 2018	**15,000**	**224,093**	**-**	**3,000**	**(58,649)**	**-**	**(2,260)**	**(676,459)**	**21,224**	**(474,051)**	**(1,870)**	**(475,921)**
Transactions with owners in 2018	**-**	**-**	**36,297**	**-**	**-**	**-**	**-**	**21,224**	**(21,224)**	**36,297**	**(793)**	**35,504**
Application of net income/(loss) and distribution of profit and reserves	-	-	-	-	-	-	-	21,224	(21,224)	-	-	-
Mandatory convertible securities ("VMOC")	-	-	36,297	-	-	-	-	-	-	36,297	-	36,297
Distribution of dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(793)	(793)
Comprehensive income/(loss) in 2018	**-**	**-**	**-**	**-**	**(15,846)**	**(29,132)**	**-**	**(15,639)**	**(118,039)**	**(178,656)**	**1,214**	**(177,442)**
Net income/(loss) for the year	-	-	-	-	-	-	-	-	(118,039)	(118,039)	813	(117,226)
Other comprehensive income/(loss)	-	-	-	-	(15,846)	(29,132)	-	(15,639)	-	(60,617)	401	(60,216)
Equity as at December 31, 2018	**15,000**	**224,093**	**36,297**	**3,000**	**(74,495)**	**(29,132)**	**(2,260)**	**(670,874)**	**(118,039)**	**(616,410)**	**(1,449)**	**(617,859)**
Transactions with owners in 2019	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(118,039)**	**118,039**	**-**	**(1,097)**	**(1,097)**
Application of net income/(loss) and distribution of profit and reserves	-	-	-	-	-	-	-	(118,039)	118,039	-	-	-
Distribution of dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,097)	(1,097)
Comprehensive income/(loss) in 2019	**-**	**-**	**-**	**-**	**(1,864)**	**45,549**	**-**	**99,590**	**(105,607)**	**37,668**	**493**	**38,161**
Net income/(loss) for the year	-	-	-	-	-	-	-	-	(105,607)	(105,607)	425	(105,182)
Other comprehensive income/(loss)	-	-	-	-	(1,864)	45,549	-	(10,967)	-	32,718	68	32,786
Change in accounting policy - adoption IFRS 16	-	-	-	-	-	-	-	110,557	-	110,557	-	110,557
Equity as at December 31, 2019	**15,000**	**224,093**	**36,297**	**3,000**	**(76,359)**	**16,417**	**(2,260)**	**(689,323)**	**(105,607)**	**(578,742)**	**(2,053)**	**(580,795)**

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

Amounts stated in thousand euros	Notes	2019	2018
Operating activities:			
Receipts from customers		3,520,515	3,439,838
Payments to suppliers		(2,515,235)	(2,724,053)
Payments to employees		(700,059)	(677,600)
Short-term low-value lease payments		(7,408)	-
Income tax payment/receipt		5,104	(15,704)
Other receipts/payments relating to operating activities		(38,485)	(12,751)
Cash flow from operating activities		**264,433**	**9,730**
Investment activities:			
Receipts from:			
Tangible fixed assets		50,025	46,929
Financial investments	9	230,184	66,543
Investments in subsidiaries and associates		-	3,740
Interests and similar income		3,229	3,517
Dividends	8	2,997	5,398
Payments relating to:			
Tangible fixed assets		(134,627)	(127,537)
Intangible assets		(3,487)	(6,251)
Other financial assets	9	(287,094)	(7,498)
Cash flow from investment activities		**(138,773)**	**(15,159)**
Financing activities:			
Receipts from:			
Borrowings	19	702,046	70,000
Lease liabilities with purchase option	19	77,014	96,397
Payments relating to:			
Borrowings	19	(250,411)	(7,500)
Lease liabilities with purchase option	19	(38,919)	(53,995)
Lease liabilities without purchase option		(235,032)	-
Interests and similar costs		(58,739)	(30,547)
Dividends (non-controlling interests)		(967)	(816)
Interest elements of lease liabilities without purchase option		(103,849)	-
Cash flow from financing activities		**91,143**	**73,539**
Net increase (decrease) in cash and cash equivalents		216,802	68,110
Effects of exchange rate changes		(5,484)	(13,083)
Cash and cash equivalents at the beginning of the year	15	**222,844**	**167,817**
Cash and cash equivalents at the end of the year	15	**434,162**	**222,844**

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

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019

1 – Economic activity of the Group

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

The Group's core business consists in the air transport of passengers, cargo and mail, operating in Portugal, mainland and its Autonomous Regions, Europe, Africa, North Atlantic, Mid-Atlantic and South Atlantic. The Group has 21 representative offices in foreign countries and 4 in Portugal.

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

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

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

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

With the transmission of 61% of the share capital of TAP SGPS to Atlantic Gateway on 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, should be noted that, by resolution of 19 February 2016, the Board of Directors of ANAC imposed a set of precautionary measures to the TAP Group. This proceeding with ANAC was, concluded favourably on 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.

As this, on February 6, 2016, the Portuguese State and Atlantic Gateway formalized 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 formalized 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 S.A. 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 Parpública.

Following the capitalisation 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, 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 collateralization 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 recognize 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 S.A., Megasis - Sociedade de serviços de Engenharia e Informática, S.A.(Company that was merge into TAP SA during the first half of 2019), Azul SA 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 representative shares 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 30 June 2017 the transfer of shares established in the Share Purchase Agreement consequently ANAC has been notified under the terms and conditions legally foreseen. On 20 September 2018 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 in order to decide, among others, the election of the Board of Directors new members and the amendment of the TAP SGPS articles so 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 October 3, and subsequent amendments.

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

Parpública notified TAP SGPS, by letter dated December 28, 2018, of their irrevocable decision to convert the owned obligations for the amount of Euro 30 million plus interests due until that date, into special shares representatives of the equity of TAP SGPS. Parpública requires such conversion will occur on the ultimate date, as defined in the contractual documents of the bond issuance, or on an earlier date.

These consolidated financial statements, which include the assets, liabilities, expenses and income of the TAP Group companies as listed in Note 2.4.1., were approved by the Board of Directors on March 10, 2020. However, these financial statements are still subject to approval by the General Meeting of Shareholders, under the terms of the commercial legislation in force.

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

2 – Summary of the significant accounting policies

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

2.1. Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS – formerly referred to as the International Accounting Standards - IAS) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or by the former Standing Interpretations Committee (SIC) in force as at January 1, 2019. The standards and interpretation previously mentioned are hereinafter referred to as "IFRS".

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 assertions 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.

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:

- <u>Capitalisation of aircraft and engines lease and ACMI contracts fulfilling the capitalisation criteria defined by IFRS 16</u>
  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.

- <u>Accounting of the other-asset leases</u>
  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.

- <u>Accounting of the maintenance on leased aircraft</u>
  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 924 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 euros	
Minimum payments for operating lease contracts released on December 31, 2018	1,182,402
Minimum payments for ACMI contracts, including "non-lease" components	5,842
Effect of financial rent discount	(264,224)
Lease liabilities without purchase option as of January 1, 2019	**924,020**

The average discount rate used to discount future rents on January 1, 2019 is 6.5% and the discount rate for additional contract entered in 2019 is between 6% and 7%.

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 thousand euros	31-dec-18	Impact of adoption of IFRS 16	01-jan-19
ASSETS			
Non-current assets			
Tangible fixed assets	542,551	939,992	1,482,543
Investment properties	3,228	-	3,228
Goodwill	127,542	-	127,542
Intangible assets	11,323	-	11,323
Financial holdings	3,322	-	3,322
Other financial assets	846	-	846
Deferred tax assets	100,325	-	100,325
Other accounts receivable	105,937	69,117	175,054
	895,074	**1,009,109**	**1,904,183**
Current assets			
Inventories	91,152	-	91,152
Other accounts receivable	321,414	-	321,414
Income tax receivable	8,464	-	8,464
Other current assets	64,976	-	64,976
Other financial assets	13,225	-	13,225
Cash and cash equivalents	233,204	-	233,204
	732,435	**-**	**732,435**
Total assets	**1,627,509**	**1,009,109**	**2,636,618**
EQUITY AND LIABILITIES			
Equity			
Capital	15,000	-	15,000
Supplementary payments	224,093	-	224,093
Other equity instruments	36,297	-	36,297
Legal reserves	3,000	-	3,000
Currency conversion reserves	(74,495)	-	(74,495)
Fair value reserves	(29,132)	-	(29,132)
Adjustments in share capital	(2,260)	-	(2,260)
Transited results	(670,874)	110,557	(560,317)
Net income for the year	(118,039)	-	(118,039)
Total equity of the Group	**(616,410)**	**110,557**	**(505,853)**
Non-controlling interests	(1,449)	-	(1,449)
Total equity	**(617,859)**	**110,557**	**(507,302)**
Non-current liabilities			
Provisions	22,381	32,176	54,557
Borrowings	597,054	(102,010)	495,044
Lease liabilities with purchase option	-	102,010	102,010
Bond loan	110,161	-	110,161
Lease liabilities without purchase option	-	692,002	692,002
Pensions and other post-employment benefits	103,523	-	103,523
Deferred tax liabilities	19,024	46,261	65,285
Other bills to pay	49,960	(49,741)	219
	902,103	**720,698**	**1,622,801**
Current liabilities			
Borrowings	181,236	(30,474)	150,762
Lease liabilities with purchase option	-	30,474	30,474
Lease liabilities without purchase option	-	232,018	232,018
Other bills to pay	665,619	(54,164)	611,455
Income tax payable	19	-	19
Pending flight documents	393,466	-	393,466
Other current liabilities	102,925	-	102,925
	1,343,265	**177,854**	**1,521,119**
Total liabilities	**2,245,368**	**898,552**	**3,143,920**
Total liabilities and equity	**1,627,509**	**1,009,109**	**2,636,618**

The recognition of the right-of-use assets and the corresponding liability resulted in an increase in depreciation expenses of, approximately, Euro 333.3 million and interest expenses of, approximately, Euro 103.8 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 and other contractual obligations expenses (recognised until December 31, 2018 in the captions "Aircraft rents", "Traffic operating costs" and "Other operating expenses") decreased by, approximately, Euro 346.04 million.

Additionally, the presentation of payments related to lease contracts resulted in a reclassification in the amount of, approximately, Euro 338.9 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

✈ New standards, changes and interpretations of existing standards mandatory as at 31 December 2019

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 January 1, 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 "Lease liabilities with purchase option". 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 the expected user life or until the 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 portion 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 portion 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 considered when the Group assesses whether it has control over another entity.

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

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

Name	Head office	Core business	Shareholders	% share capital held	
				2019	2018
TAP - Transportes Aéreos Portugueses, SGPS, S.A.	Lisbon	Management and administration of holdings	Parpública Atlantic Gateway Other shareholders	50.00% 45.00% 5.00%	50.00% 45.00% 5.00%
Transportes Aéreos Portugueses, S.A. ("TAP SA")	Lisbon	Aeronautical activities	TAP SGPS	100.00%	100.00%
TAPGER - Sociedade de Gestão e Serviços, S.A. ("TAPGER")	Lisbon	Provision of management services	TAP SGPS	100.00%	100.00%
Portugália - Companhia Portuguesa de Transportes Aéreos, S.A. (“Portugália”)	Lisbon	Aeronautical activities	TAP SGPS	100.00%	100.00%
Cateringpor - Catering de Portugal, S.A. ("Cateringpor")	Lisbon	Catering	TAPGER	51.00%	51.00%
Megasis - Soc. De Serviços de Engenharia e Informática, S.A. ("Megasis")	Lisbon	Engineering and informatics	TAPGER	n/a	100.00%
Tap Logistics Solutions, S.A	Lisbon	Provision of courier services	TAP SA	100.00%	n/a
U.C.S. - Cuidados Integrados de Saúde, S.A. ("UCS")	Lisbon	Provision of health care services	TAPGER	100.00%	100.00%
Aeropar, Participações, S.A. ("Aeropar")	Brazil	Management and administration of holdings	TAP SGPS Portugália	99.83% 0.17%	99.83% 0.17%
TAP – Manutenção e Engenharia Brasil, S.A. (ex-VEM) ("TAP M&E Brasil")	Brazil	Maintenance and aeronautical engineering	TAP SGPS Aeropar	78.72% 20.69%	78.72% 20.69%

On 20 March 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 2 May 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.

TAP S.A. constitute on December 30, 2019 TAP Logistics Solutions, S.A. (“TAP Logistics”), that operating in cargo and mail activity.

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

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

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

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

If the acquisition cost is less than the fair value of the net assets of the acquired subsidiary (negative goodwill), the difference is recognised directly in the 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.

2.4.2. Associates

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

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

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

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

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

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

The following entity qualifies as an associate:

Name	Head office	Core business	Shareholders	% share capital held	
				2019	2018
SPdH – Serviços Portugueses de Handling, S.A. ("SPdH")	Lisbon	*Handling*	TAP SGPS Portugália	43.90% 6.00%	43.90% 6.00%

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

2.5. 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.

Three operational segments were identified: Air transport, Maintenance and Engineering and Catering. 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 35.

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 thousands**, 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.

2.6.3. Group Companies

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

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

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

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

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

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

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

Month	2019	2018
January	4.2041	3.9170
February	4.2688	4.0109
March	4.3865	4.0426
April	4.4050	4.1815
May	4.4462	4.2912
June	4.3511	4.4049
July	4.2180	4.4765
August	4.5879	4.5357
September	4.5288	4.8013
October	4.4514	4.3246
November	4.6459	4.2973
December	4.5157	4.4214

2.7. Tangible fixed assets

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

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

Thus, taking effect as at January 1, 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 regarding the acquisition cost, mainly using the straight-line method from the date the assets are ready to enter service, at the depreciation rates that best reflect their estimated useful lives, as follows:

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

The residual values of the assets and respective useful lives are reviewed and adjusted, when necessary, at the date of the statement of financial position (Note 4). If the book value of the asset is higher than the asset's realizable value, then it is written down to the estimated recoverable amount by recognizing an impairment loss (Note 2.11.).

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 2.26

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 include, essentially, software to support the activity, and are booked at acquisition cost less accumulated impairment losses and are amortised using the straight-line method over an estimated useful life. The amortisation period can be from 3 up to 10 years.

2.10. Goodwill

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

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

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

2.11. 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 sale and its value in use.

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

The reversal of impairment losses recognised in previous periods is recorded when it can be concluded that the recognised impairment losses no longer exist or have decreased (with the exception of impairment losses relating to Goodwill – see Note 2.10).

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.

2.12. 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 Company 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 derecognition 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 Company 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.

2.13. 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 aircraft fuel caption, 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, provided that 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.

2.14. Assets and liabilities fair value

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

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

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

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

2.15. 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.

2.16. 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 include, essentially spares and equipment to be used in aircraft and engines, 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”.

2.17. 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.

2.18. 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”.

2.19. Share Capital

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

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

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

2.20. Borrowings

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

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

2.21. 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 cost 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.

2.22. 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 Company 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 18).

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. 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.

2.23. 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.

2.24. Other payables

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

2.25. 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.

2.26. 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 or 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 periods 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 transfer's 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.

2.27. 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.

2.28. 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 cancelled, its value is transferred from this heading to the income statement for the year or to an account payable, depending on whether the transport has been: i) carried out by the Company 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.

The Group recognizes the revenue from maintenance contracts in accordance with 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 11). Additionally, the Group's Board of Directors considers that method is the most appropriate 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."

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.

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.

2.29. 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.

2.30. 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.

2.31. 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.

2.32. 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.

2.33. 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.

2.34. Accounting estimates and judgments

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

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

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

- **Impairment of goodwill (Note 6)**

The Group tests the goodwill carried in its statement of financial position for impairment losses annually, in accordance with the accounting policy described in Note 2.10. The recoverable amounts of the cash generating units are ascertained based on the calculation of their value-in-use. These calculations require the use of estimates.

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

- **Deferred tax (Note 10)**

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 20)**

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 20. 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 11, 12 and 18)**

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 23)**

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 22)**

This caption includes the amount regarding the tickets 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 19)**

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.

✈ **Aircraft redelivery provision in operating lease contracts (Note 21)**

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 (flight, hour, 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

Financial risk management is conducted at the strategic level by the Group and subject to ongoing monitoring by the Board of Directors. Guidelines and decisions regarding risk management are key elements for the positioning of the Group to face external threats of the markets and the economic and financial environment. Given the multiplicity of scenarios and possible developments, the Group's financial 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, CO_2 licenses prices, foreign exchange rate, interest rate, 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 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 corporate) 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. In fact, 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 the commercial aviation sector, airlines companies are subject to the impact of changes in international energy markets, namely price volatility and fuel availability. Fuel costs are the most important component of the Company's operating cost structure. On the other hand, it is a cost component with extreme volatility that is not only relevant for the operating result, but also for the definition of tariff conditions and market policies.

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 11).

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 ranged 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 fluctuations result from its presence in several geographic markets, reflected in multiple items of relevant income and costs and various assets and liabilities. In all markets where The Group is present, the currency exposure is significant due to the operation on more than 100 routes, and also given the prominent position on routed between Europe and the American continent, in terms of air transport activity. In addition to the risks inherent to market exchange rate fluctuations and exchange rate policy decisions by the monetary authorities, in the case of countries with

Despite the strong geographical diversification of Group's commercial activity and operational activity, most of the sales are made in markets whose official currency is the euro, or whose currency is on a fixed exchange basis with the euro area. Thus the concern of the Group focuses on the possibility of fluctuations in the profits obtained in the other markets, of which the Brazilian, the American and the Angolan stand out

In 2019, the percentage of income from tickets in Brazil in relation to the total income from tickets from The Group decreased compared to the previous year, remaining close to 25%. In addition to the regular sale of tickets to customers in BRL, the Group also sales tickets in instalments (usually 12 months) in BRL and in specific market conditions also entered into specials agreements with acquirers/banks for the anticipation of instalment receivables. The volatility that characterizes the Brazilian currency has consequences in terms of tariff policy, forcing great flexibility in capacity management and a quick reaction in network management and pricing in order to mitigate the effects of competition and maintain satisfactory occupancy rates. In 2019, the average EURBRL exchange rate was 4,421 (vs. 4,308 in 2018), which represents an average depreciation of the BRL against the EUR of around -2.6%.

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 existence of several costs in foreign currency are responsible for a significant imbalance in the Group's foreign exchange balance, which is in deficit in relation to the USD. In general terms, the costs of The Group are, for the most part, dependent on EUR, USD and BRL, with the remaining currencies, having a reduced expression. The USD, however, is the benchmark currency in the aviation sector and covers inputs as important and diverse as fuel, aircraft rents, maintenance materials and services, aviation insurance, navigation and airport charges in many of the geographic areas in which the Group operates. In the specific case of fuel, even in contracts subject to invoicing and settlement in euros, namely in the Portuguese market, the calculation of the amounts to be charged is indexed, and established by reference, to the quotation of the USD against the EUR, constituting the fuel expense an almost full exposure to the USD, with the exception of only certain commercial fees and commissions, with a marginal weight in the global fuel bill.

Also, in the case leases, the market operates in USD denominated from monthly rents, to costs with maintenance reserves and guarantee deposits. Aircraft maintenance is another source of exposure to the dollar that is not always passed on to the end customer in terms of billing in that currency. The various materials incorporated in the Group fleet are also normally purchased in USD. On a strictly financial level and given that some of the Group's loans are also denominated in USD, the respective interest and principal repayments are also liabilities and additional exposure to the American currency. At the end of 2019, about 12% of the Company's financial interest-bearing debt excluding operating leases was denominated in dollars, against 8% at the end of 2018. Note that, as mentioned earlier, the increase in USD-denominated revenues reduces exposure The Group’s net worth to this currency.

The introduction of IFRS 16 has brought significant changes in terms of exchange rate impact on the balance sheet namely due to the recognition of a liability related with unpaid rents. As of December 2019, the Group has recorded Lease liabilities without purchase option of 2,084 million Euros, which are denominated in USD. Regarding contractual obligations with structural maintenance, the respective expenses are capitalized in the right of use subject to depreciation, instead of being recognized as maintenance expenses in the income statement.

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 15)	225,287	11,664	12,386	13,812	263,149
Other financial assets (Note 9)	5,528	-	-	-	5,528
Receivables - customers	26,333	132,038	942	15,344	174,657
Receivables - other	241,831	44,180	37	7,615	293,663
	498,979	**187,882**	**13,365**	**36,771**	**736,997**
LIABILITIES					
Borrowing and lease liabilities with purchase option (Note 19)	164,032	862	-	-	164,894
Lease liabilities without purchase option (Note 19)	2,084,699	-	-	-	2,084,699
Payables - suppliers	47,303	7,062	409	7,152	61,926
Payables - other	51,534	14,779	1,548	5,788	73,649
	2,347,568	**22,703**	**1,957**	**12,940**	**2,385,168**

	2018				
	USD	**BRL**	**AOA**	**OTHER**	**TOTAL**
ASSETS					
Cash and cash equivalents (Note 15)	87,532	7,312	5,188	14,490	114,522
Other financial assets (Note 9)	13,873	-	-	172	14,045
Receivables - customers	47,112	62,013	1,034	14,975	125,134
Receivables - other	139,317	57,759	549	6,025	203,650
	287,834	**127,084**	**6,771**	**35,662**	**457,351**
LIABILITIES					
Borrowing and lease liabilities with purchase option (Note 19)	62,447	-	-	-	62,447
Payables - suppliers	52,710	20,353	1,419	8,876	83,358
Payables - other	135,556	12,398	938	5,590	154,482
	250,713	**32,751**	**2,357**	**14,466**	**300,287**

It should be noted that, on December 31, 2019, the caption of other financial assets includes the amount of 4,880 million Euros related to “Treasury bonds of Angola”, indexed to the dollar, which compares with the amount of 13,225 million Euros in the end of 2018.

As of December 31, 2019, a 10% change (positive or negative), of all exchange rates with reference to the euro, would result in an impact on the results for the year of approximately 165 million Euros, which compares with the value of 16 million Euros in 2018. This significant increase over the previous period is largely due to the adoption of IFRS 16, which caused liabilities denominated in USD to increase significantly.

✈ Interest rate risk

The amount of fixed-rate financing in the total debt of The Group increased from 22% of the total in 2018 to 69% of the total in 2019, at the end of the year. Most variable rate financing, which corresponds to approximately 31% of the total, bears interest at Euribor, plus the contractual margin and, having this index been negative, for all terms, throughout 2019, the amount applied in the respective operations it was zero, according to the floor imposed by the financing entities. Consequently, during 2019 all credits in euros at variable rates had only the contractual margin as cost.

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.Interest rate risk has not materialized significantly in recent years, given the prolonged period of low interest rates, close to zero, that has been observed in Europe. Throughout 2019, interest rates in dollars declined. The future impacts of an increase in the general level of interest rates, both in the dollar and in the euro, will be relevant for The Group, not only regarding the existing debt, but also regarding debt amounts to be contracted in the future., for example as a result of planned investments in the fleet.

Interest rates are also a factor that increases costs leases transactions, in which, normally, the level of long-term interest rates is reflected in the aircraft's income.

As at December 31, 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						
Loans	108,355	106,956	122,400	29,822	-	367,533
Lease liabilities w ith purchase option	24,984	16,882	53,545	-	-	95,411
	133,339	**123,838**	**175,945**	**29,822**	**-**	**462,944**
Fixed Rate						
Loans	18,380	7,496	586,833	142,752	81,290	836,751
Lease liabilities w ith purchase option	11,028	11,348	37,469	88,297	31,730	179,872
	29,408	**18,844**	**624,302**	**231,049**	**113,020**	**1,016,623**
Total	**162,747**	**142,682**	**800,247**	**260,871**	**113,020**	**1,479,567**
% fixed rate	**18%**	**13%**	**78%**	**89%**	**100%**	**69%**

	2018					
	< 1 year	**1 - 2 years**	**3 - 5 years**	**6 - 10 years**	**> 10 years**	**Total**
Variable Rate						
Loans	142,667	155,076	270,408	37,218	-	605,369
Lease liabilities w ith purchase option	24,662	18,607	33,665	9,342	-	86,276
	167,329	**173,683**	**304,073**	**46,560**	**-**	**691,645**
Fixed Rate						
Loans	8,095	13,660	18,682	110,161	-	150,598
Lease liabilities w ith purchase option	5,812	6,087	6,703	27,606	-	46,208
	13,907	**19,747**	**25,385**	**137,767**	**-**	**196,806**
Total	**181,236**	**193,430**	**329,458**	**184,327**	**-**	**888,451**
% fixed rate	**8%**	**10%**	**8%**	**75%**	**0%**	**22%**

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 December 31, 2019 would result in a variation of the future interest expense of approximately, Euro 5 million (2018: Euro 8 million).

Note 19 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 must 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 233,2 million to Euro 435 million at the end of the year the increase in the liquidity position was driven by November Public Bond Offer, which a portion of the proceeds was allocated to the repayment of existing debt. The Group negotiated in 2019 with lessors of existing aircraft operational leases, the exchange payment of Maintenance Reserves and Security Deposits by letters of credit. In 2018 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. The Group also has the ability to anticipate receivable from its Brazilian Market that as of December 31, 2019 amounted to Euro 105, 9 million.

The table below, which includes principal and interest 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 years	Total
Loans	90,442	83,671	163,113	782,121	279,651	-	1,398,998
Lease labilities with purchase option	24,626	24,500	40,529	118,267	109,803	33,867	351,592
Lease labilities without purchase option	174,164	178,169	302,518	631,498	679,742	129,630	2,095,721
Total	**289,232**	**286,340**	**506,160**	**1,531,886**	**1,069,196**	**163,497**	**3,846,311**

	2018						
	< 6 months	6 months - 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Loans	83,761	88,978	186,988	306,425	182,316	-	848,468
Lease labilities with purchase option	20,797	14,713	29,112	49,326	43,183	-	157,131
Total	**104,558**	**103,691**	**216,100**	**355,751**	**225,499**	**-**	**1,005,599**

✈ 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		
Judicial deposits - Brazil (Note 11)	42,176	39,927
Other non-current assets (Notes 9 and 11)	148,040	66,856
Current assets		
Cash and cash equivalents (Note 15)	435,024	233,204
Other receivables - customers (Note 11)	233,941	165,231
Other current assets (Notes 9 and 11)	223,705	169,408
	1,082,886	**674,626**

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 December 31, 2018 or January 1, 2018, 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 11, 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 can 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 59 % 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 aircraft operating lease costs corresponds to an increase in significant future liabilities, as far as these are medium and long-term contracts, which are close to staggered debt payments, although there is no risk of residual value of the aircraft at the end of the lease. In addition to the renewal and expansion of fleet, in the form of lease, it is relevant in terms of risk management, and for the return on invested capital, the future increase of debt that may occur in the form of borrowing, or in the form of an operating lease, to enable the investment cycle in the Group's new fleet.

4 – Tangible 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:

	2019										
	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	Total
Opening balance	41,616	348,217	1,549,222	6,219	37,124	65,636	12,932	41,289	96,915	-	**2,199,170**
IFRS 16 Adoption (Note 2)	-	-	-	-	-	-	-	-	-	939,992	**939,992**
Additions	-	1,063	223,820	650	2,622	2,941	329	29,339	20,638	1,615,833	**1,897,235**
Disposal	-	-	(632,550)	(112)	(1,922)	(103)	-	(24,489)	-	-	**(659,176)**
Other transfers/write-offs	(482)	(104)	(15,967)	9	(40)	7,608	(83)	(3,941)	(42,324)	(30,382)	**(85,706)**
Currency conversion differences	(8)	(52)	(179)	(3)	(146)	(54)	-	(35)	-	-	**(477)**
Closing balance	**41,126**	**349,124**	**1,124,346**	**6,763**	**37,638**	**76,028**	**13,178**	**42,163**	**75,229**	**2,525,443**	**4,291,038**
										-	
Opening balance	-	268,831	1,283,612	5,421	24,512	62,984	11,259	-	-	-	**1,656,619**
Depreciations and amortizations (Nota 32)	-	5,812	63,253	335	1,322	1,888	379	-	-	333,355	**406,344**
Impairment losses recognized (Note 32)	-	-	3,962	-	-	-	-	-	-	-	**3,962**
Disposal	-	-	(614,007)	(64)	(1,609)	(96)	-	-	-	-	**(615,776)**
Other transfers/write-offs	-	(51)	(22,754)	(59)	(40)	7,123	(83)	-	-	(30,382)	**(46,246)**
Currency translation differences	-	(29)	(148)	(2)	(112)	(49)	-	-	-	-	**(340)**
Closing balance	**-**	**274,563**	**713,918**	**5,631**	**24,073**	**71,850**	**11,555**	**-**	**-**	**302,973**	**1,404,563**
										-	
Carrying Amount	**41,126**	**74,561**	**410,428**	**1,132**	**13,565**	**4,178**	**1,623**	**42,163**	**75,229**	**2,222,470**	**2,886,475**

	2018										
	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	Total
Opening balance	41,716	349,140	1,518,969	6,173	36,464	65,532	12,643	49,462	180,850	-	**2,260,949**
Additions	-	601	88,872	314	1,739	1,438	429	37,145	42,367	-	**172,905**
Disposal	(25)	(128)	(63,448)	(168)	(6)	(429)	-	(27,238)	-	-	**(91,442)**
Other transfers/write-offs	(17)	(1,014)	6,152	(92)	13	(527)	(140)	(17,825)	(126,302)	-	**(139,752)**
Currency conversion differences	(58)	(382)	(1,323)	(8)	(1,086)	(378)	-	(255)	-	-	**(3,490)**
Closing balance	**41,616**	**348,217**	**1,549,222**	**6,219**	**37,124**	**65,636**	**12,932**	**41,289**	**96,915**	**-**	**2,199,170**
										-	
Opening balance	-	264,170	1,286,326	5,330	23,778	63,101	11,032	-	-	-	**1,653,737**
Depreciations and amortizations (Note 32)	-	5,818	58,264	328	1,446	1,154	367	-	-	-	**67,377**
Impairment losses recognized (Note 32)	-	-	7,543	-	-	-	-	-	-	-	**7,543**
Disposal	-	(52)	(60,312)	(118)	(4)	(429)	-	-	-	-	**(60,915)**
Other transfers/write-offs	-	(921)	(7,116)	(111)	(22)	(510)	(140)	-	-	-	**(8,820)**
Currency translation differences	-	(184)	(1,093)	(8)	(686)	(332)	-	-	-	-	**(2,303)**
Closing balance	**-**	**268,831**	**1,283,612**	**5,421**	**24,512**	**62,984**	**11,259**	**-**	**-**	**-**	**1,656,619**
										-	
Carrying Amount	**41,616**	**79,386**	**265,610**	**798**	**12,612**	**2,652**	**1,673**	**41,289**	**96,915**	**-**	**542,551**

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

	2019					
	Buildings and other constructions	Basic equipment			Transport equipment	Total
		Aircraft and engine leases	ACMI	Redelivery and Maintenance		
Assets						
IFRS 16 Adoption	4,590	819,596	99,042	32,176	792	**939,992**
Additions /others	-	1,471,983	-	129,182	20	**1,615,833**
Write-off	-	(30,382)	(1,556)	-	-	**(30,382)**
Closing Balance	**4,590**	**2,261,197**	**97,486**	**161,358**	**812**	**2,525,443**
Accumulated depreciations						
Depreciations (Note 32)	3,452	248,602	30,027	50,986	288	**333,355**
Write-off	-	(30,382)	-	-	-	**(30,382)**
Closing Balance	**3,452**	**218,220**	**30,027**	**50,986**	**288**	**302,973**
Carrying amount	**1,138**	**2,042,977**	**67,459**	**110,372**	**524**	**2,222,470**

The caption right- of-use assets includes an amount of 55,423 Euros regarding operational leases with Azul (Note 36).

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

To guarantee payment of the amounts due under a loan agreement with a national institution, in the amount of Euro 75 million, a mortgage was set up on an urban building of the Group, composed by twenty-nine office buildings, workshops for construction materials and others, located at the Lisbon Airport (Note 19). As of December 31, 2019, the outstanding amount of the loan is Euro 67.5 M.

The main impacts occurred during the year that ended on December 31, 2019 are as follows:

- The additions to the basic equipment caption amounting to Euro 223,820 thousand, mainly relates to the: (i) acquisition of one aircraft in the amount of 106,488 thousand under lease agreement with purchase option and (ii) capitalisation of expenses incurred 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 Euro 17,137 thousand.

- Disposals of basic equipment in the net amount of Euro 18,543 thousand, refers essentially to the sale of three aircraft (A330), which generated a capital gain in the amount of Euro 7,327 thousand.

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

- 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 increase the right-of-use assets in the amount of Euro 1,615,833 thousand correspond to the new leases contracts without purchase option.

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

- The additions basic equipment in the amount of Euro 88,872 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.

- The additions of other assets in progress in the amount of Euro 29,339 thousand, relates to predelivery payments for the future acquisition of two aircraft that will start on operation in 2020.

- Disposals of other assets in progress amounting to Euro 27,238 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 32).

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	35,986	(63,166)	(27,180)	636,163	(609,095)	27,068
Spare engines	8,226	(2,256)	5,970	11,967	(7,812)	4,155
Spare parts	138,076	(92,664)	45,412	125,420	(92,317)	33,103
	182,288	**(158,086)**	**24,202**	**773,550**	**(709,224)**	**64,326**
Flight equipment under lease with purchase option						
Aircraft	761,079	(465,302)	295,777	622,184	(473,980)	148,204
Reserve engines	72,803	(7,430)	65,373	33,908	(524)	33,384
	833,882	(472,732)	361,150	656,092	(474,504)	181,588
Machines and miscellaneous equipment	108,176	(83,100)	25,076	119,580	(99,884)	19,696
	1,124,346	**(713,918)**	**410,428**	**1,549,222**	**(1,283,612)**	**265,610**

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

	2019					2018				
	Owned by TAP Group	Lease liabilities with purchase option	Lease liabilities without purchase option	ACMI	Total	Owned by TAP Group	Lease liabilities with purchase option	Lease liabilities without purchase option	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 145	-	-	-	-	**-**	7	-	-	-	**7**
Embraer 190	-	-	9	-	**9**	-	-	9	-	**9**
Embraer 195	-	-	4	-	**4**	-	-	4	-	**4**
ATR 72	-	-	-	8	**8**	-	-	-	8	**8**
	2	**15**	**80**	**8**	**105**	**14**	**16**	**65**	**8**	**103**

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

- Phase-in of two A321 NEO LR and eight A330 NEO under the Airbus purchase agreement;
- Phase-in of 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, four A340 aircraft and seven Embraer 145 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

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

	2019	2018
Opening balance	3,228	2,126
Fair value adjustments - net gains and losses (Notes 24 e 29)	1,586	1,353
Disposals	(3,208)	(361)
Transfers	640	110
Closing balance	**2,246**	**3,228**

Often 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 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.

As at December 31, 2019 the caption Disposals includes, essentially, the effect of the sale of an asset regarding ME Brazil.

6 – Goodwill

During 2019 and 2018, the detail of Goodwill by Group cash generating units (CGU's) and its movement was as follows:

	2019			
	Opening balance	Impairment losses	Exchange rate	Closing balance
Air Transport	63,099	-	-	63,099
Maintenance - Brazil	64,443	-	(1,023)	63,420
	127,542	**-**	**(1,023)**	**126,519**

	2018			
	Opening balance	Impairment losses	Exchange rate	Closing balance
Air Transport	63,099	-	-	63,099
Maintenance - Brazil	72,085	-	(7,642)	64,443
	135,184	**-**	**(7,642)**	**127,542**

The negative amount of Euro 1,023 thousand refers to the currency translation differences of the Goodwill of Maintenance and Engineering Brazil, which is denominated in Brazilian Real in the amount of Real 286,387 thousand, net of impairment loses.

Accordingly, to IAS 36, goodwill is subject to impairment tests carried out on an annual basis, as described in the accounting policy (Note 2.10) Goodwill is attributed to the Group's cash-generating units (CGUs), identified in accordance with the business segment and country of the operation.

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

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

The impairment tests performed as at December 31, 2018 and 2019 have not identified impairment losses for the goodwill. In 2017 was recorded on impairment loss of Euro 22,000 thousand (BRL 87,404 thousand) related with the Goodwill of Maintenance and Engineering Brazil business.

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

December 31, 2019	2019 Portugal	2019 Brazil	2018 Portugal	2018 Brazil
Discount rate*	8.9%	12.0%	8.9%	12.0%
CAGR of revenue**	0.5%	8.7%	0.5%	8.7%
CAGR of expense**	--	7.5%	--	7.5%
Perpetuity growth	2.0%	5.0%	2.0%	5.0%
Tax rate	29.5%	34.0%	29.5%	34.0%

* Discount rate net of taxes

** *Compound Annual Growth Rate* - year-on-year growth rate of an inverment over a given period of time

The impairment tests carried out in 2019 sustain the recoverability of the book value of the referred cashgenerating units.

As at December 31, 2019 the book value of the air transport CGU amounts to Euro 73,213 thousand (2018: Euro 178,093 thousand), and the book value of the maintenance unit in Brazil is negative in some Euro 275,572 thousand (2018: negative by Euro 265,448 thousand).

7 – 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 intangible assets	Total
Acquisition cost					
Balance as at January 1, 2018	**11,952**	**3,787**	**1,557**	**-**	**17,296**
Acquisitions	-	6,090	3,555	1,216	10,861
Regularisation, transfer and write-off	-	452	(452)	-	-
Currency translation differences	-	(10)	-	-	(10)
Balance as at December 31, 2018	**11,952**	**10,319**	**4,660**	**1,216**	**28,147**
Acquisitions	-	18,107	3,430	276	21,813
Regularisation, transfer and write-off	-	11,169	(4,332)	-	6,837
Currency translation differences	-	-	-	-	-
Balance as at December 31, 2019	**11,952**	**39,595**	**3,758**	**1,492**	**56,797**
Accumulated amort. and impairment losses					
Balance as at January 1, 2018	**(11,952)**	**(2,288)**	**-**	**-**	**(14,240)**
Amortisations and impairment losses (Note 32)	-	(2,593)	-	-	(2,593)
Currency translation differences	-	9	-	-	9
Balance as at December 31, 2018	**(11,952)**	**(4,872)**	**-**	**-**	**(16,824)**
Amortisations and impairment losses (Note 32)	-	(8,388)	-	-	(8,388)
Regularisation, transfer and write-off	-	(6,048)	-	-	(6,048)
Balance as at December 31, 2019	**(11,952)**	**(19,308)**	**-**	**-**	**(31,260)**
Carrying amount as at December 31, 2018	**-**	**5,447**	**4,660**	**1,216**	**11,323**
Carrying amount as at December 31, 2019	**-**	**20,287**	**3,758**	**1,492**	**25,537**

The acquisitions during the year of 2019 and 2018, refers, essentially, to acquisitions and development of software regarding operational activity of the Group. The Regularisation, transfer and write-off occur in 2019 refers, essentially, to the transfer of Tangible fixed assets of Megasis softwares to Intangible asset

8 – Investments in subsidiaries and associates

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

	2019						
	% detida	Saldo inicial	Variações com efeitos em resultados (Nota 25)	Variações com efeitos em capital	Outros Movimentos	Dividendos	Saldo final
Partes de capital							
SPdH	49.9%	3,322	1,686	(38)		(2,997)	1,973
		3,322	**1,686**	**(38)**	**-**	**(2,997)**	**1,973**

	2018						
	% detida	Saldo inicial	Variações com efeitos em resultados (Nota 25)	Variações com efeitos em capital	Outros Movimentos	Dividendos	Saldo final
Partes de capital							
SPdH	49.9%	5,706	3,737	18	(741)	(5,398)	3,322
		5,706	**3,737**	**18**	**(741)**	**(5,398)**	**3,322**

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

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

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

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

SPdH operating licenses to provide handling services to third parties, at Lisbon and Oporto airports, in categories 3 (baggage handling), 4 (cargo and mail handling) and 5 (runway operations handling) of reserved access expired on December 31, 2011. Nevertheless, decree-Law nº 19/2012, of 27 January and nº 57/2014 of 11 April, allowed Portuguese

Civil Aviation Institute ("INAC") to extend, on an exceptional basis, the reserved access licenses to the ground handling service provider in the aforesaid reserved categories at Lisbon and Oporto airports, until the time when the ground handling service providers begin their activity, which will be selected under the public tenders in progress launched in September 2014.

In September 2014, Portuguese Civil Aviation Authority (ANAC), former INAC, initiated 9 public tenders to grant access licences to the activity of ground handling services in luggage, ground and cargo categories for Lisbon, Oporto and Faro airports. SPdH ran for all tenders, being the status as at December 31, 2018 as follows:

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

  The licenses were assigned to the three running categories of the public tender: category 3 (baggage), on November 10, 2016, category 4 (cargo and mail) and category 5 (runway operations), on November 15, 2017, valid until November 15, 2024.

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

  Licenses for the three running categories of the public tender (3, 4 and 5), were assigned on October 23, 2017, valid until November 23, 2024.

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

  Licenses for the three running categories (3, 4 and 5), were assigned to SPdH on April 20, 2018, valid until April 20, 2025.

Regarding the licenses applicable to the airports of Madeira and Porto Santo, they were assigned by ANAC on January 1, 2017, valid until January 1, 2023.

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

During the year 2019, SPdH distributed dividends, as approved at the General Shareholders' Meeting on May 28, 2019, in the amount of Euro 2,997 thousand (2018: Euro 5,398 thousand).

As at December 31, 2019 and 2018, the financial information relative to the associate SPdH is as follows:

	2019				
	Assets	**Equity**	**Liabilities**	**Sales and services rendered**	**Net income/(loss) for the year**
SPdH	42,505	6,361	36,144	152,408	5,785

	2018				
	Assets	**Equity**	**Liabilities**	**Sales and services rendered**	**Net income/(loss) for the year**
SPdH	37,751	6,657	31,094	143,072	6,005

Net income for the year 2019 was adjusted per certain effects for purposes of applying the equity method of consolidation (Note 25).

9 – 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	-	13,225	-
Bank deposits in Guinea Bissau	-	1,747	-	1,728
SITA Group Foundation	-	648	-	648
Others	-	212	-	212
	4,880	**2,607**	**13,225**	**2,588**
Impairment losses	-	(1,761)	-	(1,742)
	4,880	**846**	**13,225**	**846**

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
Opening balance	13,225	846	34,853	46,805
Increases	-	4,831	7,498	-
Decreases	(12,789)	-	(66,543)	-
Transfers	4,957	(4,957)	47,273	(47,273)
Currency translation differences	(513)	126	480	1,314
Other	-	-	(10,336)	-
Closing balance	**4,880**	**846**	**13,225**	**846**

The increase in the period ended December 31, 2019 in the amount of Euro 4,831 thousand, 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 thousand, 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
At 1 of January	1,742	1,698
Currency translation differences	19	44
At 31 of December	**1,761**	**1,742**

10 – Deferred tax assets and liabilities

As mentioned in Note 2.15, 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 budgeted for 2020 and 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% (in 2018 was 29.5%), when it was deemed that the taxation of temporary differences in the estimated period of application of the aforesaid rate was probable.

Tax benefits are considered at 100%, whereas, in some cases, their full acceptance is still dependent on the approval of the authorities granting these tax benefits. The deferred taxes arising from tax benefits are recorded when 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	**Effect in results (Note 34)**	**Effect in comprehensive income**	**Closing balance**
Deferred tax assets				
Tax losses carried forward	41,543	42,442	-	83,985
Employee benefits obligations	25,845	(1,612)	6,458	30,691
Impairment losses in inventories	8,213	271	-	8,484
Impairment losses in fixed assets	4,697	(3,198)	-	1,499
Impairment losses of accounts receivable	7,267	(91)	-	7,176
Derivative financial instruments (note 16)	12,190	-	(12,190)	-
Tax benefits	442	(442)	-	-
Other provisions and adjustments not accepted for tax purposes	128	95	-	223
	100,325	**37,465**	**(5,732)**	**132,058**
Deferred tax liabilities				
Revaluation of tangible fixed assets	19,024	305	-	19,329
Derivative financial instruments (Note 16)	-	-	7,550	7,550
Ajustments due the adoption of IFRS 16 (Note 2)	-	1,985	46,261	48,246
	19,024	**2,290**	**53,811**	**75,125**
		35,175	**(59,543)**	

	2018			
	Opening balance	**Effect in results (Note 34)**	**Effect in comprehensive income**	**Closing balance**
Deferred tax assets				
Tax losses carried forward	20,750	20,793	-	41,543
Employee benefits obligations	16,324	4,509	5,012	25,845
Impairment losses in inventories	9,473	(1,260)	-	8,213
Impairment losses in fixed assets	3,300	1,397	-	4,697
Impairment losses of accounts receivable	7,082	185	-	7,267
Derivative financial instruments (Note 16)	-	-	12,190	12,190
Tax benefits	-	442	-	442
Other provisions and adjustments not accepted for tax purposes	138	(10)	-	128
	57,067	**26,056**	**17,202**	**100,325**
Deferred tax liabilities				
Revaluation of tangible fixed assets	19,942	(918)	-	19,024
	19,942	**(918)**	**-**	**19,024**
		26,974	**17,202**	

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

✈ Tax losses carried forward

Under the terms of current tax legislation in Portugal, tax losses generated between 2014 and 2016 can be carried forward for a period of twelve years after their occurrence, and the tax losses generated after 2017 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.

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

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

December 31, 2019	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019 Estimate**	**Total**	**Deferred tax assets**
Portugal										
TAP SGPS	-	-	3,549	2,138	1,016	-	21,042	19,793	**27,745**	8,035
TAP S.A.	-	-	31,072	169,257	-	-	78,541	138,690	**278,870**	66,243
UCS	-	-	-	-	-	-	-	-	**-**	-
TAPGER	-	-	-	-	-	-	348	433	**348**	73
Portugália	-	-	-	-	-	-	279	19,396	**279**	2,820
Brazil									**-**	-
TAP M&E Brasil	18,402	15,370	39,543	7,305	8,886	25,998	11,893	-	**127,397**	6,814
	18,402	**15,370**	**74,164**	**178,700**	**9,902**	**25,998**	**112,103**	**178,312**	**612,951**	**83,985**
Limit for deduction (in Portugal)		**2018**	**2026**	**2027**	**2028**	**2022**	**2023**	**2024**		

Of the total amount of tax losses in Brazil, with no time limit, in the amount of Euro127,397 thousand, Euros 6,814 thousand were accounted for, given the ongoing restructuring of the subsidiary of TAP ME Brasil and its performance in 2019, based on prudent estimates for the upcoming years. It should be noted that the amount of Euros 36,501 thousand of tax losses of the said subsidiary was not recognized as deferred tax assets, as TAP's Management believes that, on this date, the necessary conditions for its registration as an asset are not met. in the light of IAS / IFRS.

Regarding tax losses of TAP SA, the securitization effect has the following detail:

TAP SA	Without securitization	Securation	Total
2014	-	31,071	31,071
2015	101,330	67,927	169,257
2018	78,541	-	78,541
2019 (estimate)	138,690	-	138,690
	318,561	**98,998**	**417,559**

From 2017 onwards, most of the Group's subsidiaries in Portugal are taxed through the *Regime Especial de Tributação Grupo de Sociedades* ("REGTS"), and the taxable income is calculated on a consolidated basis at level of TAP SGPS. However, each subsidiary tax accrual is recognised based on its individual results.

11 – Other receivables

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

	2019		2018	
	Current	Non-current	Current	Non-current
Trade receivables	307,148	-	238,902	-
Recoverable maintenance reserves	12,362	90,297	-	-
Security deposits of lease contracts	4,570	52,110	6,031	55,168
Swaps jet fuel	23,967	-	-	-
Accrued income	51,706	-	20,866	-
Advances to suppliers	18,977	-	20,418	-
Other debtors	111,891	48,884	113,554	52,690
Impairment losses	(77,855)	(1,921)	(78,357)	(1,921)
	452,766	**189,370**	**321,414**	**105,937**

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

✈ Trade receivables

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

	2019	2018
Customers- Current account	251,325	184,846
Doubtful debtors	55,823	54,056
	307,148	**238,902**
Impairment losses	(73,207)	(73,671)
	233,941	**165,231**

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

	2019	2018
Private entities	158,508	72,936
Travel agency	62,081	49,501
Airlines	8,268	31,322
Related parties (Note 36)	2,197	4,584
Other	2,887	6,888
	233,941	**165,231**

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.

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

✈ **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, the Group 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.

✈ **Recoverable maintenance reserves**

The change in the caption Recoverable maintenance reserves is due to the adoption of IFRS 16, since until December 31, 2018 these reserves were presented under the caption Other payables, deducted to the estimated liabilities with structural maintenance of aircraft in leases without purchase option.

✈ **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 refer to the financial discount cost of these receivables, to be recognised in the period term of the related lease agreements (Note 14).

This caption includes an amount of Euro 380 thousand regarding a security deposits with Aigle Azur (Note 36).

✈ Accrued income

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

	2019	2018
Work maintenance third parties	32,291	9,894
Airport facilities - incentives	3,525	3,797
Related parties (Nota 36)	3,621	2,759
Results allocation - Insurance	3,340	-
Other	8,929	4,416
	51,706	**20,866**

The caption "work maintenance third parties" corresponds on estimate for revenue related with maintenance services for third parties under progress, that are recorded as provided by the IFRS 15, the increase in this caption in 2019 refers to the increase of the volume of the engines and aircraft projects.

✈ Advances to suppliers

This caption includes mainly advanced made to maintenance suppliers.

✈ Other debtors – Non-current

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

	2019	2018
Judicial deposits - Brazil	42,176	39,927
Related parties (Note 36)	3,521	3,828
Other	3,187	8,935
	48,884	**52,690**
Impairment losses	(1,921)	(1,921)
	46,963	**50,769**

Judicial deposits in Brazil are related with various lawsuits in which TAP M&E Brazil is involved, namely, labour, tax and civil claims (Note 18).

The caption "Related parties" refers to expenses with guarantees provided.

✈ Other debtors – Current

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

	2019	2018
Advances related to lease contracts	22,711	45,367
Suppliers receivables	28,150	18,531
Employees	20,511	15,458
Interline and other invoicing	11,640	8,829
Representations VAT	2,187	2,738
Deposits and guarantees	3,115	2,679
Related parties (Note 36)	2,341	1,014
Other	21,236	18,938
	111,891	**113,554**
Impairment losses	(4,648)	(4,686)
	107,243	**108,868**

The caption “Advances related to lease contracts” corresponds to amounts prepaid to the lessor, recoverable at the date of delivery of the aircraft.

The caption "Other", includes Euro 550 thousand related to the excess of financing (2018: Euro 405 thousand), recorded as at December 31, 2018, of the “Horizonte Valorização” Pension Plan Fund of the subsidiary UCS. This financing surplus is reimbursable under the terms of the law and/or exemption from future contributions (Note 20).

✈ Impairment losses on other receivables

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

Opening balance as at January 1, 2018	**80,321**
Increases (Note 28)	4,467
Reversals (Note 28)	(1,410)
Utilization	(1,916)
Currency conversion differences	(1,184)
Closing balance as at December 31, 2018	**80,278**
Increases (Note 28)	8,054
Reversals (Note 28)	(5,319)
Utilization	(3,066)
Currency conversion differences	(171)
Closing balance as at December 31, 2019	**79,776**

12 – Inventories

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

	2019	2018
Raw materials and consumables	166,914	132,846
Goods	90	73
Inventory impairment losses	(38,621)	(41,767)
	128,383	**91,152**

“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 30,506 thousand and Euro 156,025 thousand, respectively (2018: Euro 65,916 thousand and Euro 180,193 thousand, respectively) (Note 26). In addition, materials and used on structural maintenance events on our own fleet were capitalized (Note 4).

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

Opening balance as at January 1, 2018	**48,099**
Increases (Note 28)	2,730
Reversals (Note 28)	(1,566)
Utilization	(6,263)
Currency conversion differences	(1,233)
Closing balance as at December 31, 2018	**41,767**
Increases (Note 28)	4,458
Reversals (Note 28)	(7,133)
Utilization	(26)
Currency conversion differences	(445)
Closing balance as at December 31, 2019	**38,621**

The currency conversion differences verified in 2019 and 2018 arises from the conversion of the Brazilian subsidiary financial statements.

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

13 – Income tax receivable/payable

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

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
Income tax receivable/payable				
Payments on account	812	-	9,306	-
Withholding taxes	861	-	640	-
Current income tax (Note 34)	(1,442)	-	(1,518)	-
Other	-	(17)	36	(19)
	231	**(17)**	**8,464**	**(19)**

14 – Other assets

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

	2019		2018	
	Current	Non-Current	Current	Non-Current
Deferred costs	35,269	16,208	54,669	-
State	11,994	-	10,307	-
	47,263	**16,208**	**64,976**	**-**

✈ Deferred costs

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

	2019		2018	
	Current	Non-Current	Current	Non-Current
Security deposits	-	16,208	-	-
Aircrafts and reactors leases	-	-	34,228	-
Rental costs	2,195	-	4,955	-
Commissions	17,610	-	1,872	-
Related parties (Note 36)	1,451	-	4,708	-
Other deferred costs	14,013	-	8,906	-
	35,269	**16,208**	**54,669**	**-**

As at December 31, 2018, the caption "Deferred expenses" 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 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 2018.

✈ State

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

	2019		2018	
	Current	Non-Current	Current	Non-Current
VAT	6,218	-	5,163	-
State - Brazil	5,578	-	4,432	-
Other	198	-	712	-
	11,994	**-**	**10,307**	**-**

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.

15 – Cash and cash equivalents

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

	2019	2018
Term deposits	285,874	158,475
Bank deposits available on demand	148,952	64,171
Other bank deposits	111	10,488
Cash	87	70
Cash and cash equivalent in the statement of financial position	**435,024**	**233,204**
Bank overdrafts (Note 19)	**(862)**	**-**
Other deposits	-	(10,360)
Cash and cash equivalents in the cash flow statement	**434,162**	**222,844**

The amount of other deposits as of December 31, 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).

16 – Equity

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

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

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

✈ **Supplementary Capital Contributions**

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

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

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

✈ **Other Equity instruments**

On 8 March 2016, it was approved at the Shareholders General Meeting, previously authorised by ANAC, the issuance of a 10-year bond loan by TAP SGPS in the amount of Euro 120 million. This bond is subject to a fixed interest rate that could be convertible in TAP SGPS's shares. The aforementioned issue is composed by two series: the first (series A), amounting Euro 90 million, subscribed by Azul S.A. and the second (series B) in the amount of Euro 30 million subscribed by Parpública (Note 1).

Parpública notified TAP SGPS, by letter dated 28 December 2018, of its irrevocable decision to convert the owned bonds into TAP SA to SGPS's shares in the amount of Euro 30 million, plus interests due until that date in the amount of Euro 6,297 thousand, recorded in "other equity instruments", which qualifies as a mandatory convertible security ("VMOC").

✈ **Legal reserves**

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

✈ Foreign currency translation reserves

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

	2019			
	Opening balance	Increases	Decreases	Closing balance
TAP M&E Brazil and Aeropar:				
Currency translation of financial statements and goodwill	133,492	4,422	-	137,914
Extension of the net investment in TAP M&E Brasil	(207,987)	-	(6,286)	(214,273)
	(74,495)	**4,422**	**(6,286)**	**(76,359)**
Net impact			**(1,864)**	

	2018			
	Opening balance	Increases	Decreases	Closing balance
TAP M&E Brazil and Aeropar:				
Currency translation of financial statements and goodwill	106,538	26,954	-	133,492
Extension of the net investment in TAP M&E Brasil	(165,187)	-	(42,800)	(207,987)
	(58,649)	**26,954**	**(42,800)**	**(74,495)**
Net impact			**(15,846)**	

The increase of Euro 4,422 thousand relates to the Group's appropriation of exchange differences resulting from the conversion of the financial statements of the companies operating in Brazil, in the favourable amount of Euro 5,445 thousand, and of the corresponding goodwill, in the unfavourable amount of Euro 1,023 thousand (Note 6).

The decrease of Euro 6,286 thousand and 42,800 thousand in 2019 and 2018, respectively, relates to the negative currency conversion differences arising from the medium and long-term loans granted to TAP M&E Brazil, whose settlement is unlikely to occur in the foreseeable future, and is, in substance, an extension of the group's net investment in this foreign operation.

The difference between the net reduction of the foreign currency translation reserves balance, amounting to Euro 1,865 thousand, and the amount recorded in the consolidated statement of comprehensive income in the amount of Euro 1,790 thousand, results from the amounts assigned to non-controlling interests.

✈ Hedge reserves

As at December 31, 2019 the positive amount of Euro 16,417 thousand (2018: Euro 29,132 thousand negative) presented under the caption "Hedge reserves" correspond to the variation of fair values of the financial instruments classified as hedging accounting, in the amount of Euro 65,289 thousand, recorded in accordance with the policy described in Note 2.13, net of tax, in the amount of Euro 19,740 thousand.

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:

	Current	Non-current
Fair value as at January 1, 2018	**-**	**-**
Acquisitions during the year - payment/(revenue)	-	(4,109)
Payment/(revenue) of swaps during the year	-	-
Revenue/(payment) of swaps retained through profit or loss	-	4,109
Increase/(decrease) of fair value reflected in equity	-	(41,322)
Fair value as at December 31, 2018	**-**	**(41,322)**
Acquisitions during the year - payment/(revenue)	(2,487)	-
Payment/(revenue) of swaps during the year	1,976	-
Revenue/(payment) of swaps retained through profit or loss	511	-
Increase/(decrease) of fair value reflected in equity	23,967	41,322
Fair value as at December 31, 2019	**23,967**	**-**

✈ Retained earnings

The caption "Retained earnings" corresponds to the net losses of previous years, as deliberated at the General Meetings. The impact that resulted from the first-time adoption of the International Financial Reporting Standards (IFRS), including IFRS 16, was also recorded under this caption, as well as gains or losses from the remeasurements of post-employment benefits, net of tax.

✈ Results per share

Considering that the convertible financial instruments on the shares of TAP SGPS, namely the convertible bonds, the Group presents the following result per share in 2019 and 2018:

	2019	2018
Net income from continuing activities	(105,607)	(118,039)
Earnings/(losses) attributable to TAP SGPS shareholders	(105,607)	(118,039)
Weighted average number of shares	1,500,000	1,500,000
Basic earnings/(losses) per share from continuing activities (value in euro)	(70.4)	(78.7)
Diluted earnings/(losses) per share from continuing activities (value in euro)	(64.8)	(72.4)
Basic earnings/(losses) per share (value in euro)	(70.4)	(78.7)
Diluted earnings/(losses) per share (value in euro)	(64.8)	(72.4)

17 – Non-controlling interests

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

	%	2019	2018
Non-controlling interests of equity			
TAP M&E Brazil	1.36%	(5,628)	(5,502)
Cateringpor	49%	3,575	4,053
		(2,053)	**(1,449)**

The non-controlling interests, presented in the consolidated income statement, as at December 31, 2019 and 2018 are detailed as follows:

	2019	2018
Non-controlling interests of net income		
TAP M&E Brazil	(194)	(674)
Cateringpor	619	1,487
	425	**813**

18 – Provisions

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

2019	Opening balance	Adoption of IFRS 16	Increases	Decreases by use	Reversal of unused amounts	Currency translation differences	Other movements	Closing balance
Provisions								
Provision for legal claims (Note 28)	20,925	-	-	(164)	(3,230)	(151)	568	**17,948**
Redelivery (Notes 2 and 4)	-	32,176	62,616	(24,405)	-	-	4,372	**74,759**
Other provisions (Note 28)	1,456	-	671	-	(12)	(6)	(271)	**1,838**
	22,381	**32,176**	**63,287**	**(24,569)**	**(3,242)**	**(157)**	**4,669**	**94,545**

2018	Opening balance	Increases	Decreases by use	Reversal of unused amounts	Currency translation differences	Other movements	Closing balance
Provisions							
Provision for legal claims (Note 28)	19,075	6,930	(3,046)	(1,539)	(1,087)	592	**20,925**
Other provisions (Note 28)	1,570	-	-	(34)	(118)	38	**1,456**
	20,645	**6,930**	**(3,046)**	**(1,573)**	**(1,205)**	**630**	**22,381**

✈ Provision for legal claims

Provisions for legal claims are recognised in accordance with the Group's and its legal advisors risk assessments, based on historical success rates by type of legal action and probability of unfavourable outcomes for the Group. As at December 31, 2019, the existent provision, in the amount of Euro 17,948 thousand, aims to cover the risk of several lawsuits filed against the Group, in Portugal and foreign countries.

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

	2019	2018
Group (w ithout the subsidiary TAP M&E Brasil)	9,231	11,798
Subsidiary TAP M&E Brasil	8,717	9,127
	17,948	**20,925**

As at December 31, 2019, the subsidiary TAP M&E Brazil faced about 1,826 labour claims (1,735 claims as at December 31, 2018). The subsidiary is a joint debtor of the labour liabilities related to the migration of employees from VARIG to TAP M&E Brazil in 2001 and 2002. Labour claims have been filed by former employees of VARIG against the subsidiary and against "TAP S.A.", who did not migrate in 2001 and 2002 and who never have been employees of VEM (currently TAP ME Brazil). These labour claims can be divided into 4 categories: (i) union claims; (ii) claims filed by pilots; (iii) claims filed by former employees of VARIG against it and the Group, demanding the succession of the employment status and (iv) claims filed by service providers requesting the acknowledgement of the Group's liability for any recognised labour debts.

In May 2017, the subsidiary TAP M&E Brazil obtained an important and final decision of the Superior Labour Court (SLC). It was determined that the Company is not responsible for the former VARIG employees' debts. At the moment, the subsidiary intends to pursue this decision for the approximately 354 cases that are still pending.

Regarding the actions imposed by its own former employees, the subsidiary obtained an important decision through the Court of the State of Rio de Janeiro, although not definitive, who recognises that the acquisition of the current TAP M&E Brazil occurred free of charges and contingencies. This has an impact on labour/tax actions, in particular in processes with generating facts prior to the acquisition.

✈ **Redelivery**

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.

✈ **Other provisions**

This caption is detailed as follows:

	2019	2018
Subsidiary TAP M&E Brasil:		
Provision for tax contingencies	433	732
Provision for civil contingencies	981	287
Remaining subsidiaries:		
Other provisions	424	437
	1,838	**1,456**

Provision for tax and civil contingencies

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

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

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

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

In addition, due to the accounting criteria adopted, the subsidiary requested a legal opinion on the tax treatment relative to the effects arising from the settlement of REFIS based on the tax credits arising from tax losses and from a negative basis of social security contributions. It is thus observed that it is a change in the form of use of an existing right, and thus no new right was created, regardless of its accounting classification. Considering this, the operating gain resulting from the compensation of the subdivision was not subject to corporate income tax, social integration programme ("PIS") and contribution to the financing of social security ("COFINS") consult also note 37.

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

Balance as at January 1, 2018	**1,097**
Reversal by revised estimate	-
Currency translation differences	(118)
Other movements	40
Balance as at December 31, 2018	**1,019**
Increases	672
Reversal by revised estimate	-
Currency translation differences	(6)
Other movements	(271)
Balance as at December 31, 2019	**1,414**

19 – Borrowings, Lease liabilities with and without purchase option

As at December 31, 2019 and 2018, borrowings, lease liabilities with and without purchase option are detailed as follows:

	2019		2018	
	Current	Non-Current	Current	Non-Current
Bank loans	122,709	279,941	151,085	499,856
Interest accrued	2,570	-	3,630	-
Initial expenses	(1,923)	(2,081)	(3,953)	(4,812)
Remunerated bank debt	**123,356**	**277,860**	**150,762**	**495,044**
Bond issuance	2,588	788,172	-	90,000
Interest accrued	4,406	28,779	-	20,161
Initial expenses	(3,615)	(17,262)	-	-
Bond issuance	**3,379**	**799,689**	**-**	**110,161**
Lease liabilities with purchase option	36,023	242,589	30,169	102,441
Interest accrued	941	-	563	-
Initial expenses	(952)	(3,318)	(258)	(431)
Lease liabilities with purchase option	**36,012**	**239,271**	**30,474**	**102,010**
Lease liabilities without purchase option	**352,333**	**1,743,388**	**-**	**-**
Total Borrowings	**515,080**	**3,060,208**	**181,236**	**707,215**

✈ 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	1,316,820	707,215
Current	162,747	181,236
	1,479,567	**888,451**
Cash and cash equivalents (Note 15)		
Cash	87	70
Other deposits	111	10,488
Bank deposits available on demand	148,952	64,171
Term deposits	285,874	158,475
	435,024	**233,204**
Net debt	**1,044,543**	**655,247**

✈ Borrowings and Lease liabilities with purchase option

The borrowings and lease liabilities with purchase option by maturity and type of interest rate, as at December 31, 2019 and 2018, is detailed as follows:

	2019	2018
Up to 1 year	162,747	181,236
1 to 2 years	142,682	193,430
3 to 5 years	800,247	329,458
6 to 10 years	260,871	184,327
Over 10 years	113,020	-
	1,479,567	**888,451**

2019	< 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Variable Rate						
Loans	108,355	106,956	122,400	29,822	-	367,533
Lease liabilities with purchase option	24,984	16,882	53,545	-	-	95,411
	133,339	**123,838**	**175,945**	**29,822**	**-**	**462,944**
Fixed Rate						
Loans	18,380	7,496	586,833	142,752	81,290	836,751
Lease liabilities with purchase option	11,028	11,348	37,469	88,297	31,730	179,872
	29,408	**18,844**	**624,302**	**231,049**	**113,020**	**1,016,623**
Total	**162,747**	**142,682**	**800,247**	**260,871**	**113,020**	**1,479,567**

2018	< 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Variable Rate						
Loans	142,667	155,076	270,408	37,218	-	605,369
Lease liabilities with purchase option	24,662	18,607	33,665	9,342	-	86,276
	167,329	**173,683**	**304,073**	**46,560**	**-**	**691,645**
Fixed Rate						
Loans	8,095	13,660	18,682	110,161	-	150,598
Lease liabilities with purchase option	5,812	6,087	6,703	27,606	-	46,208
	13,907	**19,747**	**25,385**	**137,767**	**-**	**196,806**
Total	**181,236**	**193,430**	**329,458**	**184,327**	**-**	**888,451**

✈ Bank loans

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

✈ 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.

Lease liabilities with purchase option, by currency, are detailed as follows:

	2019	2018
Lease liabilities in EUR	111,250	70,037
Lease liabilities in USD	164,033	62,447
	275,283	**132,484**

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

✈ Bonds

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

Parpública notified TAP SGPS, by letter dated 28 December 2018, of their irrevocable decision to convert the owned obligations for the amount of Euro 30 million plus interests due until that date, in the amount of Euro 6,297 thousand, special shares representatives of the equity of TAP SGPS. Parpública requires such conversion will occur on the ultimate date, as defined in the contractual documents of the bond issuance, or on an earlier date (Note 16). As at December 31, 2018, the caption Bonds comprises series A of the referred bonds in the amount of Euro 90,000 thousand subscribed by Azul S.A., plus interest payable in the amount of Euro 20,161 thousand.

TAP S.A. issued a 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.

As at December 31, 2019 and 2018 all loans are in Euro.

✈ Financial covenants and Guarantees

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 2.

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

	2019	2018
Até 1 ano	352,333	-
1 a 2 anos	302,518	-
2 a 3 anos	251,287	-
3 a 4 anos	202,132	-
4 a 5 anos	178,079	-
Mais 5 anos	809,372	-
	2,095,721	**-**

These liabilities are mainly indexed to the US dollar.

✈ Reconciliation of cash flows from borrowings and lease liabilities with purchase option

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

	Remunerated bank debt and bonds	Leases
January 1, 2018	**718,236**	**152,638**
Receipts	70,000	96,397
Payments	(7,500)	(53,995)
Contractual assignment of lease contracts	-	(65,796)
Currency translation differences	-	3,044
Other	(24,769)	196
December 31, 2018	**755,967**	**132,484**
Receipts	702,046	77,014
Payments	(250,411)	(38,919)
Contractual assignment of lease contracts	-	110,220
Currency translation differences	-	2,174
Other	(3,318)	(7,690)
December 31, 2019	**1,204,284**	**275,283**

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.

20 – Post-employment benefits obligations

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

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

✈ **Pensions - TAP M&E Brazil**

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

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

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

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

✈ **Pensions – Portugália**

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

✈ **Pensions – UCS**

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

✈ **Jubileu bonus - PNT - TAP S.A.**

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

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

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

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

- 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.**

“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 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	Brazil	Portugal VIVA	Portugal Jubileu	Brazil
Mortality table	TV 88/90	TV 88/90	AT-2000	TV 88/90	TV 88/90	AT-2000
Disability table	EKV1980	EKV1980	Mercer	EKV1980	EKV1980	Mercer
Discount rate	1.50%	1.50%	7.08%	2.00%	2.00%	9.06%
Fund yield rate	1.50%	1.50%	7.08%	2.00%	2.00%	9.06%
Growth rate						
Wages	[1,5%-5%]	2.00%	4.64%	[1,5%-5%]	2.00%	5.04%
Pensions	1.00%	1.00%	3.60%	1.00%	1.00%	4.00%
Trend of medical costs	1.50%	--	6.97%	1.50%	--	7.38%
Retirement age	66	65	--	66	65	--

The Company 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 net liabilities evolution for past services, as at December 31, 2019 and 2018 is detailed as follows:

	2019								
	VIVA fund	VIVA pensions	Health Care	Jubileu bonus	England Representation	Brazil	UCS (Note 11)	Other	Total
Liabilities from past services									
- Active employees	622	3,335	-	100,979	-	2,699	157	-	107,792
- Early retirement	47	16,175	454	-	-	-	-	887	17,563
- Retired	9,643	27,883	2,771	-	16,919	78,650	-	-	135,866
Fair value of the fund	(15,737)	-	-	(51,237)	(15,498)	(68,641)	(707)	-	(151,820)
Defit/(surplus)	**(5,425)**	**47,393**	**3,225**	**49,742**	**1,421**	**12,708**	**(550)**	**887**	**109,401**

	2018								
	VIVA fund	VIVA pensions	Health Care	Jubileu bonus	England Representation	Brazil	UCS (Note 11)	Other	Total
Liabilities from past services									
- Active employees	282	1,877	-	83,940	-	2,800	244	-	89,143
- Early retirement	38	18,282	438	-	-	-	-	1,677	20,435
- Retired	10,637	30,873	2,598	-	16,919	81,578	-	-	142,605
Fair value of the fund	(15,230)	-	-	(48,943)	(15,498)	(68,745)	(649)	-	(149,065)
Defit/(surplus)	**(4,273)**	**51,032**	**3,036**	**34,997**	**1,421**	**15,633**	**(405)**	**1,677**	**103,118**

As at December 31, 2019 and 2018, the defined benefit plans of the Group in Portugal (excluding the Representation in England) covered 1,949 and 1,980 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.

Regarding Brazil, the pension fund covered 994 active beneficiaries (2018: 1,256) and 2,205 retired beneficiaries (2018: 2,219).

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, Jubileu Bonus scheme and Horizonte Valorização Pension Fund, and an increase (decrease) of 1% in the annual discount rate of the TAPMEPrev - Brazil defined benefit plan, would correspond to the following impacts on the Group's liabilities as at December 31, 2019 and 2018:

2019	Rate	VIVA Plan *	Jubileu Bonus	Pension fund *Horizonte Valorização*
Annual discount rate of pensions	1.50%	57,705	100,979	157
0.25% increase in the discount rate	1.75%	56,856	97,426	151
0.25% decrease in the discount rate	1.25%	58,583	104,699	163

* Includes "VIVA Funds" and "VIVA Pensions"

2018	Rate	VIVA Plan *	Jubileu Bonus	Pension fund *Horizonte Valorização*
Annual discount rate of pensions	2.00%	61,987	83,940	244
0.25% increase in the discount rate	2.25%	60,912	80,916	236
0.25% decrease in the discount rate	1.75%	63,102	87,108	252

* Includes "VIVA Funds" and "VIVA Pensions"

2019	Rate	Brazil
Annual discount rate of pensions	7.08%	81,349
1% increase in the discount rate	8.08%	73,351
1% decrease in the discount rate	6.08%	89,194

2018	Rate	Brazil
Annual discount rate of pensions	9.06%	84,378
1% increase in the discount rate	10.06%	76,082
1% decrease in the discount rate	8.06%	92,515

✈ 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 TAP S.A.'s liabilities as at December 31, 2019 and 2018 is as follows:

	Rate	2019	2018
Annual growth rate of medical costs	1.50%	3,225	3,036
1% increase in the growth rate of medical costs	2.50%	3,482	3,264
1% decrease in the growth rate of medical costs	0.50%	2,996	2,834

✈ Pension growth rate

If the pension growth rate increases or decreases by 0.25 percentage point, the respective impact on the TAP S.A.'s liabilities as at December 31, 2019 and 2018 is as follows:

	Rate	2019	2018
Growth rate of VIVA Pension fund (*)	1.00%	57,705	61,987
0.25% increase in the discount rate	1.25%	58,472	62,896
0.25% decrease in the discount rate	0.75%	56,962	61,108

* 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	Brazil	UCS	Other	Total
Liabilities at the beginning of the year	10,957	51,032	3,036	83,940	16,919	84,378	244	1,677	252,183
Currency translation differences	-	-	-	-	-	(1,572)	-	-	(1,572)
Values recorded through profit or loss for the year:									
Current services	21	-	-	4,275	-	-	43	-	4,339
Net interest	219	1,836	61	1,230	-	583	6	-	3,935
Reestructuring - early retirement (Note 30)	-	2,036	-	-	-	-	-	-	2,036
Acturial gain and losses	(118)	2,404	128	15,141	-	-	(136)	-	17,419
Benefits paid	(767)	(9,915)	-	(3,607)	-	(2,040)	-	(790)	(17,119)
Liabilities at the end of the year	**10,312**	**47,393**	**3,225**	**100,979**	**16,919**	**81,349**	**157**	**887**	**261,221**

	2018								
	VIVA fund	VIVA pensions	Health Care	Jubileu bonus	England Representation	Brazil	UCS	Other	Total
Liabilities at the beginning of the year	10,592	35,020	2,773	70,211	17,059	76,099	81	-	211,835
Currency translation differences	-	-	-	-	(457)	(8,017)	-	-	(8,474)
Values recorded through profit or loss for the year:	-	-	-	-	-	-	-	-	-
Current services	23	-	-	4,437	-	111	24	-	4,595
Net interest	212	700	55	1,536	317	6,938	2	-	9,760
Reestructuring - early retirement (Note 30)	-	17,306	-	-	-	8,016	-	1,771	27,093
Acturial gain and losses	867	1,968	208	13,823	-	7,163	137	-	24,166
Benefits paid	(737)	(3,962)	-	(6,067)	-	(5,932)	-	(94)	(16,792)
Liabilities at the end of the year	**10,957**	**51,032**	**3,036**	**83,940**	**16,919**	**84,378**	**244**	**1,677**	**252,183**

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	Brazil	UCS	Total
Opening balance	15,230	48,943	15,498	68,745	649	149,065
Currency translation differences	-	-	-	(1,216)	-	(1,216)
Contributions in the year	-	5,417	-	3,152	-	8,569
Net interest	1,272	922	-	-	13	2,207
Return of plan assets (excluding net interest)	-	(21)	-	-	45	24
Benefits paid	(765)	(4,024)	-	(2,040)	-	(6,829)
Closing Balance	**15,737**	**51,237**	**15,498**	**68,641**	**707**	**151,820**

	2018					
	VIVA fund	Jubileu bonus	England Representation	Brazil	UCS	Total
Opening balance	16,399	48,296	15,625	70,012	675	151,007
Currency translation differences	-	-	(456)	(7,492)	-	(7,948)
Contributions in the year	-	5,871	329	2,072	-	8,272
Net interest	(432)	966	-	6,516	11	7,061
Return of plan assets (excluding net interest)	-	(123)	-	3,569	(37)	3,409
Benefits paid	(737)	(6,067)	-	(5,932)	-	(12,736)
Closing Balance	**15,230**	**48,943**	**15,498**	**68,745**	**649**	**149,065**

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

	2019						
	Fair Value Level	VIVA Pensions	Seniority Bonus	England Representation	Brazil	UCS	Total
Shares	1	4,169	-	13,618	19,900	177	37,864
Bonds	1	6,301	49,700	1,668	48,741	495	106,905
Public debt	1	3,985	-	-	-	-	3,985
Real estate	2	322	-	-	-	35	357
Liquidity	1	960	1,537	-	-	-	2,497
Other current investments	1	-	-	212	-	-	212
		15,737	**51,237**	**15,498**	**68,641**	**707**	**151,820**

	2018						
	Fair Value Level	VIVA Pensions	Seniority Bonus	England Representation	Brazil	UCS	Total
Shares	1	4,376	-	13,618	19,930	162	38,086
Bonds	1	5,925	47,886	1,668	48,815	455	104,749
Public debt	1	3,729	-	-	-	-	3,729
Real estate	2	474	-	-	-	32	506
Liquidity	1	726	1,057	-	-	-	1,783
Other current investments	1	-	-	212	-	-	212
		15,230	**48,943**	**15,498**	**68,745**	**649**	**149,065**

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	Brazil	UCS	Other	Total
Current Services	21	-	-	4,275	-	-	43	-	4,339
Net interest	644	721	61	308	-	583	(7)	-	2,310
Subtotal (Note 27)	**665**	**721**	**61**	**4,583**	**-**	**583**	**36**	**-**	**6,649**
Reestructuring - early retirement (Note 30)	-	2,036	-	-	-	-	-	-	2,036
Total	**665**	**2,757**	**61**	**4,583**	**-**	**583**	**36**	**-**	**8,685**

	2018								
	VIVA fund	VIVA pensions	Health Care	Jubileu bonus	England Representation	Brazil	UCS	Other	Total
Current Services	23	-	-	4,437	-	111	24	-	4,595
Net interest	644	700	55	570	317	422	(9)	-	2,699
Subtotal (Note 27)	**667**	**700**	**55**	**5,007**	**317**	**533**	**15**	**-**	**7,294**
Reestructuring - early retirement (Note 30)	-	17,306	-	-	-	8,016	-	1,771	27,093
Total	**667**	**18,006**	**55**	**5,007**	**317**	**8,549**	**15**	**1,771**	**34,387**

As previously mentioned, the pilots of TAP S.A., admitted after 1 June 2007, and the pilots of Portugália, benefit from a defined contribution plan. During 2018, a cost was recognised in the heading "Employee costs - expenses related to post-employment benefits obligation" in the amount of Euro 1,274 thousand (2018: Euro 2,460 thousand), relative to the contributions made during the year in favour of its employees (Note 27).

The expenses relative to pensions and other post-employment benefits for 2019 and 2018 are recorded under the caption "Employee costs" (Note 27).

Remeasurement gains/losses

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

	2019							
	VIVA Fund	VIVA pension	Health Care	Jubileu bonus	England Representation	Brazil	UCS	Total
Remeasurements								
Return of assets, excluding amounts included in net income	-	-	-	21	-	-	(45)	(24)
	-	**-**	**-**	**21**	**-**	**-**	**(45)**	**(24)**
(Gains)/losses due to changes in demographic assumptions	-	-	-	-	-	-	-	-
(Gains)/losses due to changes in financial assumptions	-	-	-	11,684	-	-	-	11,684
(Gains)/losses due to experience	(118)	2,404	128	3,457	-	-	(136)	5,735
	(118)	**2,404**	**128**	**15,141**	**-**	**-**	**(136)**	**17,419**
Total remeasurements	**(118)**	**2,404**	**128**	**15,162**	**-**	**-**	**(181)**	**17,395**

	2018							
	VIVA Fund	VIVA pension	Health Care	Jubileu bonus	England Representation	Brazil	UCS	Total
Remeasurements								
Return of assets, excluding amounts included in net income	-	-	-	123	-	(3,569)	37	(3,409)
	-	**-**	**-**	**123**	**-**	**(3,569)**	**37**	**(3,409)**
(Gains)/losses due to changes in demographic assumptions	-	-	-	-	-	-	-	-
(Gains)/losses due to changes in financial assumptions	-	-	-	12,820	-	-	-	12,820
(Gains)/losses due to experience	867	1,968	208	1,003	-	7,163	137	11,346
	867	**1,968**	**208**	**13,823**	**-**	**7,163**	**137**	**24,166**
Total remeasurements	**867**	**1,968**	**208**	**13,946**	**-**	**3,594**	**174**	**20,757**

The gains / losses due to changes in financial assumptions recognised in 2019, amounting to Euro 11,684 thousand result from the salary review and agreements established in 2019 with the pilots and the decrease of the annual discount rate in 0.5% in Portugal.

The remeasurement gains/losses were recognised directly in the Group's comprehensive income. The difference to the amount recognised in the consolidated statement of comprehensive income relates to the remeasurements of the associate company SPdH, consolidated by the equity method (Note 8).

21 – 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	159,075	-	210,555	-
Accrued expenses	273,402	-	325,022	49,742
Advances from customers	5,719	-	948	-
Other payables	154,577	707	129,094	218
	592,773	**707**	**665,619**	**49,960**

✈ **Suppliers**

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

	2019	2018
Suppliers - current account	55,811	112,156
Suppliers - related parties (Note 36)	9,718	12,327
Suppliers - pending invoices	93,546	86,072
	159,075	**210,555**

✈ **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	137,588	-	123,675	-
Maintenance - leases (Note 2.2)	-	-	56,010	49,742
Aircraft fuel and CO2 emission licences	55,015	-	49,429	-
Swaps jet fuel	-	-	41,322	-
Special sales charges	12,692	-	10,002	-
Handling services	9,482	-	5,532	-
Navigation charges	12,639	-	5,057	-
Related parties (Note 36)	1,588	-	2,334	-
Other	37,473	-	25,968	-
	273,402	**-**	**325,022**	**49,742**

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 – leases" 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. With the adoption of IFRS 16, these paid maintenance reserves are recorded as Assets (Note 11)

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
Rates and taxes	116,645	88,733
Fixed assets suppliers	12,790	18,959
Employees	3,688	3,647
Related parties (Note 36)	1,904	323
Other	19,550	17,432
	154,577	**129,094**

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

22 – 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	480,331	393,261
Cargo	431	205
	480,762	**393,466**

23 – Other current liabilities

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

	2019	2018
Deferred income	56,881	59,576
State	44,525	43,349
	101,406	**102,925**

✈ Deferred income

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

	2019	2018
Customer loyalty program	46,664	52,036
Leasing contracts	-	3,230
Investment grants	325	2,883
Related parties (Note 36)	128	103
Other deferred revenue	9,764	1,324
	56,881	**59,576**

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 (Note 2.28.). 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 includes an amount of Euro 8,532 thousand related to services fee invoiced to the 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	22,699	20,913
Personal income tax	19,545	18,357
State - Brazil	1,952	3,076
VAT	246	726
Other	83	277
	44,525	**43,349**

24 – Operating income

Operating income incurred during 2019 and 2018 were as follows:

	2019				
	Passenger	Maintenance	Cargo and mail	Others	Total
Revenue					
Sales	-	11,894	-	10,922	22,816
Services rendered	2,913,870	222,375	137,393	14,720	3,288,358
Other supplemental operating income	-	-	-	32,253	32,253
	2,913,870	**234,269**	**137,393**	**57,895**	**3,343,427**

	2018				
	Passenger	Maintenance	Cargo and mail	Others	Total
Revenue					
Sales	-	18,483	-	8,851	27,334
Services rendered	2,782,292	262,211	134,684	15,892	3,195,079
Other supplemental operating income	-	-	-	24,676	24,676
	2,782,292	**280,694**	**134,684**	**49,419**	**3,247,089**

✈ 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:

	2019	2018
Sales		
Internal market		
Air transport and maintenance	883	560
Catering	10,795	8,774
Health care	241	38
Other	103	39
External market		
Air transport and maintenance	10,794	17,923
	22,816	**27,334**
Services rendered		
Internal market		
Air transport and maintenance	239,569	211,089
Catering	2,877	2,579
Health care	9,814	3,940
Information technologies	-	4,372
Other	10,113	2,128
External market		
Air transport and maintenance	3,025,985	2,970,971
	3,288,358	**3,195,079**
	3,311,174	**3,222,413**

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

2019	Passenger	Maintenance Portugal	Maintenance Brazil	Cargo and mail	*Catering*	Holdings and other	Consolidated
Sales and services rendered:							
Mainland Portugal and islands	226,625	17,004	-	8,415	13,672	8,679	274,395
Europe	1,190,760	140,239	-	12,642	-	2,265	1,345,906
South Atlantic	743,871	637	24,565	73,613	-	471	843,157
North Atlantic	403,933	45,985	-	25,087	-	239	475,244
Mid Atlantic	15,269	-	-	1,350	-	9	16,628
Africa	314,705	650	-	16,214	-	288	331,857
Other	18,707	5,189	-	72	-	19	23,987
	2,913,870	**209,704**	**24,565**	**137,393**	**13,672**	**11,970**	**3,311,174**

2018	Passenger	Maintenance Portugal	Maintenance Brazil	Cargo and mail	*Catering*	Holdings and other	Consolidated
Sales and services rendered:							
Mainland Portugal and islands	200,179	3,284	-	7,580	11,353	11,123	233,519
Europe	1,160,532	200,498	-	13,251	-	1,636	1,375,917
South Atlantic	793,717	34	53,082	77,134	-	297	924,264
North Atlantic	302,718	2,301	-	20,171	-	136	325,326
Mid Atlantic	20,631	-	-	1,334	-	8	21,973
Africa	304,515	12,401	-	15,214	-	190	332,320
Other	-	9,094	-	-	-	-	9,094
	2,782,292	**227,612**	**53,082**	**134,684**	**11,353**	**13,390**	**3,222,413**

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
Supplementary income	4,848	6,343
Rents and sub-leases	3,597	2,438
Advertising	2,190	2,402
Gains from tangible fixed assets	8,970	1,990
Operating government grants	2,188	1,582
Fair value variation (Note 5)	1,586	1,353
Sales on board comission	674	1,288
Other	8,200	7,280
	32,253	**24,676**

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).

25 – Gains and losses in associates

For the years ended as at December 31, 2019 and 2018, the caption of gains and losses in associates are detailed as follows:

	2019	2018
Gains		
SPdH (Note 8)	1,686	3,737
	1,686	**3,737**

The amount recorded in this caption at December 31, 2019 and 2018 amounting to Euro 1,686 thousand and Euro 3,737 thousand, respectively, refers to the appropriation of the Group's share in the net income of the company SPdH (Note 8).

26 – Expenses by nature

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

	2019	2018
Aircraft fuel	789,677	798,624
Traffic operating costs	743,221	777,831
Aircraft rents	-	177,896
Aircraft maintenance costs	60,818	111,746
Cost of materials consumed	185,166	207,354
Comercial, communication and marketing costs	153,118	186,622
	1,932,000	**2,260,073**

✈ Aircraft fuel

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

	2019	2018
Aircraft fuel	767,294	768,911
CO2 emission licences	22,383	29,713
	789,677	**798,624**

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

The decrease in CO2 emission licenses is mainly due to the decrease in the CO2 price, accompanied by a decrease in the quantities issued.

✈ Traffic operating costs

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

	2019	2018
Navigation fees	166,324	166,436
Handling services	203,687	200,786
Landing charges	107,348	95,867
Operational irregularities	76,365	57,188
In-flight expenses	59,371	58,310
Aircraft charters	-	86,046
Accommodation and meals during stopovers	32,726	28,538
Facilities at airports	31,432	25,229
Air traffic control charges	27,961	17,085
Baggage, cargo and mail charges	23,245	23,077
Ground costs related to executive class passengers	11,765	10,700
Passenger, cargo and mail insurance	2,685	2,352
Other traffic operating costs	312	6,217
	743,221	**777,831**

✈ Aircraft rents

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

	2019	2018
Aircraft leases	-	163,181
Spare parts leases	-	14,715
	-	**177,896**

The decrease in aircraft rents is directly related to the IFRS 16 adoption (Note 2.2).

✈ Aircraft maintenance costs

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

	2019	2018
Consumed inventories	30,506	65,916
Maintenance subcontracting of TAP flight equipment	30,312	45,830
	60,818	**111,746**

The caption aircraft maintenance costs are related to recurrent maintenance of TAP's aircraft, including line maintenance. The variation in aircraft maintenance costs is directly related to the IFRS 16 adoption (Note 2.2).

✈ 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	156,025	180,193
Maintenance subcontracting for third parties flight equipment	29,141	27,161
	185,166	**207,354**

The variation observed in costs of materials consumed, in 2019, is directly related to the decrease of maintenance and engineering services rendered to third parties (Note 24).

✈ **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	69,939
Commissions	44,741	47,158
Special sales charges - air transport	29,181	36,753
Publicity	24,027	21,850
Specialised w ork	9,322	10,469
Other comercial, communication and marketing expeNses	453	453
	153,118	**186,622**

The variation in the caption Booking fees concern, essentially, the renegotiation of the commission contracts with agents.

27 – Employee costs

Employee costs incurred during 2019 and 2018 were as follows:

	2019	2018
Employee remuneration	569,675	530,873
Social Security Contributions	124,208	108,974
Other personnel costs	50,121	53,194
Expenses related to post-employee benefits obligation (Note 20)	7,923	9,754
	751,927	**702,795**

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 remunerations attributed to the Statutory Bodies, in 2019 and 2018, were:

	2019	2018
Board of directors (Note 36)	1,568	2,375
Supervisory board/ statutory auditor	44	92
	1,612	**2,467**

The caption "Other personnel costs" is detailed as follows:

	2019	2018
Insurance	24,544	23,289
Social action costs	8,534	9,381
Training	4,174	8,815
Meals allow ance	7,053	6,697
Uniforms	2,120	2,100
Others	3,696	2,912
	50,121	**53,194**

During 2019 and 2018, the average number of employees working for TAP SGPS and all its subsidiaries was 11,051 and 10,827, respectively:

	2019				
	Air transport	Maintenance	*Catering*	Other	Total
Portugal	5,615	1,940	549	1,861	9,965
Brazil	21	724	-	60	805
Other	78	9	-	194	281
	5,714	2,673	549	2,115	11,051

	2018				
	Air transport	Maintenance	*Catering*	Other	Total
Portugal	5,106	1,956	470	1,590	9,122
Brazil	21	1,340	-	61	1,422
Other	78	10	-	195	283
	5,205	3,306	470	1,846	10,827

28 – Impairment losses in inventories, receivables and provisions

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

	2019		**2018**	
	Increase	Reversal	Increase	Reversal
Raw materials, inputs and consumables (Note 12)	4,458	(7,133)	2,730	(1,566)
Costumers and other receivables- Current (Note 11)	8,054	(5,319)	4,467	(1,410)
Provisions (Note 18)	671	(3,242)	6,930	(1,573)
	13,183	**(15,694)**	**14,127**	**(4,549)**
Net impact in the income statement		**(2,511)**		**9,578**

29 – Other expenses

The caption other operating expenses is detailed as follows:

	2019	2018
Specialised w ork	65,617	56,996
Subcontracts	21,007	21,911
Rents	10,232	17,044
Conservation and repair of other assets	16,594	15,876
Comunication	11,446	7,708
Taxes	3,839	6,155
Transportation	6,640	5,491
Fees	5,931	4,854
Insurance	5,774	4,737
Surveillance and security	4,621	4,274
Electricity	3,451	3,970
Travel costs	4,555	3,779
Cleaning, hygiene and comfort	3,331	3,501
Books and technical documentation	2,161	2,046
Inventory losses	1,525	1,297
Other operating expenses	12,980	10,471
	179,704	**170,110**

The caption Rents includes short term leases contracts, regarding, essentially to offices and software.

30 – Restructuring

The detail of the restructuring expenditure caption is presented in the following table:

	2019	2018
Early retirements (Note 20)	2,036	27,093
Employee indemnities - Portugal	-	19,537
Employee indemnities - Brazil	3,943	7,820
	5,979	**54,450**

31 – Other non-recurring items

The detail of the caption other non-recurring beyond the restructuring (Note 30) items results mainly from agreements celebrated with labour unions as follows:

	2019	2018
Pilots special payment	-	12,716
Seniority - compensatory benefits to crew employees	680	4,878
SNPVAC - Pregnancy Complement	-	2,687
	680	**20,281**

Following the Regulation of Recourse to Outsourcing ("RRCE" – “Regulamento de Recurso à Contratação Externa”) celebrated on May 14, 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)”, celebrated on July 30, 1998, establishes new conditions for outsourcing, it has been agreed, the payment of extraordinary benefits for the years 2017 and 2018 in the total amount of Euro 12,716 thousand.

On May 17, 2016 was celebrated 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 4,878 thousand in 2018 and Euro 5,288 thousand in 2017.

Within the scope of the agreement signed on January 30, 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 consolidated financial statements.

32 – Depreciation, amortisation and impairment losses

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

	2019	2018
Tangible fixed assets (Note 4)		
Buildings and other constructions	5,812	5,818
Basic equipment	63,253	58,264
Transport equipment	335	328
Tools and utensils	1,322	1,446
Administrative equipment	1,888	1,154
Other tangible fixed assets	379	367
	72,989	67,377
Depreciation of Right-of-use (Note 4)		
Buildings and other constructions	3,452	-
Aircraft and engine leases	248,602	-
ACMI	30,027	-
Redelivery	33,504	-
Maintenance	17,482	-
Transport equipment	288	-
	333,355	-
Intangible assets (Note 7)		
Intangible assets	8,388	2,593
Impairment losses on fixed assets (note 4)		
Basic equipment	3,962	7,543
	418,694	**77,513**

The impairment losses recognised in 2019 and 2018, in the amount of Euro 3,962 thousand and Euro 7,543 thousand, are mainly due to spare parts and other equipment related with the aircraft phase-out of the subsidiary TAP S.A.

33 – Finance results

The detail of the finance results for the years 2019 and 2018 is as follows:

	2019	2018
Income and gains		
Interest income	3,237	6,007
	3,237	**6,007**
Expenses and losses		
Interest expenses on loans	(48,229)	(41,768)
Operating lease interests w ithout purchase option	(103,818)	-
Other financial expenses and losses	(26,211)	(16,108)
	(178,258)	**(57,876)**
Net currency exchange	**(22,924)**	**(49,427)**

The caption Net currency exchange differences includes 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 and net currency exchanges related to lease agreements derive 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.

34 – Income tax for the year

From 2017 onwards, the majority of Group’s subsidiaries are 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 December 31, 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
Current income tax (Note 13)	1,442	1,518
Insufficient/(surplus) estimate of taxes	(390)	(2,588)
Deferred income tax (Note 10)	(35,175)	(26,974)
	(34,123)	**(28,044)**

The reconciliation of the effective tax rate for 2019 and 2018 is detailed as follows:

	2019	2018
Net income/(loss) before income tax	**(139,305)**	**(145,270)**
Nominal tax rate	21.0%	21.0%
	(29,254)	**(30,507)**
Permanent differences	(4,601)	2,119
Insufficient/(surplus) estimate of taxes for the previous year	(390)	(2,588)
Use of tax losses carried forward of previous years without DTA	-	-
Tax losses carried forward for the year without DTA	-	2,498
Autonomous taxation and other forms of taxation	122	434
Income tax	**(34,123)**	**(28,044)**
Effective tax rate	24%	19%

35 – Segment reporting

The following business segments have been identified: air transport, maintenance and catering. 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:

	Air Transport	Maintenance Portugal	Maintenance Brazil	*Catering*	Holdings and other	Intersegment eliminations	Consolidated
Revenue	3,189,946	218,916	42,342	68,452	25,596	(200,139)	3,345,113
Net operating income/(loss)	23,908	44,784	(1,733)	2,116	(10,435)	-	58,640
Net financial results	(159,985)	1,622	(19,354)	(11)	(20,217)	-	(197,945)
Net gains in associates	-	-	-	-	1,686	-	1,686
Income tax	31,331	(10,127)	6,814	(400)	6,505	-	34,123
Non-controlling interests	-	-	6	(425)	844	-	425
Net income from continuing operations	**(104,746)**	**36,279**	**(14,273)**	**1,705**	**(24,147)**	**-**	**(105,182)**

The financial information by operational segment for 2018 is detailed as follows:

	Air Transport	Maintenance Portugal	Maintenance Brazil	*Catering*	Holdings and other	Intersegment eliminations	Consolidated
Revenue	3,040,170	234,241	63,913	56,837	83,103	(227,438)	3,250,826
Net operating income/(loss)	(33,262)	29,136	(31,174)	4,069	(12,743)	-	(43,974)
Net financial results	(61,486)	353	(18,377)	(28)	(21,758)	-	(101,296)
Net gains in associates	-	-	-	-	3,737	-	3,737
Income tax	28,724	(8,677)	(37)	(1,005)	9,039	-	28,044
Non-controlling interests	-	-	(674)	1,487	-	-	813
Net income from continuing operations	**(66,024)**	**20,812**	**(49,588)**	**3,036**	**(25,462)**	**-**	**(117,226)**

36 – Related parties

Balances and transactions between Group companies which are included in the consolidation perimeter are eliminated in the consolidation process, and, therefore, are not disclosed in the present note. The balances and transactions between the Group and the related parties are presented below. The terms and conditions enforced between the Group and the related parties are similar in substance to the terms which would normally be contracted between independent entities in comparable operations.

The members of the Group's Board of Directors were considered, according to IAS 24, as the only "key" management members of the Group.

During the financial years ended on December 31, 2019 and 2018, the remunerations earned by the Board of Directors reached Euro 1,568 thousand (2018: Euro 2,375 thousand), as described in Note 27.

As at December 31, 2019 and 2018, the balances with related parties are detailed as follows:

	2019 - Assets				
	Right-of-use assets	Other receivables non-current (Note 11)	Trade Receivables (Note 11)	Other receivables current (Note 11)	Deferrals (Note 14)
Shareholders					
Atlantic Gateway, SGPS, S.A.	-	-	-	-	-
Parpública - Participações Públicas, SGPS, S.A.	-	-	-	-	-
Azul S.A.	55,423	3,521	542	2,005	639
Associates					
SPdH - Serviços Portugueses de Handling, S.A.	-	-	1,058	3,957	1,472
Other related entities					
Aigle Azur Compagnie de Transport Aérien	-	-	595	380	-
Barraqueiro Group	-	-	2	-	-
	55,423	**3,521**	**2,197**	**6,342**	**2,111**

	2019 - Liabilities					
	Lease liabilities without purchase option non-current	Borrowings (Note 19)	Lease liabilities without purchase option current	Suppliers (Note 21)	Other payables current (Note 21)	Deferrals (Note 23)
Shareholders						
Atlantic Gateway, SGPS, Lda.	-	-	-	(93)	-	-
Parpública - Participações Públicas, SGPS, S.A.	-	-	-	-	-	-
Azul S.A.	(32,770)	(118,779)	(26,779)	(35)	(2,547)	-
Associates						
SPdH - Serviços Portugueses de Handling, S.A.	-	-	-	(9,216)	(945)	(127)
Other related entities						
Aigle Azur Compagnie de Transport Aérien	-	-	-	(316)	-	-
Barraqueiro Group	-	-	-	(58)	-	-
	(32,770)	**(118,779)**	**(26,779)**	**(9,718)**	**(3,492)**	**(127)**

	2018 - Assets			
	Other receivables non-current (Note 11)	Trade Receivables (Note 11)	Other receivables current (Note 11)	Deferrals (Note 14)
Associates				
SPdH - Serviços Portugueses de Handling, S.A.	-	1,174	3,416	-
Other related entities				
Azul S.A.	3,455	3,344	357	627
Aigle Azur Compagnie de Transport Aérien	373	64	-	4,081
Barraqueiro Group	-	-	-	-
	3,828	**4,582**	**3,773**	**4,708**

	2018 - Liabilities			
	Borrowings and Lease liabilities with purchase option non-current (Note 19)	Suppliers (Note 21)	Other payables current (Note 21)	Deferrals (Note 23)
Shareholders				
Atlantic Gateway, SGPS, Lda.	-	(93)	-	-
Parpública - Participações Públicas, SGPS, S.A.	-	-	-	-
Associates				
SPdH - Serviços Portugueses de Handling, S.A.	-	(11,108)	(1,572)	(103)
Other related entities				
Azul S.A.	(110,161)	(620)	(1,085)	-
Aigle Azur Compagnie de Transport Aérien	-	(502)	-	-
Barraqueiro Group	-	(2)	-	-
	(110,161)	**(12,325)**	**(2,657)**	**(103)**

For the years ended as at December 31, 2019 and 2018, the transactions with related parties are as follows:

	2019									
	Passenger	Maintenance	Other operating income	Traffic operating costs	Employee costs	Aircraft maintenance costs	Comercial, communication and marketing costs	Other operating expenses	Depreciation right-of-use	Interests and similar expenses (*)
Shareholder										
Atlantic Gateway, SGPS, Lda.	-	-	-	-	-	-	-	(917)	-	-
Parpública - Participações Públicas, SGPS, S.A.	-	-	-	-	-	-	-	-	-	-
Azul S.A.	(98)	3,716	3,487	-	(9)	-	(303)	-	(24,227)	(14,084)
Associates										
SPdH - Serviços Portugueses de Handling, S.A.	900	369	6,825	(103,405)	(12)	(132)	(79)	(883)	-	-
Other related entities										
Aigle Azur Compagnie de Transport Aérien	-	126	79	-	-	(494)	(63)	-	(6,555)	(125)
Barraqueiro Group	-	2	-	(18)	(4)	-	(3)	(129)	-	-
	802	**4,213**	**10,391**	**(103,423)**	**(25)**	**(626)**	**(448)**	**(1,929)**	**(30,782)**	**(14,209)**

(*) Includes 5,465 of interests regarding lease without purchase option.

	2018									
	Passenger	Maintenance	Other operating income	Traffic operating costs	Employee costs	Aircraft rents	Aircraft maintenance costs	Comercial, communication and marketing costs	Other operating expenses	Interests and similar expenses
Shareholder										
Atlantic Gateway, SGPS, Lda.	-	-	-	-	-	-	-	-	(1,331)	-
Parpública - Participações Públicas, SGPS, S.A.	-	-	-	-	-	-	-	-	-	(2,620)
Associates										
SPdH - Serviços Portugueses de Handling, S.A.	900	96	6,862	(103,745)	(5)	-	(35)	(70)	(787)	-
Other related entities										
Azul S.A.	(248)	22,090	1,281	-	(588)	(13,909)	(9,725)	(241)	(180)	(7,993)
Aigle Azur Compagnie de Transport Aérien	-	-	-	-	-	(3,194)	(3,481)	-	-	-
Barraqueiro Group	-	-	-	(75)	-	-	-	(2)	(7)	-
	652	**22,186**	**8,143**	**(103,820)**	**(593)**	**(17,103)**	**(13,241)**	**(313)**	**(2,305)**	**(10,613)**

The transactions amounting to the total of Euro 103,405 thousand (2018: Euro 103,745 thousand) recorded under external supplies and services, refer 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 similar to those agreed with other airlines.

In addition, the related parties in 2019 is:

Aigle Azur Compagnie de Transport Aérien	Fertagus-Travessia do Tejo Transportes, S.A.	Rodo Cargo - Transp. Rodoviário de Mercadorias,SA.
Atlantic Cargo-Soc.Transportes, S.A.	Frota Azul (Algarve), Lda.	Rodoviária de Lisboa, S.A.
Atlantic Gateway, SGPS	Laso Transportes, SA	Rodoviária do Alentejo, S.A.
Azul Linhas Aéreas Brasileiras	MTS - Metro Transportes do Sul, S.A.	Rodoviária do Tejo, S.A.
Barraqueiro Transportes, S.A.	RDL - Rodoviária do Lis, Lda.	SPdH - Serviços Portugueses de Handling, S.A.
Cityrama - Viagens e Turismo, S.A.	RDO – Rodoviária do Oeste, Lda	
Eva Transportes, S.A.	RNE - Rede Nac. Expressos, Lda	

37 – Contingencies

Contingent assets

As at December 31, 2019 and 2018, the Group have no contingent assets.

Contingent liabilities

The Brazilian subsidiary TAP M&E Brazil is involved in tax, civil and labour claims, involving risks of loss classified by the Board of Directors as possible, based on the appraisal of its legal consultants, for which no provision has been recognized. Based on information provided by its lawyers, TAP M&E Brazil understands that from these legal actions will not result material impacts on its financial statements as at December 31, 2019.

✈ Labour claims

(i) Dangerousness/ Insalubrity and Other
Amount: Euro 69,658 thousand

The main labour claim refers to the request for additional payment due to insalubrity and hazard, for employees working as aircraft maintenance auxiliaries at Porto Alegre. The Union has filed an appeal which is currently at the Superior Labour Court ("TST") of Brasília and in May 2017, the TST pronounced in favour of the subsidiary.

Other actions relate to individual cases concerning claims of different kinds, such as overtime, moral damages, among others.

✈ Tax claims

(ii) Tax execution / Injuction (REFIS)
Amount: Euro 10,054 thousand

The subsidiary was notified by the National Treasury ("Fazenda Nacional") in respect of a debt related to the special federal instalment, following the injuction sentence. In August 2017, the Federal Regional Court ("Tribunal Regional Federal") overturned the verdict, but the National Treasury Attorney's Office ("Procuradoria da Fazenda Nacional") in November 2017, requested the pursuance of the tax execution, which had been suspended until then, determining 4% of the invoicing. The process awaits decision on injuction to the Superior Court of Justice and Supreme Federal Court ("Superior Tribunal de Justiça" and "Supremo Tribunal Federal").

(iii) Tax foreclosure relative to accessory obligations of tax on circulation of goods and services ("ICMS")
Amount: Euro 8,067 thousand

In December 2007, the subsidiary was notified, in the context of tax foreclosure, proposed by the State Treasury Office of São Paulo (Guarulhos) ("Fazenda do Estado de São Paulo"), relative to accessory obligations of ICMS. The subsidiary continues to pledge 2% of turnover, and suspended the foreclosure, arguing for a review of the tax foreclosure. In VARIG bankruptcy documents, it was mentioned that the debt in the prior period to the acquisition of the shares by TAP SGPS, should not be TAP M&E Brazil responsibility but VARIG's. Therefore, the pledge suspension was requested with the consequent extinction of this process and the reimburse of the judicial deposits performed. The subsidiary awaits the decision from the Public Finance Court.

(iv) Notice of infraction of PIS and COFINS - 2006
Amount: Euro 3,139 thousand

The tax authorities considered that there were differences between the analytical ledger and the Declaration of federal tax debits and credits ("DCTF"), with reference to 2006. The subsidiary allegations were not considered by CARF, and new declarations were filed, which are waiting judgement. In June 2017, the declaration was denied, and decision was riches.

In December 2017, the administrative process became final and waits the next phase, the judicial collection. Tax authorities initiated judicial collection through tax enforcement.

(v) Notice of infraction regarding failure to comply with the temporary import regime (Bavária aircraft)
Amount: Euro 2,526 thousand

In 2012, the subsidiary was notified by the Federal Revenue Office ("Receita Federal"), due to failure to comply with the temporary import regime. The subsidiary awaits judgement of the appeal filed with the CARF. In September 2016 the subsidiary Voluntary Appeal was not accepted by CARF and the notice of inspection was partially revoked. In 2017, CARF decided in favour of the subsidiary, which have reduced the amount. The administrative proceeding became final and awaits the next phase, the judicial collection.

(vi) Notice of infraction of PIS and COFINS - 2007
Amount: Euro 1,464 thousand

The federal tax authorities considered that there were inconsistencies in the statements presented by the subsidiary regarding PIS and COFINS contributions. A protest letter has been submitted in 2012. The process awaits first instance judgement. In April 2019 a voluntary appeal to CARF was presented.

(vii) Notice of infraction of Social Security (Special Retirement)
Amount: Euro 1,467 thousand

TAP M&E Brazil presented an administrative challenge against the notice of infraction issued by the Secretary of the Brazilian Federal Revenue ("Secretaria da Receita Federal do Brasil"), due to alleged insufficient payment of the social security contribution. The subsidiary awaits judgements in second instance.

(viii) Notice of infraction of "ICMS"
Amount: Euro 1,183 thousand

TAP M&E Brazil was notified in 2014 by the Secretary of the Treasury Office of Rio Grande do Sul ("Secretaria de Fazenda do Rio Grande do Sul"), due to the ICMS credit on electricity in Porto Alegre. The impugnation submitted by the subsidiary was judged in 2016, maintaining the record of release in judgment. In 2017, the subsidiary filed a legal motion in Tax Resources/Rio Sul Administrative Court ("TARF/RS"). In 2018, the administrative process was closed, leading off to the TAP M&E Brazil credit clearing process, with the respective amount due to Secretary of Finance of the State of Rio Grande do Sul ("SEFAZ RS"). The clearing process was denied, and State Treasury Office of the State of Rio Grande do Sul began judicial process.

✈ Civil claims

(ix) Claims over lawyers' fees
Amount: Euro 2,782 thousand

Claims over fees filed by a law firm against the subsidiary TAP M&E Brazil, within the scope of the withdrawal of the process with intention of joining the REFIS instalment program. Cases are at different stages of the process.

✈ Other

(x) Pledged assets
Amount: Euro 10,871 thousand

The subsidiary TAP M&E Brazil has pledged various assets in the amount of Euro 10,871 thousand, which refer to guarantees required in tax and labour proceedings. These assets include vehicles, computers, components and items of the hangars of Rio de Janeiro and Porto Alegre, among others.

As at December 31, 2019 and 2018, TAP SA have contingencies as detailed below:

	2019	2018
Tax contingencies	8	-
Civil contingencies	7,704	-
Regulatory contingencies	9,292	405
Total	**17,004**	**405**

The Regulatory contingencies includes, essentially, processes brought by customers regarding operational irregularities. TAP SA, supported by the opinion of its legal advisors, considers that the unfavourable 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 TAP S.A.		
Aircraft	93,241	57,092
INEA - "Spice" project	-	2,626
Fuel	1,540	1,523
Portuguese State - Operation of the Azores routes	1,654	1,654
Airports	1,028	-
Clean Sky Project	-	1,612
Labour Court	522	375
Other	8,244	8,433
Bank guarantees provided by other Group companies	597	397
	106,826	**73,712**

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 finance agreements are disclosed in Note 19.

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.

38 – Financial assets and liabilities

The accounting policy described in Note 2.12 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 out of IFRS 9 scope**	**Total**
Assets				
Other non-current assets	5,726	-	-	5,726
Current receivables	566,463	23,967	51,706	642,136
Cash and cash equivalents	435,024	-	-	435,024
Total Assets	**1,007,213**	**23,967**	**51,706**	**1,082,886**
Liabilities				
Borrowings and Lease liabilities with purchase option	(1,479,567)	-	-	(1,479,567)
Lease liabilities without purchase option	(2,095,721)	-	-	(2,095,721)
Other payable	(587,761)	-	(5,719)	(593,480)
Total Liabilities	**(4,163,049)**	**-**	**(5,719)**	**(4,168,768)**

	2018			
	Financial assets and liabilities at amortised cost	**Financial assets and liabilities at fair value through other comprehensive income**	**Financial assets and liabilities out of IFRS 9 scope**	**Total**
Assets				
Other non-current assets	14,071	-	-	14,071
Current receivables	406,485	-	20,866	427,351
Cash and cash equivalents	233,204	-	-	233,204
Total Assets	**653,760**	**-**	**20,866**	**674,626**
Liabilities				
Borrowings and Lease liabilities with purchase option	(888,451)	-	-	(888,451)
Other payable	(673,309)	(41,322)	(948)	(715,579)
Total Liabilities	**(1,561,760)**	**(41,322)**	**(948)**	**(1,604,030)**

The following tables present the assets and liabilities measured at fair value as at December 31, 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	-	2,246	-
Financial assets			
Derivate financial instruments	-	23,967	-
Financial liability			
Derivate financial instruments	-	-	-

	2018		
	Level 1	Level 2	Level 3
Non-financial assets			
Investment Properties	-	3,228	-
Financial liability			
Derivate financial instruments	-	(41,322)	-

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 16.

39 – 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, with the exception of 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 December 31, 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**

As at December 31, 2019, there were financial commitments, assumed by the Group, related to leases contract of aircraft and engines in operation.

In addition, lease contracts were also signed in respect to aircraft whose phase-in is expected to occur between 2020 and 2021, whose minimum non-cancellable future payments amounts to approximately Euro 370,899 thousand as at December 31, 2019.

40 – 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 analysed 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.

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	BOARD OF DIRECTORS
João Carlos da Silva Bernardes	Miguel Jorge Reis Antunes Frasquilho *Chairman*
	Antonoaldo Grangeon Trancoso Neves *Chairman of the Executive Committee*
	David Humberto Canas Pedrosa *Executive Committee Member*
	Raffael Guarita Quintas Alves *Executive Committee Member*
	Ana Maria Almeida Leite de Pinho Macedo Silva *Member*
	António José Vasconcelos Franco Gomes de Menezes *Member*
	Bernardo Luís Amador Trindade *Member*
	David Gary Neeleman *Member*
	Diogo Campos Barradas de Lacerda Machado *Member*
	Esmeralda da Silva Santos Dourado *Member*
	Humberto Manuel dos Santos Pedrosa *Member*
	Maximilian Otto Urbahn *Member*

Statutory Audit 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 TAP – Transportes Aéreos Portugueses, SGPS, S.A. (the Group), which comprise the consolidated statement of financial position as at December 31, 2019 (which shows total assets of Euros 4,449,779 thousand and total negative shareholders' equity of Euros 580,795 thousand including a Group net loss of Euros 105,607 thousand), the consolidated statement of income, 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 TAP – Transportes Aéreos Portugueses, SGPS, 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 40 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.

Responsibilities of management 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; and

g) communicate with those charged with governance 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.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the consolidated financial statements.

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.

March 16, 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 Shareholders of

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

In accordance with the legislation in force and the mandate that was trusted 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 TAP - Transportes Aéreos Portugueses, SGPS, S.A. (the "Company"), related to the fiscal year ended 31 December 2019, which are under responsibility of the Board of Directors.

We have accompanied, with the frequency and the extension we deemed appropriate, the evolution of the activities of the Company and its subsidiaries, the regularity of its accounting records and the fulfilment of the applicable legal and statutory requirements, having received from the Board of Directors and from the several services of the Company and its subsidiaries, the information and explanations requested.

Within our duties, we have examined the consolidated financial statements, prepared under the International Financial Reporting Standards (IFRS), which comprises the Statement of consolidated Financial Position as of 31 December 2019, the consolidated Income Statement, the consolidated Statement of Comprehensive Income, the consolidated Statement of Cash Flows and the consolidated Statement of Changes in Equity for the year ended as of that date and the accompanying notes, which includes a disclosure regarding the impacts of the COVID-19 virus. Additionally, we have reviewed the consolidated Management's Report for 2019 prepared by the Board of Directors and the Statutory Auditor's Report, issued by the Company's Statutory Auditor on the consolidated financial statements, which does not include any qualification and that includes an emphasis of matter paragraph related to the impacts of COVID-19 virus.

The Company's financial position shows that the provisions of article 35 of the Portuguese Commercial Companies Code are applicable to it, being desirable that the Board of Directors continues to develop and implement the 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's Report, are in accordance with 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 subsidiaries, 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, 16 March 2020

Sérgio Sambade Nunes Rodrigues
Chairman of the Supervisory Board

Baker Tilly, PG & Associados, SROC, Lda.
Represented by Paulo Jorge Duarte Gil Galvão André
Member of the Supervisory Board

Susana Nereu de Oliveira Ribeiro
Member of the Supervisory Board