AIR PORTUGAL

TRANSPORTES AÉREOS PORTUGUESES, S.A.

2021

MANAGEMENT REPORT

AND

CONSOLIDATED ACCOUNTS

A STAR ALLIANCE MEMBER

CONSOLIDATED

MANAGEMENT REPORT

2021

CONTENTS

1. GOVERNING BODIES

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

Four-year period 2021-2024

On 24 June 2021 the General Assembly elected the Governing Bodies for the four-year period 2021-2024.

Composition of the Governing Bodies on 31 December 2021

General Meeting Committee

Chairman	António Macedo de Vitorino
Deputy	David Fernandes de Oliveira Festas
Company Secretary	Ana Maria Sirgado Malheiro

Board of Directors

Chairman	Manuel Amaral Beja
Director	Christine Ourmières-Widener
Director	Ramiro José Oliveira Sequeira
Director	Silvia Mosquera González
Director	Alexandra Margarida Vieira Reis
Director	Patrício Ramos Castro
Director	Ana Teresa C. P. Tavares Lehmann
Director	Gonçalo Neves Costa Monteiro Pires
Director	João Pedro Conceição Duarte
Director	José Manuel Silva Rodrigues

The Director João Weber Ramos dos Reis Gameiro, appointed as of 24 June 2021, submitted his resignation as Director of the Board of Directors, with effect from 30 October 2021.

The Director José Manuel Silva Rodrigues submitted his resignation as Director of the Board of Directors on 29 December, with effect from 31 January 2022.

The Director Alexandra Margarida Vieira Reis submitted his resignation as Director of the Board of Directors on 4 February 2022, with effect from 28 February 2022.

The Director João Pedro Conceição Duarte was appointed by the Portuguese State as Employees Representative, after being elected by suffrage by TAP Group.

.

Executive Committee

Elected in the Board of Directors meeting of 28 June 2021

Chief Executive Officer	Christine Ourmières-Widener
Director	Gonçalo Neves Costa Monteiro Pires
Director	Alexandra Margarida Vieira Reis
Director	Ramiro José Oliveira Sequeira
Director	Silvia Mosquera González

Gonçalo Neves Costa Monteiro Pires was appointed for Director of the Executive Committee with effect from 15 October 2021, through resolution of the Board of Directors, in the sequence of João Weber Ramos dos Reis Gameiro resignation.

Company Secretary

Appointed by resolution of the Board of Directors of 28 June 2021

Company Secretary	Ana Maria Sirgado Malheiro
Deputy Company Secretary	João Carlos Pugliese do Espírito Santo

Supervisory Board

Mandate (Start - End)	Position	Name	Appointment Doc.	Mandates held in the Company	
				Number	Date 1st appointed
2021-2024	Chairman	Baker Tilly, PG & Associados, SROC, S.A. represented by Paulo Jorge Duarte Gil Galvão André	General Assembly	3	13.Nov.2015
	Director	Sérgio Sambade Nunes Rodrigues*	General Assembly	3	13.Nov.2015
	Director	Maria de Fátima Castanheira Cortês Damásio Geada**	General Assembly	1	24.Jun.2021
	Deputy	José Manuel Fusco Gato	General Assembly	1	24.Jun.2021

(*) *Sérgio Sambade Nunes Rodrigues submitted his resignation with effect from 7 January 2022*

(**) *Maria de Fátima Castanheira Cortês Damásio Geada submitted her resignation with effect from 31 December 2021*

Certified Public Accountant

Permanent	PricewaterhouseCoopers & Associados, SROC, Lda., represented by António Joaquim Brochado Correia or Hugo Miguel Patrício Dias.
Deputy	Carlos Figueiredo Rodrigues

Remuneration Committee

Chairman	Tiago Aires Mateus
Director	Luís Manuel Delicado Cabaço Martins
Director	Pedro Miguel Nascimento Ventura

State Aid Monitoring Committee

Chairman	Patricio Ramos Castro
Director	Christine Ourmières-Widener

The Director João Weber Ramos dos Reis Gameiro, appointed as of 24 June 2021 submitted his resignation with effect from 30 October 2021.

2. CORPORATE STRUCTURE OF TAP, S.A. (CONSOLIDATED ACCOUNTS)

At 31 December 2021, TAP owned 100% of the subsidiary TAP Logistics Solutions, S.A., incorporated on 30 December 2019 to operate in the cargo and mail sector. Accordingly, the financial statements of this company were included by the full consolidation method in the consolidated financial statements of TAP, S.A. as at 31 December 2020.

3. DEVELOPMENT OF THE BUSINESS ACTIVITY IN 2021

3.1. Introduction

- **Activity in 2021 showed a significant recovery but was still impacted by the COVID-19 pandemic**, **mainly at the beginning and end of the year, when new variants surged.** The year of 2021 started with severe restrictions in most of the markets where TAP operates but as vaccination progressed, governments eased travel restrictions, until December, when the sector was again impacted by Omicron. TAP's main transatlantic destinations, Brazil and the US, only reopened in September and November, respectively.
- **Operating indicators show improvement when compared to 2020 but still below 2019 levels.** The number of passengers increased by 25.1% to 5.8 million (34.2% of 2019 number) and ASKs increased by 28.8% (in December ASKs were at 72.6% of 2019 level). Load factor slightly decreased to 63% in the year.
- **TAP tackled restrictions by expanding its route portfolio introducing several new destinations.** TAP launched new destinations to boost recovery (both long- and short/mid-haul) such as Cancun, Punta Cana, Maceió, Zagreb, Ibiza, Fuerteventura, Agadir, Oujda, Monastir and Djerba.
- **Cargo maintained its growth pace with TAP responding to the increased demand during 2021.** In the context of strong air cargo demand, TAP Cargo followed the market growing 88% YoY, increasing its weight in TAP's total revenues to 17.0%.

- **Throughout the year, TAP continued to implement all measures that were part of the plan delivered to the European Commission in the context of the emergency aid framework.** TAP continued its work on cost cutting and transformation initiatives aiming to accomplish the business plan delivered to the European Commission in December 2020 ("Restructuring Plan" or "Plan") approved in December 2021.

- **In the context of the restructuring aid ("Restructuring Aid") and COVID Damages Compensations ("COVID Damages Compensations") there were two capital increases (May and December) and by year-end Portuguese State was TAP, S.A.'s sole shareholder.** In May the Portuguese State increased its share to 92% and in December 2021 to 100% of TAP's shareholding. As result, TAP - Transportes Aéreos Portugueses, SGPS, S.A. ("TAP SGPS", "TAP Group" or "Group"), former shareholder of TAP S.A. became independent of TAP, also majority owned by the Portuguese State.

- **As a result of the increased shareholding, in June 2021, the Portuguese State appointed a new Board of Directors and a new and enlarged Executive Committee**, bringing new competences to the Company.

- **In December 2021 TAP's Restructuring Plan was approved by the European Commission,** with a total Restructuring Aid of EUR 2.55 bn to TAP Group of which EUR 990 million are still to be received, being the restructuring period until 2025. Additionally, the Company received COVID Damages Compensations of EUR 640 million.

3.2. Sector Environment

Economic Framework

Macro Indicators % YoY	2020	2021E	2021E vs 2020
Real GDP Growth			
Global	-3.1%	5.9%	9.0 p.p.
Euro Area	-6.3%	5.0%	11.3 p.p.
Portugal	-8.4%	4.4%	12.8 p.p.
North America	-4.0%	6.0%	10.0 p.p.
Latin America	-7.0%	6.3%	13.3 p.p.
Africa	-1.6%	5.1%	6.7 p.p.
Middle East	-4.0%	2.7%	6.7 p.p.
Asia-Pacific	-1.1%	6.5%	7.6 p.p.
Trade Growth			
Global	-5.3%	10.8%	16.1 p.p.

Source: IMF (February 2022), IMF - World Economic Outlook Update (January 2022) – World Trade Organization (October 2021).

In 2021, the global economy grew compared to the previous year, and it is estimated that the world GDP will increase by 5.9% (vs. a decrease of 3.1% in 2020). As Portugal's economy is highly dependent on tourism (a sector very affected during the pandemic), it should present a slower recovery than the Euro zone, with an estimated GDP growth of 4.4%. Overall, 2021 was a year of economic recovery, being expected that global commerce will grow 10.8%, recovering from the contraction recorded in 2020.

Exchange rate EUR 1 to	FY 2020	1Q 2021	2Q 2021	3Q 2021	4Q 2021	FY 2021	FY2021 vs. FY2020
USD	1.142	1.205	1.206	1.179	1.144	1.183	3.5%
BRL	5.894	6.599	6.381	6.159	6.382	6.378	8.2%

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

During 2021, the EUR appreciated over the USD, with the average exchange rate rising 3.5%, in comparison to 2020. Performing quite strongly in the first half of 2021 and depreciating in the second half of the year, the EUR/USD exchange rate reached a low of 1.1206 in the last quarter of 2021, close to the value recorded on 31 December of 2021, with the exchange rate of 1.1326. Accordingly, the EUR appreciated against the BRL in 2021, with the average EUR/BRL exchange rate increasing by 8.2%, compared to 2020. The poor performance of the Brazilian currency was attributed to the unstable political scenario, as well as the economic and public health crisis caused by the COVID-19 pandemic.

Oil and derivatives in USD	FY 2020	1Q 2021	2Q 2021	3Q 2021	4Q 2021	FY 2021	FY2021 vs. FY2020
Brent (USD/bbl)	42.3	60.7	68.6	73.0	79.4	70.5	66.5%
Jet Fuel (USD/mT)	360.3	511.9	577.5	626.8	718.9	609.6	69.2%

Source: Bloomberg (Brent) and Platts (Jet Fuel), average daily price.

Brent prices continued to present high levels of volatility in 2021, ranging from 51.09 USD/bbl to 86.40 USD/bbl, with the average price increasing by 66.5% compared to 2020. Similarly, the average Jet Fuel price increased by 69.2% compared to the average price in 2020. This sharp price appreciation is explained by the increased demand for fuel due to the reopening of the economy and the demand uncertainty that led to divestment by producers, who have struggled to increase their output capacity after the pandemic crisis period.

Airline Sector Overview

	Capacity (ASK) % change			Passenger Traffic (RPK) % change		
	vs previous year		vs. 2019	vs previous year		vs. 2019
Regions	2019	2020	2021E	2019	2020	2021E
Global	**3.4%**	**-56.7%**	**-48.8%**	**4.2%**	**-65.9%**	**-58.4%**
Europe	3.5%	-62.4%	-51.9%	4.2%	-69.8%	-61.3%
North America	2.9%	-50.2%	-29.9%	4.0%	-65.2%	-39.0%
Latin America	3.0%	-58.3%	-43.9%	4.2%	-62.1%	-47.4%
Asia-Pacific	4.4%	-54.1%	-56.7%	4.7%	-62.0%	-66.9%
Africa	4.5%	-62.3%	-55.1%	4.7%	-69.3%	-62.8%
Middle East	0.1%	-63.2%	-55.5%	2.3%	-72.1%	-69.9%

Source: IATA - Industry Statistics (November 2021), IATA - Air Passenger Market Analysis (December 2021).

The aviation sector continued to recover from the demand decrease caused by the COVID-19 pandemic. Nevertheless, despite the improvement in the sector's performance metrics for 2021, they are still far from the reference values for the pre-pandemic year 2019. It is estimated that for 2021, the overall capacity of the sector (measured by ASKs) has decreased by 48.8% compared to 2019, but still shows improvement compared to 2020. It is notable that, although the reduction is significant in all regions of the globe, North America stands out positively when compared to other regions. Passenger traffic (measured by the RPK metric) is also 58.4% lower than 2019 but is showing a slight recovery compared to 2020.

Regions	Net Profit, USD billion			
	2019	2020	2021E	2021E vs 2019
Global	**26.4**	**-137.7**	**-51.8**	**-78.2**
Europe	6.5	-34.5	-20.9	-27.4
North America	17.4	-35.1	-5.5	-22.9
Latin America	-0.7	-11.9	-5.6	-4.9
Asia-Pacific	4.9	-45.6	-11.2	-16.1
Africa	-0.3	-2.2	-1.9	-1.6
Middle East	-1.5	-8.5	-6.8	-5.3

Source: IATA - Industry Statistics (November 2021), IATA - Air Cargo Market Analysis (December 2021).

Similarly to the previous year, estimated net income in the industry remained negative, with negative results expected across all regions of approximately USD -51.8 billion, compared to USD -137.7 billion in 2020.

Global Revenue USD billion	2019	2020	2021E	2021E vs 2019
Passenger, USD Bilions	**607.0**	**189.0**	**227.0**	**-62.6%**
Yield, % YoY	-3.7%	-8.8%	2.0%	n.a.
Load Factor, %	82.6%	65.1%	67.1%	-15.5 p.p.
RPK, % YoY	4.2%	-65.9%	18.0%	-58.4%[1]
Cargo, USD Bilions	**100.8**	**128.8**	**175.0**	**73.6%**
Yield, % YoY	-8.2%	40.0%	15.0%	n.a.
Load Factor, %	46.7%	54.5%	56.1%	9.4 p.p.
CTK, % YoY	-3.2%	-8.7%	18.2%	6.9%[1]

1) 2021E vs. 2019 % change of RPK and CTK.

Source: IATA - Industry Statistics (November 2021), IATA - Air Cargo Market Analysis (December 2021).

As mentioned, the main indicators show a recovery compared to 2020, but are far from the reference year of 2019. Global passenger revenue is estimated to increase in 2021 but remains 62.6% lower when compared to 2019 revenue. Passenger Yield is estimated to have improved by 2.0% when compared to 2020, after falling 8.8% in the previous year, and passenger load factor is estimated to increase to 67.1%, which compares to 65.1% in 2020. In the cargo segment, there was a favourable performance of 73.6% which is higher than the global revenue for 2019. Cargo Yield increased 15% in comparison to 2020 and it is estimated that the load factor has increased to 56.1% in 2021.

3.3. Operational and Economic-Financial Performance

Operational Performance

TAP, S.A. Consolidated	FY21	FY20	Change	
			Value	%
Passenger ('000)	5,827	4,657	1,170	+25.1%
RPK (million)	14,917	11,876	3,041	+25.6%
ASK (million)	23,663	18,376	5,287	+28.8%
Load Factor (%)	63.0	64.6	-1.6 p.p.	n.m.
Block Hours	195,636	147,213	48,423	+32.9%
Number of Departures	61,664	47,900	13,764	+28.7%
Average Stage Length (km)	2,147	2,044	103	+5.0%
Active Staff (end of period) 1)	6,626	8,106	-1,480	-18.3%

1) Includes active staff and staff on the simplified layoff regime.

Year 2021 operating indicators show a significant recovery when compared to year 2020, in particular there was a significant improvement in the number of passengers carried (+25.1% YoY), in demand expressed by RPKs that recorded a growth of 25.6% YoY and in capacity (measured in ASKs) that increased 28.8% YoY. In contrast, load factor slightly decreased by 1.6 p.p. YoY to 63.0%.

Economic-Financial Performance

TAP, S.A. Consolidated EUR million	FY21	FY20	Change	
			Value	%
Operating Income	**1,388.5**	**1,060.2**	**328.4**	**+31.0%**
Passenger	1,067.2	848.4	218.8	+25.8%
Maintenance	54.2	67.9	-13.7	-20.1%
Cargo and mail	236.2	125.7	110.5	+88.0%
Other operating income	30.9	18.2	12.7	+69.4%
Operating Costs	**2,877.2**	**2,024.9**	**852.3**	**+42.1%**
Aircraft fuel	340.5	260.5	80.0	+30.7%
Traffic operating costs	372.2	350.8	21.4	+6.1%
Employee costs	373.4	419.7	-46.3	-11.0%
Aircraft maintenance costs	19.4	24.4	-5.0	-20.5%
Cost of materials consumed	30.2	40.3	-10.1	-25.1%
Commercial, communication and marketing costs	71.4	69.2	2.2	+3.2%
Impair. losses in inventories, receiv. and provisions	51.4	44.1	7.3	+16.7%
Other operating expenses	118.3	125.0	-6.7	-5.3%
Restructuring	-14.2	96.1	-110.3	-114.8%
Other non recurrent items	1,024.9	10.3	1,014.7	>+200%
Depreciation, amortisation and impairment losses	489.7	584.7	-95.0	-16.2%
EBIT (Operating Result)	**-1,488.7**	**-964.8**	**-523.9**	**n.m.**
EBIT margin	***-107.2%***	***-91.0%***	**-16.2 p.p.**	**n.m.**
Recurring EBIT [1)]	**-478.0**	**-858.4**	**380.4**	**n.m.**
Recurring EBIT margin	***-34.4%***	***-81.0%***	**+46.5 p.p.**	**n.m.**
Interest and similar income	34.0	33.6	0.4	+1.2%
Interest and similar expenses	-293.6	-245.8	-47.8	+19.4%
Overhedge Gains / Losses	8.7	-165.3	174.0	+105.2%
Net currency exchange	-175.5	162.1	-337.6	<-200%
Earnings before taxes	**-1,915.1**	**-1,180.2**	**-734.9**	**n.m.**
Income tax	316.0	-50.1	366.1	>+200%
Net income/ (loss)	**-1,599.1**	**-1,230.3**	**-368.9**	**n.m.**
EBITDA [2)]	**-999.0**	**-380.1**	**-618.9**	**n.m.**
EBITDA margin	***-71.9%***	***-35.9%***	**-36.1 p.p.**	**n.m.**
Recurring EBITDA [3)]	**11.7**	**-273.7**	**285.5**	**n.m.**
Recurring EBITDA margin	***0.8%***	***-25.8%***	**+26.7 p.p.**	**n.m.**

1) Recurring EBIT = Operating Result + Restructuring + Other Non-recurring Items

2) EBITDA = Operating Result + Depreciation, amortisation and impairment losses

3) Recurring EBITDA = Operating Result + Depreciation, amortisation and impairment losses + Restructuring + Other non-recurring items

Operating Results

2021 was also a year of revenues recovery with total operating income 31% above the 2020 figure, reaching EUR 1,388.5 million mainly driven by the passenger segment with revenues of EUR 1,067.2 million (+25.8% YoY) and cargo and mail segment with revenues of EUR 236.2 million (+88.0%).

Compared to 2020, there was a generalized increase in air transport activity in all geographic segments, except to those destinations where lockdowns and other COVID-19 related restrictive measures lasted longer, namely in Latin America (South and Mid Atlantic), where Brazil, a key market for TAP, only fully reopened its borders in September 2021.

On the other hand, routes to/from the North Atlantic were those with the higher percentage increase, growing 69.7% YoY. African routes also showed a significant increase (+57.1%), just followed by Mainland Portugal and the Islands (+41.9% YoY). European destinations also had a good performance, growing 21.1% YoY, despite some non-generalized restrictive measures and occasional lockdowns that took place across the continent throughout the year.

From a market exposure perspective, in 2021, Europe (combined with Mainland Portugal and Islands) was the geographical segment where the most of passenger revenues were generated, representing 44.4% as a whole, with Europe representing 34.7% of passenger revenues (-1.4 p.p. and -6.2 p.p. compared to 2020 and 2019, respectively), while Mainland Portugal and Islands made up to 9.7% (+1.1 p.p. and +1.9 p.p. than in 2020 and 2019, respectively). However, the most significant changes in the distribution of passenger revenues were found on the transatlantic routes, with Latin America (South and Mid Atlantic) generating 19.2%, a decrease of 8.0 p.p. and 6.8 p.p., compared to 2020 and 2019, respectively, while the North Atlantic segment cemented its importance for TAP's air transport activity, being responsible for 18.6% of Passenger Revenues, an increase of 4.8 p.p. vs. 2019. Africa, despite still being the geographic area to which TAP is the least exposed, gained weight, representing 17.5%, which reflects an increase of 3.5 p.p. and 6.7 p.p. compared to 2020 and 2019, respectively.

In 2021 cargo and mail were responsible by 17.0% of revenues (vs. only 11.9% in 2020) reaching EUR 236.2 million, an increase of 88% YoY. Maintenance and engineering area was still strongly impacted by the pandemic falling for the second consecutive year by 20.1% to EUR 54.2 million, even though presented an encouraging increase of 63.7% in the last quarter of the year.

Recurring operating costs amounted to EUR 1,866.5 million in 2021, which represents a decrease of EUR 52.1 million (-2.7%) when compared to the same period in 2020, starting to reflect the restructuring measures undertaken by the Company namely depreciation, amortisation and impairment losses (decrease of EUR 95.0 million and -16.2% YoY), employee costs (decrease of EUR 46.3 million and -11.0% YoY), aircraft maintenance costs (decrease of EUR 5.0 million and -20.5% YoY) and cost of materials consumed (decrease of EUR 10.1 million and -25.1% YoY). The reduction in employee costs already reflects the (net) reduction of 1,480 employees throughout the year and the cuts in salaries that started in March 2021, in the context of the Restructuring Plan.

Other cost items increased as a consequence of the activity ramp-up but all decreased in percentage of passenger and cargo sales. The highest increases in absolute value were for fuel costs at EUR 80.0 million and traffic operating costs of EUR 21.4 million.

The recurring EBIT increased by EUR 380.4 million in 2021 to EUR -478.0 million, while the recurring EBITDA amounted to EUR 11.7 million (the 2nd half of 2021 had a positive recurring EBITDA of EUR 176.4 million).

In the last quarter of 2021, in the context of the Restructuring Plan approval and the reorganization of TAP SGPS, TAP recorded a non-recurring cost item of EUR 1,024.9 million. This caption is composed by an impairment in receivables from TAP SGPS in the amount of EUR 884.7 million and by a provision of EUR 140.3 million related to the estimate of additional charges that TAP will need to support with the reorganization including the Brazil maintenance liquidation process.

As such, and after the impact of non-recurring costs, there was a decrease in EBITDA of EUR 618.9 million in the year to EUR -999.0 million and in the Operating Result (EBIT) of EUR 523.9 million in the year to EUR -1,488.7 million in 2021.

Financial Income

The increase in interest and similar expenses by EUR 47.8 million YoY (+19.4%) was largely due to the increase in the interest component associated with the State loan, converted in equity by the year-end.

Net Income/Loss

The net loss for the year was EUR 1,599.1 million which was negatively impacted by the currency losses that suffered from the Euro against the USD exchange rate although it benefited from the Deferred Tax Assets recorded in 2021. Hedging activity was positive in 2021 having positively impacted net income.

Financial Position

TAP, S.A. Consolidated EUR million	31-Dec-21	31-Dec-20	Change	
			Value	%
Total Assets	**4,718.1**	**4,957.1**	**-239.0**	**-4.8%**
Non-current Assets	3,479.3	3,216.4	263.0	+8.2%
Current Assets	1,238.7	1,740.7	-502.0	-28.8%
Equity	**-468.1**	**-1,154.3**	**686.2**	**+59.4%**
Total Liabilities	**5,186.1**	**6,111.4**	**-925.2**	**-15.1%**
Non-current Liabilities	3,440.9	3,024.4	416.5	+13.8%
Current Liabilities	1,745.3	3,087.0	-1,341.7	-43.5%

In 2021 TAP had two capital increases in cash injections in the context of the Restructuring Aid and COVID Damages Compensations approved by the European Commission namely:

1. Capital increase of EUR 462 million on 24 May 2021, following the approval of COVID-19 compensation for damages suffered between 19 March 2020 and 30 June 2020;

2. Capital increase of EUR 536 million on 30 December 2021, following the approval of COVID-19 compensation for damages suffered between 30 June 2020, and 31 March 2021 and the Restructuring Plan approval of 21 December 2021 (see section on Restructuring and COVID Damages Aid).

On 30 December 2021, the following transactions took place in equity:

1. Capital increase from EUR 503.5 million to EUR 657.8 million, through the conversion of supplementary capital contributions, in the global amount of EUR 154.4 million.
2. The reduction of its share capital to EUR 0.00, to partially cover for losses;
3. The increase of capital share from EUR 0 to EUR 1,794 million fully subscribed by the Portuguese State composed of (i) EUR 1,258.1 million through the conversion of the State Aid loan (including interests) and (ii) an additional amount of EUR 536 million in cash.
4. The EUR 1,794 million was reduced to EUR 904 million to partially cover for losses.

After these transactions and consolidation of the net income for the period, total equity increased by EUR 686.2 million to EUR-468.1 million.

After the May capital increase the Portuguese Republic through the Directorate General of Treasury and Finance (“DGTF”) became a direct shareholder of TAP with an equity stake of circa 92%, with the remaining 8% held by TAP SGPS, and after the December capital increase DGTF became the sole shareholder of TAP.

Financing and Lease Liabilities

TAP, S.A. Consolidated EUR million	31-Dec-21	31-Dec-20	Change	
			Value	%
Financial Debt	**1,480.9**	**2,590.4**	**-1,109.5**	**-42.8%**
Bank Loans & Bonds	937.2	941.0	-3.8	-0.4%
Portuguese State Loan	-	1,210.8	-1,210.8	n.m.
Lease liabilities with purchase option	543.7	438.6	105.1	+24.0%
Cash and cash equivalents	**812.6**	**518.8**	**293.8**	**+56.6%**
Net Financial Debt	**668.3**	**2,071.6**	**-1,403.3**	**-67.7%**
Lease liabilities without purchase option	**2,118.5**	**2,038.6**	**79.9**	**+3.9%**

Gross financial debt (which excludes lease liabilities without purchase option) recorded a decrease of EUR 1,109.5 million due to the conversion into equity of the loan received from the Portuguese State through the State aid approved by the European Commission in its total amount, at that date, of EUR 1,258.1 million (including the capitalisation of interest) on 30 December 2021.

Lease liabilities with purchase option increased by EUR 105.1 million as a result of the financing of 2 new aircraft that joined the fleet in 2021, resorting to this source of financing.

Lease liabilities without purchase option increased by EUR 79.9 million (+3.9%) during 2021 as a result of new leases entered into to finance new aircraft.

The cash and cash equivalents item increased to EUR 812.6 million at 31 December 2021, to which the cash injection of 30 December 2021 of EUR 536.0 million contributed in the context of the Restructuring Aid and COVID Damages Compensations Aid approved in December.

Lastly, a reference shall be made to TAP’s rating that, like other companies of the airline sector with a rating, suffered a downgrade in March 2020 as a consequence of COVID-19. The long-term issuer credit rating assigned to TAP by S&P Global Ratings Europe Limited ("S&P") changed to B- (CreditWatch negative) currently under review and the Corporate Family Rating assigned by Moody's Investors Service ("Moody's") changed to Caa2 (Outlook negative), being currently in review for upgrade. These revisions follow the Restructuring Plan approval and considering the activity recovery.

3.4. Other Information

Network and Fleet

While TAP remains fully committed to its strategy of developing the Lisbon hub to connect Europe and Africa with Brazil and the U.S., it has also launched new destinations to boost recovery, with both long- and short/mid-haul routes such as Montreal, Cancun, Punta Cana, Maceió, Zagreb, Ibiza, Fuerteventura, Agadir, Oujda, Monastir and Djerba.

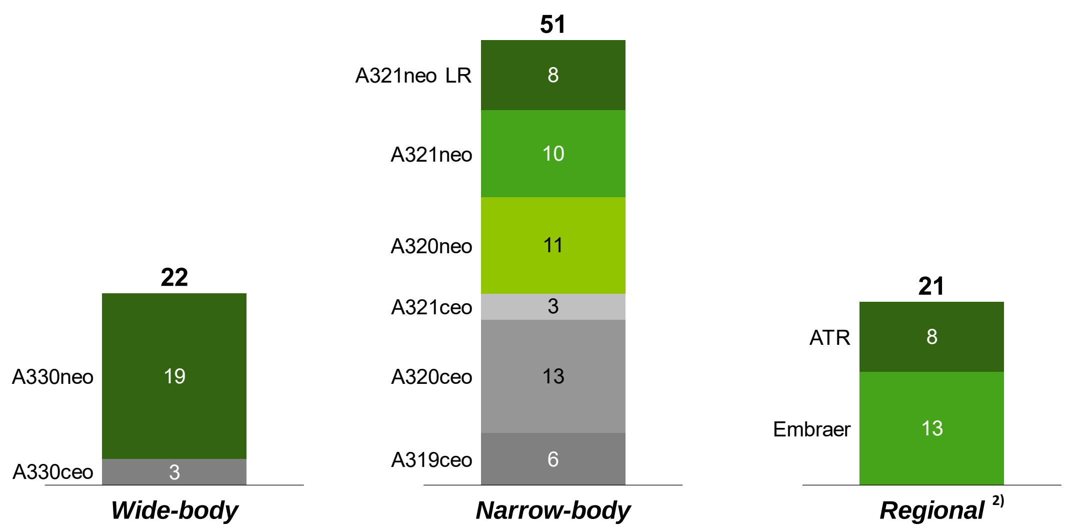
Regarding operating fleet, during 2021, TAP went through a net reduction of 2 aircraft down to 94, with the phase-out of 2 Airbus A330ceo, 3 Airbus A320ceo and 2 Airbus A319ceo, while 2 A321neo LR and 3 A320neo were phased-in, with TAP successfully securing financing arrangements for these aircraft.

By the end of 2021, 66% of the mid- and long-haul operational fleet consisted of NEO-family aircraft (compared to 57% by 31 December 2020 and 43% by 31 December 2019). The new aircraft that joined TAP's operating fleet reinforce the Group's strategy of using more efficient aircraft, and thus lower fuel consumption, which allows TAP to adapt its operation according to the pace of the recovery in demand.

TAP has been focusing on the A321neo LR model, whose use is particularly advantageous in a low demand environment. This narrow-body aircraft has the capacity to make long-haul flights, allowing a lower cost per flight when the passenger load factor is lower, leveraging Lisbon's unique location to make transatlantic flights to the east coast of the US and Canada, as well as to the northeast of Brazil and to Africa. The utilization of TAP's regional fleet also played a strategic role particularly during periods of heightened border restrictions and lower demand cycles. Additionally, the conversion of 2 A330ceo to cargo-only aircraft has been crucial to respond to increasing demand in the segment, which has had a meaningful impact on TAP's operating income.

Prior to the pandemic, TAP was among the European carriers with the newest fleets, on the back of the fleet renewal program that started after the privatization of the TAP Group in November 2015. Nonetheless, the impact of the COVID-19 pandemic accelerated the phase-out of less efficient aircraft across the entire industry and TAP was no exception. On the phase-ins, as per the agreement reached with Airbus in 2020, TAP was able to adjust its fleet delivery schedule in relation to the A320neo and A330neo aircraft family, having delayed a significant number of aircraft deliveries.

Composition of TAP's operating fleet 1) as of 31 December 2021



1) Operating fleet may differ from total fleet, as it includes aircraft in phase-in and phase-out process.

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

Passenger Air Transport

At the beginning of 2021 TAP maintained its commitment to increase the overall profitability of its network, ensuring sustainable growth but the surge of a new variant of the COVID-19 virus caused further border closures forcing the Company to rethink its network. As such, by February, the Company was only operating 11% of the 2019 ASKs with flights to within Portugal, Europe, Africa and North America. Despite this adverse context, the Company kept its strategy focused on the Americas and Africa, leveraging Lisbon's geographical position to connect to a wider range of destinations which allowed stronger control of the activity decrease and by April 2021 the Company was already offering approximately 33% of the 2019 ASKs.

By the end of 2021, with the surge of Omicron, a new set of restrictions were imposed by most countries. Because of border closure, operations to Morocco, Tel Aviv and Mozambique were interrupted in December 2021.

Despite this challenging environment at the beginning and again at the end of 2021, TAP continued its strategy: in March launched Cancun and in June opened the seasonal route to Zagreb, Ibiza, Fuerteventura, Monastir, Agadir, Oujda and Djerba. with several aircraft models from the ATR to A320neo. On 11 December, the company opened Punta Cana in the Dominican Republic to increase its list of beach destinations. By the end of 2021, TAP was already flying approximately 74% of 2019 ASKs.

Additionally, TAP also took steps towards increasing its network breadth, e.g., the agreement with train network in the United Kingdom, Switzerland, Austria, Italy, Belgium, Netherlands and Germany.

Maintenance and Engineering

In 2021 the maintenance & engineering (“M&E”) activity focused on returning parked aircraft to operation, supporting the operation ramp up and fleet phase-in and phase-out. Third party revenues were low when compared to pre-pandemic values with a fair margin though.

However, 2021 was a year of several milestones in this business area of which can be highlighted the new IT system implementation AMOS which will constitute a structural change in M&E and its performance and the engine LEAP 1A. Also, some main projects were launched pertaining to M&E profitability such as an SLA between M&E and Air Transport, or the new M&E dashboard with highly relevant KPI’s.

Cargo

In 2021 TAP Cargo has prioritized flights optimization within the network, contributing to the recovery of passenger flights while continuing to invest in cargo-only flights having more than doubled the number of operations for more than 30 destinations.

In an approach of continuous investment in cargo due to growth estimates, TAP had converted 2 A332-200 aircraft to increase available capacity aiming to cope with the high demand in the market.

In conclusion, in spite of cargo-only flights had a very positive contribution to TAP's fixed costs, regular network flights are still the majority of this segment revenues, since TAP Cargo has recorded a load factor and yields above the market average.

Human Resources

Since the beginning of the pandemic, airlines have seen their activity reduced to much lower levels, TAP being one of the companies heavily affected. Its survival depended on its re-sizing by implementing a Restructuring Plan that aims to adapt its capacity and cost structure to a new reality. In light of the lasting pandemic effects, some voluntary adherence labour measures were made available to all employees that included terminations by mutual agreement, early retirement, pre-retirement, part-time work and unpaid leave, which represented a serious challenge for human resources management. The process of consultation and applying for voluntary measures ran from 11 February until 16 April 2021.

In spite of these voluntary measures, and aiming to achieve the restructuring objectives, TAP had to move forward with unilateral measures through a collective dismissal process with 124 employees eligible (this number was a 94% reduction on the initial number imposed by the restructuring plan). Of the workers eligible for unilateral dismissal, it should be highlighted that the Company kept similar conditions to the voluntary measures for employees that might choose to reconsider their decision. With these measures the number of unilateral dismissals in the collective dismissal was reduced to 62 employees.

Also, TAP resorted to the classic lay-off regime for all employees starting on 1 March 2021 for a period of 12 months, with exception of the employees eligible for unilateral measures who were withdrawn from that process.

TAP kept, as much as possible, its employees in telework to minimize the contagion of COVID-19 except in areas fundamental to operations where all health and safety measures were taken using contingency plans aiming to protect all employees from the contamination risk.

The TAP workforce at 31 December 2021 consisted of 6,803 employees (of which 6,626 are active and 177 non-active). Of that total, 1,228 are Flight Deck Crew, 2,384 are Cabin Crew, 1,471 belong to the Maintenance and Engineering Department and the remaining 1,720 belong to the support areas and corporate bodies.

Considering only active workers, there was a (net) decrease of 18.3% in the number of employees compared to the same period of the previous year (1,480 employees).

4. RESTRUCTURING AID AND COVID DAMAGES COMPENSATIONS AID

TAP Group's Restructuring Plan - State Aid

In the context of the European Commission Decision of 10 June 2020 authorizing the granting of a State Aid in favour of the sole shareholder of TAP S.A. on that date, TAP SGPS, in the form of a loan for EUR 1.2 billion ("European Commission Decision"), and of the Financing Agreement which materialized the granting of the referred State Aid to TAP Group, initially set for 10 December 2020, being extended if the Portuguese State submitted a TAP Group Restructuring Plan to the European Commission by that date, i.e. within 6 (six) months from the date of the European Commission's Decision.

In this context, the Portuguese State submitted to the European Commission, on 10 December 2020, a draft Restructuring Plan for discussion and approval.

The Restructuring Plan presented entailed a significant transformation of TAP S.A.'s operation in order to ensure its economic viability in 2023 and sustainability in 2025. This restructuring includes measures to improve operational efficiency, a resizing of the fleet and a reduction in personnel costs aiming to ensure the survival and sustainability of the TAP Group, the maintenance of thousands of direct jobs, as well as the preservation of the entire ecosystem of TAP Group suppliers, ensuring that it continues to contribute to the Portuguese economy. The Restructuring Plan project is based on four axes: (i) focus on core business activities; (ii) capacity adjustment (fleet right-sizing and network optimization); (iii) optimization of operating costs (lease negotiation, review of third-party costs and adjustment of labor costs); and (iv) revenue enhancement (passenger revenues and other revenues). All these initiatives aim to achieve cash flow balance and, consequently, improve the capital structure of TAP Group.

When preparing the Restructuring Plan, the updated projections of reference entities in the sector were used, namely the IATA baseline scenario, in order to better adapt to the operational reality of TAP S.A., with a business model based on connecting flights and long-haul operations, without, however, neglecting the Eurocontrol projections (together, the "Projections"). These Projections indicated that the 2019 activity figures would only be reached again in 2025. The Restructuring Plan assumes a demand recovery outlook, in terms of number of passengers transported, that is generally lower than the IATA forecasts, since the financial projections are based on solid assumptions, which could even be considered conservative.

In this context, and from the perspective of adjusting its capacity, the Restructuring Plan project presented to the European Commission aims to reduce the TAP Group's fleet as well as to optimize several operating costs namely with suppliers and personnel, as a result of the resizing of operations.

These adjustments to capacity, fleet and workforce will ensure that the TAP Group, and in particular TAP S.A., make TAP respond to the activity ramp-up, while remaining at the forefront of the Lisbon hub and maintaining its strategy of connecting Europe, the Americas and Africa.

As part of the work related to the process of preparing the Restructuring Plan, a Council of Ministers Resolution was approved on 22 December 2020, declaring TAP S.A., Portugália – Companhia Portuguesa de Transportes Aéreos, S.A ("Portugália") and Cateringpor - Catering de Portugal, S.A. ("Cateringpor") in an *economically difficult situation*, leading to the enactment of relevant legislation, namely the reduction of working conditions and the non-application or the total or partial suspension of the clauses of the applicable company agreements or collective regulatory instruments, with the establishment of the respective substitute regime (Council of Ministers Resolution no. 3/2021, of 22 December 2020, regulated by Order no. 818-A/2021, of 14 January 2021). The status of difficult economic situation attributed to TAP S.A., to Portugália and to Cateringpor was renewed by Council of Ministers Resolution no. 185/2021, of 29 December 2021, with effects until 31 December 2022.

In accordance with this determination, a joint negotiation process was developed in December 2020, between trade unions, management and the Portuguese State, aiming to conclude the so-called "emergency agreements", finding a consensual solution on how to enable the restructuring and recovery of TAP. This process was concluded favorably, with all the unions representing a vast majority of TAP's employees ratifying the negotiated emergency agreements ("Emergency Agreements"). The Emergency Agreements entered into force on 1 March, 2021, allowing, without jeopardizing the metrics proposed under the Restructuring Plan, the protection of a greater number of jobs, when compared to the substitute regime. Non-unionized employees benefited from a substitute regime identical in all respects to the Emergency Agreements in force in their professional group.

Simultaneously, between February and June 2021, TAP developed a set of voluntary labour measures for TAP Employees, which included terminations by mutual agreement, early retirement, pre-retirement, part-time work and unpaid leave. As a result of these voluntary measures, the initial restructuring plan downsizing target could be adjusted downwards and allowed the number of employees eligible for unilateral measures to be reduced to 124 employees (i.e., 94% less than the initial target imposed by the Restructuring Plan), this being reduced to 62 employees. The continued implementation of the Restructuring Plan led TAP S.A. to initiate a collective dismissal procedure involving these employees on 8 July 2021, which followed its procedures according to an indicative timetable. With these measures, TAP obtained the commitment of several unions in the Emergency Agreements towards the 2025 labour cost targets.

Following the interactions with the European Commission, on 10 June 2021 the Portuguese State updated the Restructuring Plan initially submitted.

On 16 July, 2021, the European Commission approved the following two autonomous decisions:

Re-approval of the EUR 1.2 billion rescue aid: The European Commission has decided to re-approve the rescue loan of EUR 1.2 billion to TAP SGPS, which had been previously approved by its decision of 10 June 2020, specifying the rationale for the approval of the aid (related to the situation of TAP Group and its shareholders in June 2020), as required under the General Court of the European Union of 19 May 2021 (Case T465/20), which annulled the initial rescue aid decision, while suspending the effects of the annulment until the adoption of a new decision by the European Commission. Therefore, this new decision of the European Commission confirms the previous decision of that authority of 10 June 2020, which considered that that rescue aid of EUR 1.2 billion was compatible with the internal market pursuant to Article 107(3)(c) of the Treaty on the Functioning of the European Union (“TFEU”) and in accordance with the requirements of the European Commission guidelines on emergency State aids for rescuing and restructuring conceded to non-financial companies in difficulty.

TAP Group's Restructuring Plan: the European Commission has decided to open an in-depth investigation procedure to further assess the compliance of the proposed Restructuring Plan and corresponding aid with the conditions set out in the European Commission's Guidelines on State aid for rescuing and restructuring conceded to non-financial companies in difficulty.

In November 2021 a new update to the business plan, including a new sensitivity analysis, was delivered to the European Commission.

On 21 December 21, 2021, the European Commission approved: (i) a EUR 2.55 billion of restructuring aid to enable the restructuring of TAP Group and TAP; and (ii) a EUR 107.1 million aid to compensate TAP for damages suffered as a result of the coronavirus pandemic between 1 July 2020 and 30 December 2020. As per the non-confidential notification document on the European Commission decision (60165- 2021/C (ex 2021/N) the aid, which is adequate in size and form, is compatible with Guidelines on State aid for rescuing and restructuring non-financial undertakings in difficulty and the Commission concluded that the positive effects of the Restructuring Aid on the development of the economic activity of air transport ensuring Portugal's connectivity and the related tourism sector activities benefitting therefrom, provided the Portuguese State ensures implementation of the Restructuring Plan, outweigh the remaining negative effects on competition and trade, which are therefore not adversely affected to an extent contrary to the common interest. The commitments provided by the Portuguese State should be laid down, therefore, as conditions for the compatibility of the aid.

As such, in its overall assessment, the Commission concludes that the Restructuring Aid complies with Article 107(3)(c) TFEU as it facilitates the development of air transport and related activities and does not distort competition to an extent contrary to the common interest.

Restructuring Plan Approved

The Restructuring Aid supports the implementation of the Restructuring Plan that covers the period from 2020 until the end of 2025 (the "Restructuring Period"). For this period, traffic projections are more conservative than IATA's forecasts - IATA's baseline forecasts predict a volume of passengers in 2025 equal to 109% of that in 2019, above what is considered in the Plan – and therefore the Commission considered TAP's revenue projections as reasonable.

The Plan covers the economic unit, currently under the sole control of the Portuguese State, comprising TAP SGPS and TAP SA, including all their controlled subsidiaries. The Restructuring Plan includes measures that started being implemented as of June 2020 or that will be implemented and that relate to the four pillars as follows:

<u>Focus on Core Activities:</u> The logic of the Restructuring Plan is that the Group should focus on the core activity, namely the aviation business carried out through TAP SA and Portugalia, while gradually shifting away from and divesting non-core businesses. Within that logic, the Restructuring Plan envisages that TAP SGPS will progressively abandon all other service activities which it has been supplying on the market by selling, divesting or discontinuing three lines of business, as follows: (i) the Brazilian aircraft maintenance subsidiary, M&E Brasil (ii) the ground handling services provider Groundforce and (iii) the catering services provider, Cateringpor.

<u>Adjustment of capacity:</u> Measures aimed at re-sizing TAP SA's fleet and optimizing TAP's network will lead to a more homogeneous fleet composition and to a reduction in operating costs, due to the lower fuel consumption and maintenance requirements of the new aircraft. With regard to network optimisation, the Restructuring Plan increases the role of Lisbon as a connectivity hub, which is crucial to its strategy given the small size of TAP SA's domestic market. Finally, network optimization measures include a more cost-efficient route-aircraft match, and reducing loss-making routes and routes with low

connectivity value. With respect to TAP's presence at Lisbon airport, the decrease in TAP's fleet reduces its ability to provide passenger air transport services without, however, calling into question the significant market position that it currently has and is expected to have at the end of the Restructuring Period at its Lisbon hub.

Reduction of costs: TAP SA envisages reducing operating costs over the course of the Restructuring Plan through renegotiation of contracts with aircraft suppliers and lessors, through measures to reduce third party costs (fuel costs savings through the operation of newer, more energy-efficient aircraft, a better route-aircraft match and the implementation of a fuel optimisation software). Also, TAP aims to achieve savings through contract renegotiations with suppliers of certain services. The third lever driving the planned reduction of TAP SA's operating costs is the downsizing of labour costs (as aforementioned).

Enhancement of revenues: TAP SA expects that its revenues will increase through several measures and initiatives that have been implemented.

Measures limiting the distortions of competition

Besides the sale/divestment of the stakes held by TAP SGPS in non-core business, the final version of the Plan also demands the following measures:

Release of slots: TAP will make available up to 18 slots per day at Lisbon airport to a competing carrier under certain conditions. This carrier will be allowed to establish a new base or to expand its existing base at Lisbon airport. This remedy will start in winter IATA 22/23 and the buyer will be approved by the Commission following a transparent and non-discriminatory selection procedure in which the Commission will be assisted by a trustee. The European Commission finds that the commitment to transfer 18 slots does not compromise TAP's return to viability.

Cap on fleet size: reduction and freeze of aircraft fleet with a cap on the aircraft fleet during the Restructuring Period.

Acquisition & Advertising ban: TAP cannot (i) acquire shares in any company during the Restructuring Period, except if indispensable to ensure its long-term viability and subject to European Commission approval, nor (ii) publicize State support as a competitive advantage when marketing its products and services.

Sources of Financing for Restructuring Costs

The Commission considered EUR 2.55 billion restructuring aid to TAP SGPS as appropriate having been approved the implementation of substantial equity-enhancing measures sufficient to allow TAP Group to have access to the capital markets in order to raise additional funds, those measures being the following:

(a) EUR 1.2 billion rescue loan to be converted into equity in the same nominal value plus accrued interest; this transaction took place on 30 December 2021.

(b) EUR 360 million majority guaranteed by the Portuguese Republic, the remainder being collateralised by TAP.

(c) EUR 1.35 billion direct equity injection by the Portuguese State, from which EUR 0.35 billion were injected on 30 December 2021, with EUR 990 million remaining to be injected into the Company.

The Portuguese State informed that it would fund the measures directly from the State budget, which requires the necessary acts of implementation, including corporate approval of modifications to share capital and the loan and guarantee agreements to be concluded.

Additionally, part of the restructuring is financed by an own contribution from TAP Group and its various contributors to the restructuring costs, spread over the period from 2020 to 2025, these measures of own contribution already having been implemented or being on the verge of implementation. They are based on binding commitments already agreed with the respective parties, which have been implemented with internal instructions to be executed. With regard to the labour restructuring measures, the costs savings are based on the Emergency Agreements concluded between TAP, Portugalia and the employees' unions, after the suspension of the collective bargaining agreements that were previously in force.

COVID Damages Compensations Aid

In the context of the State Aid to TAP S.A., approved by the European Commission by decision of 23 April, 2021, as compensation for COVID-19 damages occurring between 19 March to 30 June 2020, as mentioned above, the capital of TAP S.A. was increased on 24 May 2021, through a cash contribution of EUR 462 million by the Portuguese Republic, through the DGTF. Following this capital increase, TAP S.A.'s share capital was increased from EUR 41.5 million to EUR 503.5 million, with the Portuguese Republic, through the Directorate-General of Treasury and Finance, now holding around 92% of TAP S.A.'s share capital, with the remaining around 8% of TAP S.A.'s share capital being held directly by TAP SGPS.

On 21 December 2021, the Commission approved an aid measure to compensate TAP for the damage it suffered between 1 July 2020 and 30 December 2020, under Article 107(2)(b), for a total amount of EUR 107.1 million. Lastly on 22 December 2021 the Commission approved a third aid measure of EUR 71.4 million to cover the damages directly caused to TAP by the COVID-19 restrictions between 1 January 2021 and 30 June 2021.

These two amounts, jointly with EUR 358 million (from the Restructuring Aid) were injected in cash on 30 December 2021 in a total of EUR 536 million with the Portuguese Republic becoming the sole shareholder of TAP S.A..

5. SUBSEQUENT EVENTS

CHANGES TO THE COMPOSITION OF THE SUPERVISORY BOARD

- By letter addressed to the Chairman of the Supervisory Board, dated 25 November 2021, Maria de Fátima Castanheira Cortês Damásio Geada resigned to her position as a member of the Supervisory Board of TAP, for personal reasons, effective on 31 December 2021. In the impossibility of carrying out her direct replacement by the alternate member of the Supervisory Board of TAP, in light of the provisions of Law No. 62/2017, of 1 August, which determines the regime of balanced representation between women and men in the management and supervisory bodies of public sector entities and listed companies, a new female member will have to be appointed to TAP's Supervisory Board.

- By letter addressed to the Company dated 7 January 2022, Mr. Sérgio Sambade Nunes Rodrigues resigned to his position as a member of the Supervisory Board of TAP. Under article 415 of the Portuguese Companies Code, the resigning member was replaced by the appointed alternate member, Mr. José Manuel Fusco Gato, who will remain in office as a substitute for the effective member until new appointment or until the first annual meeting in which the vacancies are filled.

RESIGNATION OF A MEMBER OF THE BOARD OF DIRECTORS

- By letter addressed to the Company dated 4 February 2022 Alexandra Reis, member of the Company´s Executive Committee and Board of Directors resigned from her position. Pursuant to her resignation letter, this resignation became effective on 28 February 2022.

EUROPEAN COMMISSION DECISIONS

- The European Commission has released the non-confidential version of Commission Decision SA.60165-2021/C (ex 2021/N), on the state aid for the restructuring of TAP, dated 21 December 2021 ("Decision"), available for consultation here:

  https://ec.europa.eu/competition/state_aid/cases1/202207/SA_60165_C036DE7E-0000-C67F-9BD8-F585BE03EBD8_300_1.pdf

- As provided under said Decision, TAP has appointed ALCIS ADVISERS GmbH, represented by David Cayet (david.cayet@alcis-advisers.com) and Dr. Ulrich Puls (ulrich.puls@alcis-advisers.com), with registered office at Fasanenstr. 73, D - 10719 Berlin, Germany, as the Monitoring Trustee, to monitor TAP's compliance with the commitments undertaken by the Portuguese Republic under the Decision and report to the European Commission thereon.

- The European Commission also released the non-confidential versions of Decisions SA.63402 (2021/N) and SA.100121 (2021/N) of the Commission, on Covid-19 compensation, dated 21 December 2021 and 22 December 2021 respectively, available for consultation here:

  (i) https://ec.europa.eu/competition/state_aid/cases1/202207/SA_63402_707CDD7E-0000-CA6C-809D-D1F10FE7FD93_119_1.pdf

  (ii) https://ec.europa.eu/competition/state_aid/cases1/202207/SA_100121_4079DD7E-0000-C66B-9F23-0A41120D99DA_50_1.pdf

UKRAINE – RUSSIA CONFLICT

- In February 2022 the Russian Federation initiated a military action in the Ukrainian territory that originated a war on the European territory. This event has caused significant macroeconomic impacts in particular in the international financing markets namely increased interest rates as well as a price increase on fuel costs, including jet fuel which recorded a rise of more than 30% since the beginning of the war, and on a range of goods and services causing rising inflation.
- Additionally, the conflict has led to mobility restrictions in that region and proximities, restrictions which remain in place on the date of these financial statements' approval as well as economic, financial and other sanctions on the Russian Federation and to individuals associated with the Russian Government by Europe, USA and other countries, and impacts on people, goods and financial flows.
- The conflict and these sanctions are subject to high uncertainty regarding their duration, scope and impact, being not possible to predict their potential effects and their duration including the impacts on inflation and fuel prices in the coming months and years.

6. OUTLOOK FOR 2022

TAP's plan for 2022, as per the Restructuring Plan, is based on the recovery projections from IATA, restoring destinations and capacity, with an optimized cost structure.

However, TAP's business in 2022 (and the airline sector in general) will be dependent on how economies evolve out of the pandemic and face the constrains of the recent conflict in Ukraine following the military action by the Russian Federation. This conflict has caused material macroeconomic impacts namely on commodities prices and energy prices and TAP is already being impacted by jet fuel prices, despite its hedging policy. As such, the duration and impact of the conflict will drive the evolution of important assumptions such as inflation and jet fuel prices.

Passenger Air Transport

TAP will continue to optimise its operations and network in order to improve profitability, adjusting frequencies on current routes despite the already announced reduction in capacity resulting from the Restructuring Plan.

TAP's capacity plans for 2022 reflect the intention to achieve a sustainable return to operations, subject to the evolution of the pandemic and subsequent lifting of mobility restrictions. It is forecasted, that approximately 80-90% of the 2019 capacity may be reached by the end of the year.

TAP will continue to diversify its network wherever possible, using the leverage of Lisbon's unique position. The seasonal summer operations to Zagreb, Djerba, Oujda, Agadir, Monastir, Fuerteventura, Ibiza will operate again in Summer 22, optimising available capacity and maximising opportunities.

Maintenance and Engineering

The main challenges for 2022 is to cope with the expected airline operation ramp up, especially during the summer period, the collective labour agreements review, the AMOS system going live, the CAMO

(Continuing Airworthiness Management Organisation) certification and third-party revenue increase, doing all this with increased efficiency and within budget.

Cargo

In 2022 TAP Cargo expects to continue its growth when compared to 2021. In spite of the increased belly capacity offer in the market, TAP has 2 aircraft in an intermediary conversion (Preigther) to answer that demand and ensure the service to anchor clients.

Market wise, the focus will be on the load factor increase in under optimized routes with recourse to strategic partnerships with non-competitors airlines in TAP routes and continuing to develop the charters business.

7. CORPORATE GOVERNANCE

7.1 Qualifying shareholdings in the Company as of 31 December 2021

Article 245-A, paragraph 1, sub-paragraph c) of the Portuguese Securities' Code ("PSC"), applicable ex-vi article 245-A, paragraph 6 of the PSC

Shareholders with qualifying shareholdings	Capital/Voting Rights (%)	No. of Shares
Portuguese Republic (through the Directorate-General of the Treasury and Finance ("DGTF"))	100%	180,865,573

7.2. Indication of the number of securities issued by TAP and by companies with which it is in a control or group relationship, held by governing bodies, and all acquisitions, encumbrances or transfers during the period in consideration

Nothing to declare.

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

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

Nothing to declare.

7.4. Possible restrictions on voting rights, such as limitations on the exercise of voting rights depending on the ownership of a number or percentage of shares, time limits imposed for the exercise of voting rights, or systems for separating the financial rights attached to securities from the ownership of the securities

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

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

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

Pursuant to article 9, paragraph 3 of the articles of association of the Company, to obtain the right to vote, the respective shares must be registered in the name of the respective holders in the Company's share registry book at least 15 (fifteen) days before the date set for the Shareholders' General Meeting.

Shareholders may be represented at the Shareholders' General Meeting pursuant to the applicable law. In accordance with article 9, paragraph 4 of the articles of association of the Company, shareholders may be represented at the Shareholders' General Meeting by sending a letter addressed to the Chairman of the Shareholders' General Meeting before the beginning of the respective meeting.

Postal voting is allowed under the terms of Article 9, paragraph 10 of the Company's articles of association, and shareholders may exercise their voting right by post by means of a letter delivered by hand to the Chairman of the Board of the Shareholders' General Meeting or sent by registered mail with acknowledgement of receipt to the Company's registered office at least 3 (three) business days prior to the date of the Shareholders' General Meeting, unless a longer period is established in the Shareholders' General Meeting notice.

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

7.5. Rules governing the appointment and replacement of members of the management body and amendments to the articles of association

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

The Board of Directors of the Company is composed by a minimum of 5 (five) and maximum of 11 (eleven) members. The members of the Board of Directors, including its chairman, are elected at a Shareholders' General Meeting, exercising their duties for a period of 4 (four) years, renewable according to the law.

Pursuant to article 14, paragraph 2 of the articles of association of the Company, the Board of Directors may delegate, within the limits established by law, day-to-day management of the Company to one or more appointed board members or an Executive Committee. The Board of Directors has appointed an Executive Committee formed of 5 (five) members, including its Chairman.

With regard to the absence and replacement of directors, article 13, paragraph 3 of the Company's articles of association states that the absence of a director from more than 4 (four) consecutive meetings or 6 (six) interspersed meetings of the Board of Directors, without reason that is accepted by the other members of the Board of Directors, leads to the situation of definitive absence. If a director is deemed to be definitively absent, he/she must be replaced in accordance with the terms of the applicable legislation, namely in accordance with the provisions of Articles 393 et seq. of the Portuguese Companies Code.

Pursuant to article 10, paragraph 2 of the Company's Articles of Association, the Shareholders' General Meeting may only adopt resolutions, on first call, provided that shareholders holding shares representing at least 51% (fifty-one per cent) of the Company's share capital are present or represented. Pursuant to article 10, paragraph 4 of the Company's articles of association, any resolutions of the Shareholders' General Meeting on any amendments to the articles of association of the Company must be approved by a qualified majority of two-thirds of the votes cast. However, when the resolution is adopted at a Shareholders' General Meeting held on second call, where shareholders holding at least half of the share capital of the Company and with voting rights are present or duly represented, any resolutions to amend the Company's articles of association can be approved by a simple majority of the votes cast.

7.6. Powers of the management body, especially regarding resolutions for share capital increases

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

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

Article 14 of the Company's articles of association grants the following powers to the Board of Directors:

a) Manage the Company's activities;

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

c) Acquire, dispose of or encumber rights or movable and immovable property and shareholdings, pursuant to the law;

d) Enter into loan agreements on the national or foreign financial market;

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

f) Represent the Company in court and out of court, as plaintiff and defendant, with the power to withdraw, transact and confess in any legal proceedings, as well as to enter into arbitration agreements;

g) Establish the technical and administrative organization of the Company and the rules of its internal functioning;

h) Appoint agents with the powers deemed appropriate;

i) Exercise any other powers that may be conferred by law or by the General Meeting.

Pursuant to the Company's articles of association, the Board of Directors determines the dates or frequency of its meetings. It must meet at least once every quarter and whenever convened by the Chairman, at his/her own initiative and, in his/her absence or impediment, by the substitute or at the request of two directors or at the request of the supervisory body.

The Board of Directors may not take decisions unless the majority of its members are present or represented, except in cases of urgency, recognised as such by the Chairman or by his/her substitute in the case of absence or impediment, in which case the votes may be cast by post.

The decisions of the Board of Directors are taken by majority vote of its members, and abstentions are not counted.

In accordance with TAP's articles of association, the Board of Directors may delegate, within the limits established by law, the day-to-day management of TAP to one or more delegated directors or to an Executive Committee.

On 31 January 2018, the Board of Directors decided to establish an Executive Committee for the 2018-2020 three-year period, and also approved its regulations.

The day-to-day management of the Company was delegated to the Executive Committee, in accordance with the provisions of paragraphs 3 and 4 of article 407 of the Portuguese Companies Code and paragraphs 2 and 3 of article 13 of the Company's articles of association, which includes, in particular, and within the framework of the general policies approved by the Board of Directors, the following acts:

1. Preparation of the proposed business plan and budget - including the investment plan and the corresponding financing sources - and the respective quarterly execution reports, both to be submitted to the Board of Directors for approval in terms and frequency consistent with the applicable legal framework, namely Decree-Law no. 133/2013, of 3 October (as subsequently amended, hereinafter "DL 133/2013"), as well as the preparation of updates or revisions to the business plan and budget, which shall also be submitted to the Board of Directors for prior approval, including the assumption of such updates or revisions;

2. Preparation of the new proposed list of flight destinations, on an annual basis, and any significant changes occurring to this list, for prior approval by the Board of Directors;

3. Preparation of the new proposal for the long-term fleet plan, on an annual basis, and any significant changes that occur in this plan, for prior approval by the Board of Directors;

4. Subject to the conditions set out in number 5 below, conducting the financial, operational, administrative and human resources management of the Company in accordance with the business plan and budget, as revised and/or updated. With respect to commitments/expenses/agreements/transactions expressly provided for in and pursuant to the annual budget (as updated and revised), the Executive Committee may conduct the management of the Company within the following limits, which shall be considered as limits per transaction, including when the transaction in question corresponds to a multi-year contract:

   a) Commitments for financial investments or other capital expenditures of the Company and/or its subsidiaries with an amount up to EUR 15 million;

   b) Operating expenses commitments of the Company and/or its subsidiaries under the following terms:

      i. Expenses with flight operations, namely fuel and assistance contracts, which do not exceed EUR 300 million;

      ii. All other flight operational contracts (such as, but not limited to, catering, ATC and other contracts of similar scope) with an amount up to EUR 30 million;

      iii. Maintenance and Engineering expenses up to EUR 50 million;

      iv. Corporate expenses (marketing and sales, technology, payment solutions and other expenses of similar scope) with an amount up to EUR 15 million, except for strategic consulting services, whose limit shall be up to EUR 1 million;

   c) Investments relating to aircraft fleet or operating expenses of the Company and/or its subsidiaries with an amount of up to EUR 50 million;

   d) Guarantees and financing of the Company and/or its subsidiaries, such as, but not limited to, debt and hedging instruments, with a maturity of less than one year and with an amount of up to EUR 100 million (excluding, in any case, the provision of any type of guarantees by the Company or its subsidiaries);

   e) Proposals regarding all medium to long-term financing instruments of the Company and/or its subsidiaries (i) with a term of less than one year and an amount exceeding EUR 100 million or (ii) with a term of one or more years, to be submitted by the Executive Committee for prior approval by the Board of Directors (excluding, in any case, the provision of any type of guarantees by the Company or its subsidiaries);

   f) Acquisition, encumbrance, disposal and/or sale of assets of the Company and/or its subsidiaries up to EUR 5 million;

g) Without prejudice to the legal requirements under DL 133/2013, proposals for investment and/or disposal of shares of incorporated companies and/or the incorporation of new companies, and/or changes in the shareholder structure of the business group to which the Company belongs, to be submitted for prior approval of the Board of Directors;

h) Proposals for transactions with related parties within the scope of article 397 of the Portuguese Companies Code to be submitted for the prior approval of the Board of Directors; Transactions with subsidiaries of the Company shall not be subject to the prior approval of the Board of Directors.

5. The powers granted to the Executive Committee, pursuant to number 4 above, shall at all times be in compliance with the requirements set forth in the applicable legislation and, in particular, shall be subject to compliance with the provisions of Decree-Law no. 133/2013, namely, that:

   a) The Executive Committee does not:

      i. Enter into any agreement or transaction, nor perform any legal act that results in financial responsibilities that exceed the annual budget or that are not foreseen in the investment plan, notwithstanding the possibility of entering into multi-year agreements, as long as these do not result in responsibilities that exceed the limits of each year's budget, in accordance with the respective annual budget;

      ii. Enter into any agreement or perform any legal act that results in obligations for the Company that exceed 5% of the Company's net assets, without the prior favorable opinion of the Company's Supervisory Board (unless expressly provided for in the annual business plan and budget); and

      iii. Approve any investment or transaction, which is not foreseen in the annual business plan and budget;

   b) Any agreement, act or transaction with a financial impact exceeding the Company's net assets by 1% shall be approved by the executive member of the Board of Directors appointed by the representative of the government responsible for finance.

6. Management of the institutional relationship with employees and external entities, including representing the Company before all Courts, namely, civil, criminal, administrative, labor and tax, in all instances, appointing counsel when necessary or convenient, filing petitions, requests, appeals, oppositions, counterclaims, presenting evidence and filing both ordinary and extraordinary appeals; negotiating and revoking petitions in any Court, whether civil, criminal, administrative, labor or tax, with the most extensive powers, on behalf of the Company;

7. Proposals of new collective labor agreements and major structural changes to labor contracts, to be submitted to the Board of Directors for prior approval;

8. In emergency situations, when people's lives and the security of assets are at risk, the Executive Committee shall make all necessary and appropriate efforts, with the responsibility of informing the Board of Directors on the justifications and all measures taken as soon as possible.

The Executive Committee shall meet whenever it is convened by its Chairman or by two of its members. Those meetings shall occur at least once a month, with the possibility of establishing a monthly or annual meeting schedule.

The Executive Committee may not deliberate unless the majority of its members are present or represented. Any member of the Executive Committee may be represented at meetings by another member of the Executive Committee by means of written communication addressed to the President.

The decisions of the Executive Committee are taken by a simple majority of votes. The Chairman has a casting vote in the case of a tie.

Lastly, with regard to increases in the Company's share capital, although article 456 of the Portuguese Companies Code establishes that the articles of association may authorize the management body to approve capital increases through cash contributions, the Company's articles of association do not confer such powers on the Board of Directors.

7.7. Core information of the internal control and risk management systems implemented in the Company regarding the financial information disclosure process

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

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

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

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

7.8. Specialized committees within the management body

Within the scope of TAP's governance model, it is also worthy of mention the existence of specialized committees - the Finance, Audit and Risk Committee, created by the Board of Directors on August 27, 2021.

8. RISK MANAGEMENT

8.1. Internal Control System

The Internal Audit Department, by monitoring the internal control systems, plays an active role in the development and strengthening of the risk mitigation process, monitoring its effectiveness, efficiency, and adequacy, in line with the Company's strategic objectives. This department continues to develop effective preventive and detecting internal controls to strengthen the Compliance culture.

It is essential, considering the complex external environment of the TAP Group with the multiplicity of risks inherent to its activity, to implement adequate internal control and risk management systems that mitigate the Company's exposure to risk.

Internal control arises as an instrument for the improvement and refinement of processes, based on the standards, procedures, and structures of the TAP Group, which allows the Board to manage its strategy and objectives efficiently and optimise its resources.

The effective internal control environment in the TAP Group has a Top-Down philosophy that is fostered by senior management. The importance of complying with the established procedures is communicated to all employees, in line with high standards of conduct, reflecting a commitment to ethical values, responsibilities, policies, standards and procedures.

8.2. Main Risks

Organisations are constantly subject to various events that may favour them or expose them to new challenges, some of which have potentially negative impacts in their various components. Such occurrences may affect their activity, markets, image, profitability, and their asset value.

COVID-19 which was notable in 2020 and continued throughout 2021 at a global level, with direct impacts on health systems and economic environments. In 2021 one of the most important measures employed to mitigate the spread of the virus, was a mass vaccination program with direct impact on the airline industry complemented with restrictions on the movement of people, not as severe as in 2020, but in some cases mandatory confinement was applied. The risks addressed in the World Economic Forum's 2022 Global Risks Report, were grouped in the following categories: (i) Societal, (ii) Economic, (iii) Environmental, (iv) Technological and (v) Geopolitical.

These categories can be contextualised as follows in the context of the TAP Group:

Social

The social impact resulting from the pandemic was relevant in 2021 affecting many companies that could not thrive and thus resulting in increased unemployment rate, which had a societal effect such as a polarization impact on livelihood. According to some predictions of health specialists, there will be a potential increase of numbers related to mental health deterioration on the active population, due to isolation and the fear factor related with contacts result of COVID-19 pandemic, which may have a direct impact on the labour market.

The TAP Group's main concern during 2021 was to consolidate the measures created in 2020, to protect the health and safety of its customers and employees, adapting to each of the scenarios that constantly shifted in 2021, considering factors such as the vaccination rate, the pandemic evolution on markets operated by TAP and the rules specified by the National Health Service.

TAP created a special task force to attend any mental/psychological issue that might arise by its employees.

During the downsizing voluntary program there was an individual follow-up by TAP of each of the employees, to at any time clear any doubt about the program and its benefits.

Economic Vulnerabilities

With the restrictions imposed by several countries, not all having the same criteria and adjusting the rules some on a weekly basis, the financial impact on the family's income and uncertainty regarding a near future, largely impacted the airline industry. This associated with on rising of the commodity prices, such as jet fuel, passengers refund due to cancelations, mainly affected by the imposed international restrictions, supply chain disruption, in some cases provider dependence, the rise in the price of CO_2 licences, exchange rate fluctuations, interest rate risk, credit, and capital management risks

All the factors mentioned above negatively impacted the airlines liquidity, some mitigation actions were immediately setup such as, suppliers payment plans were implemented to diminish the liquidity risk, contractual clauses were renegotiated and management of supply chains and stocks, among other initiatives.

In 2021 TAP stayed focused on a sustainable adjustment to its market demands, according with the recovery plan, which among other measures involved a reduction of fleet and employees, after a 1st semester of 2021 with some challenges, the 2nd semester showed some recovery, halting with the appearance of the Omicron Variant in November 2022.

The European Commission accepted TAP Group's Restructuring Plan in December 2021 allowing TAP to receive the financial aid, vital to boost its restructuring actions.

Environmental

Considered the most important risk category, by World Economic Forum, which still is a long way of a convergent trajectory with many barriers arising. During the pandemic lockdown in 2020 the greenhouse gas had global decrease, with the economic recovery the greenhouse gas rose faster than the average of the last decade, economic measures proceed environmental issues, with a net zero goal by the year 2050, some countries and industries will continue the reliance on carbon-intense sectors, which may impact trade agreements between countries, creating political tensions. Extreme weather conditions are more frequent and may create future disruptions on the airline industry normal operation.

The airline industry is dependent on jet fuel, having more efficient consuming aircraft, but still exploiting carbon-based fuel. Alternative fuel is understudy is looking promising but eventual side effects on biodiversity are still being studied.

Customers, especially the younger generations, are increasingly aware of environmental issues, which, combined with a power of mobilisation, may cause serious future impacts on organisations' reputation.

In recent years, the TAP Group has significantly renewed its own fleet by replacing the older aircraft with more recent and fuel-efficient models, implemented measures to reduce noise in airports and is attentive to the implementation of CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation) mechanism aiming to control and reduce CO_2 emissions.

Technological Instability

In 2021 the increased access to the use of digital channels for online shopping, remote home office and education became increasingly generalised, due to the pandemic restrictions, this represented an appetite for fraud and digital intrusion, associated to the need of process adjusting arising from the new communication realities, resulting in new challenges for IT departments in the fight against cyber-attacks, with the possibility of data theft and information manipulation. This encompasses issues such as:

- Phishing.
- Malware (ransomware, spyware, adware, malvertising).
- Denial-of Service Attack (DDoS Attack).
- Social Engineering.
- Fraud.

The shift to a remote home office reality in the TAP Group, has been globally positive and with perspective of maintaining a hybrid model, between home office and company office, considering employee wellness. Despite of the increasing vulnerability to cyber-attacks, remote home office is duly followed and monitored by the area of the TAP Group responsible for IT Security. Employees that have access the IT infrastructures through personal devices or open channels on the internet, have several security steps implemented as 2 factor authentication. Also there has been an up-to-date communication on IT threats and mandatory online training on the subject.

Geopolitical

Due to the pandemic, there was a global effort and collaboration between countries to find a cure for COVID-19, resulting in several vaccines, which began a vaccination program world-wide, with the objective of controlling the spreading of the virus and lessening the decease side effects, but the vaccine distribution has been unevenly, lacking vaccines in several of the poorest countries. This situation allied with an uneven economic recovery will create extreme poverty that may lead to migration waves.
All these geopolitical issues have great impact in TAP network distribution market approach in a middle term, such as managing the flow of passengers from countries with low vaccination rates.

8.3. Analysis Method

The methodological process used to carry out the Risk Assessment of the TAP Group involves the use of an analytical instrument - Corporate Risk Management ("CRM"), based on the methodology of the Committee of Sponsoring Organisations (COSO) of the Institute of Internal Auditors (IIA). In this method the managers, after identifying the risks in the areas for which they are responsible, define a strategy for managing them, entailing:

- Accept - if the level of risk monitored is within the range of variation in accordance with that established by the organisation;
- Share/Transfer - through entering into insurance contracts or outsourcing of functions;
- Mitigate - through procedures that allow the impact to be minimised, as well as controlling the process at the level of risk considered acceptable for the organisation.

Another possible strategy is that of non-acceptance, "no go" of the process or performance, whenever the level of risk is not adequate for the intended operation and for the risk appetite profile of the organisation.

The preparation of the CRM aims to implement the indications provided by internationally accepted standards and processes of risk management, of which the FERMA Risk Management Standard (2003), the COSO document "Enterprise Risk Management - An Integrated Framework" (2016) and ISO31000:2009, "Risk Management-Principles and Guidelines" stand out, and falls within the scope of best practices, which help organisations to delegate and coordinate the essential tasks of risk management and monitoring. This process covers the reality of TAP and applies the methodological instrument known as the "Three Lines of Defence Model", arising from the 8th EU Company Law Directive of ECIIA/FERMA, recently updated to the Three Lines Model (IIA 2020).

A risk type matrix was created in a joint effort by the areas involved (as per the picture below *Risk Type*). It allows a standardisation of the information and thus guarantees coherent analysis of the information sent by the areas, as well as a comparison between homologous periods.

Internal Risks							External Risks	
Core Business	**Subsidiary Processes**	**Isolated**	**Contractual**	**Legal**	**Financial**	**Operational**	**Other External Risks**	**Market**
Clients	Certifications	Fraud	Contractual Changes	Contentious	Assets	Fire Prevention	Airport Infrastructures	Commercial Organization
Suppliers	Technical Factors	Illicit Acts	Corruption	Internal Organization	Fuel Price	IT	Catastrophes	Competition
Installations	Fusions and Acquisitions	Institutional Commitments	Payment Guarantees	Legal/Contractual Support	Money Laundering	Maintenance	Climate Change	Distribution
Branding	Compensation	Internal Control			Treasury / Liquidity	Occupational Health and Safety	Cyber Attack	Legal Requirements
Marketing	Computing	Interpersonal Relationship				Operation	Economic and Geopolitical Environment	Market Appeal
Products	Infrastructures	Projects					Epidemic / Pandemic	New Products
Human Resources	Data Protection						Exchange Rates	New Technologies
Security	Public Health						Parternership	Sector Evolution
							Security Providers	
							Social Environment	
							Supply Chain	
							Taxes	

8.4. Conclusions of the CRM process

The standout areas resulting from the CRM process are the operational risk related to the pandemic and the reinforcement of the Human Resources risk and Treasury and Liquidity risk in terms of internal risks. Regarding external risks, there is the emergence of the Epidemic/Pandemic risk and the reinforcement of the Cyber-Attack, Economic and Geopolitical Environment and Airport Infrastructure risks. The following is the summary of the top six internal and external risks in 2021 and how their total weight stands compared to the previous year:

Position	Internal Risks	2021	2020	2019	External Risks	2021	2020	2019
1	Operation	23%	16%	22%	Epidemics/Pandemics	10%	12%	-
2	Human Resources	13%	12%	10%	Legal Requirements	10%	11%	12%
3	Treasury/Liquidity	6%	7%	3%	Cyber Attack	9%	11%	10%
4	Data Protection	5%	6%	5%	Economic and Geopolitical Environment	8%	10%	9%
5	Infrastructures	5%	5%	8%	Airport Infrastructures	8%	10%	7%
6	Clients	5%	5%	4%	Supply Chain	8%	7%	8%

APPENDIX

I – MANDATORY INFORMATION

1. **Own Shares**

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

   TAP did not acquire or sell any of its own shares during 2021.

   TAP did not hold any of its own shares at 31 December 2021.

2. **Number of Company shares and bonds held by the members of the management and supervisory bodies, and all acquisitions, encumbrances or transfers of ownership, for any reason, of shares and bonds of the Company and of companies with which it is in a controlling or group relationship**

   (Article 447, paragraph 5 of the Portuguese Companies Code)

   During 2021, the Company's sole shareholder was TAP- Transportes Aéreos Portugueses, SGPS, S.A., holder of 8,300,000 shares until 24 May 2021. On this date, and in the context of the State Aid provided to TAP, SA, and approved by the European Commission, TAP's share capital was increased through a cash contribution, in the amount of EUR 462,000,000.00, by the Portuguese Republic, through the Directorate General of Treasury and Finance, and the subscription, by the same, of 92,400,000 new ordinary shares representing TAP's share capital. Subsequently, on December 30, 2021, an extraordinary general shareholders' meeting was held and approved several operations to increase and reduce TAP's share capital ("Harmony Operation"), as a result of which TAP's share capital became EUR 904,327,865 (nine hundred and four million three hundred and twenty seven thousand eight hundred and sixty five euros), corresponding to 180,865,573 shares, with a nominal value of EUR 5.00 each, wholly owned by the Portuguese Republic, through the Directorate General of Treasury and Finance.

3. **Annual amount of remuneration earned by members of the Company's management and supervisory bodies in 2021**

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

   The members of the Company's management and supervisory bodies are also members of the management and supervisory bodies of TAP - Transportes Aéreos Portugueses, SGPS, S.A., and are remunerated for the performance of these duties within the scope of the latter company. The members of the Company's management and supervisory bodies do not receive additional remuneration for performing their functions in other companies of the TAP universe (including the Company).

4. **Granting of credit to companies in which an interest is held and respective creditor or debtor positions**

   (Article 5, paragraph 4 of Decree-Law 495/88 of 30 December, with new wording provided by Decree-Law 318/94 of 24 December)

   See note 38 Related Parties of the consolidated financial statements for information on credit granted to companies in which an interest is held and the respective creditor or debtor positions.

5. **Authorizations granted for transactions between the directors and the Company**

   (Articles 66, paragraph 5, sub-paragraph e) and 397 of the Portuguese Companies Code)

   The terms and conditions of transactions between the Group and related parties are substantially identical to the terms that would normally be contracted between independent entities in comparable operations.

   See note 38 of the consolidated financial statements for business transactions between the Company and its directors.

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

In accordance and for the purposes of article 245, paragraph 1, sub-paragraph c) of the Portuguese Securities Code, the members of the Board of Directors of Transportes Aéreos Portugueses, S.A. identified below, declare that, to the best of their knowledge, the management report, the annual financial statements, the legal certification of accounts and all other accounting documents were prepared in conformity with the applicable accounting standards. They also declare that said documents provide a true and appropriate view of the assets and liabilities, financial position and profit/loss of the Company and the companies included in the consolidation perimeter. They further declare that the management report faithfully describes the business evolution, performance and position of the Company and of the companies included in the consolidation perimeter and it contains a description of the main risks and uncertainties that the Company and the companies included in the consolidation perimeter face.

Lisbon, 10 April 2022

BOARD OF DIRECTORS

____

Manuel Amaral Beja
Chairman of the Board of Directors

____

Christine Ourmières-Widener
Member of the Board of Directors and Chairman of the Executive Committee

____

Gonçalo Neves Costa Monteiro Pires
Member of the Board of Directors and Member of the Executive Committee

____

Ramiro José Oliveira Sequeira
Member of the Board of Directors and Member of the Executive Committee

Silvia Mosquera González
Member of the Board of Directors and Member of the Executive Committee

Patrício Ramos Castro
Member of the Board of Directors

Ana Teresa C. P. Tavares Lehmann
Member of the Board of Directors

João Pedro Conceição Duarte
Member of the Board of Directors

III - GLOSSARY

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.

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).

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.

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.

IV – RESULTS CONFERENCE CALL

The *conference call* on 2021 results will take place on 11 April 2022 at 14:00 (Portugal/UK time). To attend the conference call, please register in advance through the following link:
https://www.incommglobalevents.com/registration/client/10237/tap-fy-2021-earnings-call/

Conference call for investors and financial analysts.

V - CONSOLIDATED NON-FINANCIAL INFORMATION

Consolidated non-financial information is not included in this report and will be presented in a separate report on a later date.

VI – CONSOLIDATED FINANCIAL STATEMENTS

TRANSPORTES AÉREOS PORTUGUESES, S.A.

CONSOLIDATED FINANCIAL STATEMENTS

2021

INDEX OF FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amount stated in euros	Notes	2021	2020
ASSETS			
Non-current assets			
Tangible fixed assets	4	2,955,068,050	2,944,258,588
Investment Properties	5	1,615,899	1,543,825
Intagible assets	6	23,475,789	24,872,065
Financial holdings	7	172,310	172,310
Other financial assets	8	488,725	488,730
Other non current assets	13	22,903,458	23,784,741
Deferred tax assets	9	363,523,138	129,070,918
Other receivables	10	112,077,476	92,173,501
		3,479,324,845	**3,216,364,678**
Current Assets			
Inventories	11	56,556,807	80,166,181
Other receivables	10	347,681,592	1,115,559,061
Income tax receivable	12	-	291,037
Other current assets	13	21,920,877	25,964,000
Cash and cash equivalents	14	812,578,316	518,756,607
		1,238,737,592	**1,740,736,886**
Total Assets		**4,718,062,437**	**4,957,101,564**
EQUITY AND LIABILITIES			
Equity			
Share Capital	15	904,327,865	41,500,000
Supplementary capital contributions	16	-	154,353,400
Legal reserves	16	8,300,000	8,300,000
Hedge reserves	16	184,106	(22,921,191)
Other reserves	16	(200,588)	(200,588)
Retained earnings	16	218,425,483	(105,028,018)
Net income/(loss) for the year		(1,599,110,889)	(1,230,255,776)
Total equity		**(468,074,023)**	**(1,154,252,173)**
Non-current liabilities			
Deferred tax liabilities	9	34,022,773	108,025,578
Post-employment benefits obligations	17	89,282,130	109,569,660
Provisions	18	312,912,748	108,971,298
Restructuring provision	18	37,012,455	93,197,493
Borrow ings	19	795,737,240	596,023,660
Lease liabilities w ith purchase option	19	488,921,489	397,235,680
Lease liabilities w ithout purchase option	19	1,682,965,393	1,611,374,047
		3,440,854,228	**3,024,397,416**
Current Liabilities			
Borrow ings	19	141,456,908	1,555,785,594
Lease liabilities w ith purchase option	19	54,754,917	41,343,311
Lease liabilities w ithout purchase option	19	435,572,934	427,266,305
Other payables	20	406,153,858	386,515,799
Income tax payable	12	104,803	17,430
Other current liabilities	21	63,677,145	74,038,599
Liabilities from unused flight documents	22	643,561,667	601,989,283
		1,745,282,232	**3,086,956,321**
Total liabilities		**5,186,136,460**	**6,111,353,737**
Total equity and liabilities		**4,718,062,437**	**4,957,101,564**

These notes are an integral part of the consolidated statement of financial position as of 31 December 2021.

CONSOLIDATED INCOME STATEMENT

Amounts stated in euros	Notes	2021	2020
Operating Income			
Revenue			
Passenger	24	1,067,193,102	848,373,665
Maintenance	24	54,207,466	67,878,479
Cargo and mail	24	236,236,180	125,689,785
Other operating income	24 and 25	30,905,744	18,242,437
		1,388,542,492	**1,060,184,366**
Operating costs			
Aircraft fuel	26	(340,478,438)	(260,455,413)
Traffic operating costs	26	(372,176,563)	(350,750,131)
Aircraft maintenance costs	26	(19,429,846)	(24,426,407)
Cost of materials consumed	26	(30,169,492)	(40,283,352)
Comercial, communication and marketing costs	26	(71,418,381)	(69,204,310)
Employee costs	27	(373,397,884)	(419,719,963)
Impairment losses in inventories and receivables	28	(35,377,525)	(31,839,446)
Provisions	28	(16,041,875)	(12,234,448)
Other operating expenses	29	(118,324,211)	(124,995,579)
Restructuring	30	14,246,279	(96,086,525)
Other non recurrent items	31	(1,024,940,014)	(10,279,202)
Depreciation, amortisation and impairment losses	32	(489,705,211)	(584,672,061)
Operating income/(loss)		**(1,488,670,669)**	**(964,762,471)**
Interests and similar income	33	33,952,821	33,566,552
Interests and similar expenses	33	(293,608,645)	(245,828,552)
Overhedge gains / losses	33	8,677,082	(165,281,173)
Net currency exchange	33	(175,473,763)	162,108,338
Net income/(loss) before income tax		**(1,915,123,174)**	**(1,180,197,306)**
Income tax for the year	34	316,012,285	(50,058,470)
Net income/(loss) for the year		**(1,599,110,889)**	**(1,230,255,776)**
Net income/(loss) attributable to owners of TAP SA		**(1,599,110,889)**	**(1,230,255,776)**
Net income/(loss) attributable to non-controlling interests		-	-
Results per share			
Basic and diluted earnings per share	35	(25.7)	(148.2)

The notes are an integral part of the consolidated income statement as of 31 December 2021.

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

Amounts stated in euros	Notes	2021	2020
Net income/(loss) for the year		**(1,599,110,889)**	**(1,230,255,776)**
Items that may be reclassified to income statement:			
Gains and losses in derivate financial instruments - cash flow hedge	10 and 20	29,247,212	(52,980,881)
Deferred tax on derivative financial instruments - cash flow hedge	9	(6,141,915)	13,642,490
Items that will not be reclassified to income statement:			
Remeasurements of defined benefit plans	17	7,371,490	(25,420,003)
Deferred tax on remeasurements	9	(1,731,976)	6,225,074
Other comprehensive income/(loss) net of tax		**28,744,811**	**(58,533,319)**
Comprehensive income/(loss) for the year		**(1,570,366,078)**	**(1,288,789,095)**
Attributable to:			
Owners of TAP SA		(1,570,366,078)	(1,288,789,095)
Non-controlling interests		-	-
		(1,570,366,078)	**(1,288,789,095)**

The notes are an integral part of the consolidated comprehensive income statement as of 31 December 2021.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts stated in euros	Notes	Share Capital	Supplementary capital contributions	Legal reserves	Hedge reserves	Other reserves	Retained earnings	Net income/(loss) for the year	Total
Equity as at January 1, 2020		**41,500,000**	**154,353,400**	**8,300,000**	**16,417,199**	**(200,588)**	**9,804,345**	**(95,637,433)**	**134,536,923**
Application of net income/(loss) of the year 2019		-	-	-	-	-	(95,637,433)	95,637,433	-
Remeasurement*	9 and 17	-	-	-	-	-	(19,194,930)	-	(19,194,930)
Fair value of derivative financial instruments*	9 and 23	-	-	-	(39,338,390)	-	-	-	(39,338,390)
Net income/(loss) for the year		-	-	-	-	-	-	(1,230,255,776)	(1,230,255,776)
Equity as at December 31, 2020		**41,500,000**	**154,353,400**	**8,300,000**	**(22,921,191)**	**(200,588)**	**(105,028,018)**	**(1,230,255,776)**	**(1,154,252,173)**
Application of net income/(loss) of the year 2020		-	-	-	-	-	(1,230,255,776)	1,230,255,776	-
Capital increases	15 and 16	862,827,865	(154,353,400)	-	-	-	1,548,069,763	-	2,256,544,228
Remeasurement*	9 and 17	-	-	-	-	-	5,639,514	-	5,639,514
Fair value of derivative financial instruments*	9 and 23	-	-	-	23,105,297	-	-	-	23,105,297
Net income/(loss) for the year		-	-	-	-	-	-	(1,599,110,889)	(1,599,110,889)
Equity as at December 31, 2021		**904,327,865**	**-**	**8,300,000**	**184,106**	**(200,588)**	**218,425,483**	**(1,599,110,889)**	**(468,074,023)**

*Net deferred tax amounts, where applicable.

These notes are an integral part of the consolidated statement of changes in equity as of 31 December 2021.

CONSOLIDATED CASH FLOW STATEMENT

Amounts stated in euros	Notes	2021	2020
Operating activities:			
Receipts from customers		1,433,020,096	1,230,205,068
Payments to suppliers		(1,070,343,039)	(1,123,281,276)
Payments to employees		(406,984,633)	(437,915,431)
Payments of low value and short-term leases		(5,652,803)	(6,232,806)
Cash generated from operations		**(49,960,379)**	**(337,224,445)**
Income tax (payment)/receipt		(2,102)	(323,366)
Other receipts/payments relating to operating activities		21,346,783	24,633,510
Cash flow from operating activities (1)		**(28,615,698)**	**(312,914,301)**
Receipts from:			
Financial investments			
Other financial assets	8 and 10	28,033,167	16,537,385
Tangible fixed assets		38,650,099	1,021,981
Investment grants		-	768,708
Loans granted		883,424,333	841,965,000
Interests and similar income		35,024,720	34,598,417
		985,132,319	**894,891,491**
Payments relating to:			
Other financial assets	8 and 10	(100,832,594)	(108,118,884)
Tangible fixed assets		(57,076,651)	(54,507,976)
Intangible assets		(5,380,649)	(7,875,188)
Loans granted		(930,777,737)	(889,530,000)
		(1,094,067,631)	**(1,060,032,048)**
Cash flow from investment activities (2)		**(108,935,312)**	**(165,140,557)**
Financing activities:			
Receipts from:			
Borrowings	19	-	1,225,011,144
Capital increases	15	998,000,000	-
Lease liabilities with purchase option	19	-	16,311,909
		998,000,000	**1,241,323,053**
Payments relating to:			
Borrowings	19	(16,444,966)	(179,662,265)
Lease liabilities with purchase option	19	(34,369,217)	(35,719,503)
Lease liabilities without purchase option	19	(412,536,232)	(213,596,674)
Interests and similar costs	19	(61,388,640)	(62,017,886)
Interest elements of lease liabilities without purchase option	19	(31,051,114)	(32,389,843)
Overhedge fuel derivatives	23	(11,586,309)	(145,017,782)
		(567,376,478)	**(668,403,953)**
Cash flow from financing activities (3)		**430,623,522**	**572,919,100**
Net increase (decrease) in cash and cash equivalents (1)+(2)+(3)		293,072,512	94,864,242
Effects of currency exchange differences		749,197	(2,397,964)
Cash and cash equivalents at the beginning of the year	14	518,756,607	426,290,329
Cash and cash equivalents at the end of the year	14	**812,578,316**	**518,756,607**

These notes are an integral part of the consolidated cash flow statement as of 31 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Introduction

Transportes Aéreos Portugueses, S.A. ("TAP S.A." or "Company") essentially operates public air transport services for passengers, freight and mail, as well as the provision of services and the performance of commercial, industrial and financial operations relating directly or indirectly to such operation.

On 30 December 2019, TAP S.A. established TAP Logistics Solutions, S.A. ("TAP Logistics"; TAP S.A. and TAP Logistics together are called "TAP S.A. Group" or “Group”). As such, TAP S.A. presents consolidated financial statements in accordance with Decree-Law No 158/2009 of 13 July (as amended).

TAP S.A. Group provides services in Portugal (Mainland and Autonomous Regions), Europe, Africa, North America, South America and the Middle East. TAP S.A. Group has 20 offices in foreign countries and 4 in Portugal.

Headquarters Edifício 25, Lisbon Airport, 1700-008 Lisbon
Share Capital EUR 904,327,865
Tax identification number 500 278 725

The Company is affiliated with IATA - International Air Transport Association, among other associations in the industry.

Following (i) the process of privatising TAP - Transportes Aéreos Portugueses, SGPS, S.A. ("TAP SGPS") - a company that owns 100% of the share capital of TAP S.A. -, which led to the acquisition, in November 2015, by Atlantic Gateway, SGPS, Lda. ("Atlantic Gateway"), of a 61% stake in the share capital of TAP SGPS, and (ii) the subsequent renegotiation of the percentage of the stake held by the Portuguese state in the share capital of TAP SGPS on 30 June 2017, through which a transfer of shares of TAP SGPS took place, between Parpública - Participações Públicas, SGPS, S.A. ("Parpública") and Atlantic Gateway, according to which TAP SGPS had the following shareholder structure:

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

Also on 30 June 2017, the ‘Financial Liability Adjustment and Monitoring Agreement on the TAP Group’ was signed by various banks, TAP SGPS, TAP S.A. and Portugália – Companhia Portuguesa de Transportes Aéreos, S.A. (“Portugália”); together referred to as the "Borrowers"), as borrowers, and Parpública and Atlantic Gateway as shareholders ("AAMPF"), with the TAP Group agreeing with the banks signing the AAMPF to modify certain conditions of their financing agreements and the provisions on financial debt and debt servicing of the Borrowers.

Under the AAMPF, the TAP Group conducted the early amortisation of part of the credits due, and on 28 February 2020, various banks, TAP SGPS, TAP S.A. and Portugália, as borrowers, and Parpública and Atlantic Gateway, as shareholders, signed the "First Addendum to the Financial Liability Adjustment and Monitoring Agreement Regarding the TAP Group", by which certain terms and conditions of the AAMPF were changed.

Following the outbreak of the COVID-19 pandemic, and like most companies operating in the aviation sector, the TAP Group has, since March 2020, suffered a significant reduction in its activity as a result of a sharp drop in demand, resulting in large operating losses. These losses were largely the result of travel restrictions imposed by Portugal and many TAP S.A. destination countries to limit the spread of COVID-19.

To address the impact of COVID-19, the TAP Group adopted measures in 2020 to control and reduce costs, including the suspension or postponement of non-critical investments, renegotiation of contracts and payment deadlines, reduction of incidental expenses, the suspension hiring new workers and promotions, and the implementation of temporary unpaid leave programmes.

On 9 June 2020, the Portuguese state notified the European Commission of its intention to grant state aid in the form of a loan to TAP S.A.'s sole shareholder, TAP SGPS, amounting to EUR 1.2 billion. The aim of this support was to provide sufficient resources so that TAP SGPS could meet its immediate liquidity needs in order to implement a long-term business viability plan.

On 10 June 2020, the European Commission announced its decision to approve the state aid to TAP SGPS, as it believed that it was compatible with European Union rules on state aid.

Following that European Commission decision and following negotiations between representatives of the Portuguese state and the private (direct and indirect) shareholders of TAP SGPS, a number of contractual instruments have been concluded, in summary:

(i) The Portuguese state's granting of an interest-bearing loan to the TAP Group of up to EUR 946 million (to which an additional amount of EUR 254 million could be added, but the Portuguese state was not bound by the provision), as approved by the European Commission (this loan was formalised by the conclusion on 17 July 2020 of a financing agreement between the Portuguese Republic, TAP S.A., TAP SGPS and Portugália, and an additional agreement between the parties to the financing agreement, Atlantic Gateway and Parpública);

(ii) The acquisition by the Portuguese state, through the Treasury and Finance Directorate-General, of shares, economic rights and some of the incidental benefits held by Atlantic Gateway in TAP SGPS, so that the Portuguese state would have a total shareholding of 72.5% and the corresponding economic rights in TAP SGPS;

(iii) The waiver by Parpública and Azul S.A. ("Azul") of their conversion right as holders of convertible bonds issued by TAP SGPS in 2016 at their face value of EUR 30 million and EUR 90 million respectively (the memorandum of understanding providing for such a waiver was entered into on 15 July 2020 by the Portuguese Republic, TAP SGPS, Parpública, Azul and Azul Linhas Aéreas Brasileiras S.A.); and

(iv) The transmission to HPGB, SGPS, SA ("HPGB") of shares representing 22.5% of the share capital and voting rights of TAP SGPS, as well as incidental benefits held by Atlantic Gateway in TAP SGPS, meaning Atlantic Gateway was no longer a shareholder of TAP SGPS.

Regarding the above mentioned remunerated loan by the Portuguese State in the amount of EUR 1.2 billion, the first tranche, of EUR 250 million, was made on 17 July 2020, the second tranche of EUR 224 million, was made on 30 July 2020, the third tranche of EUR 25 million, was made on 31 August 2020, the fourth tranche of EUR 79.6 million was made on 30 September 2020, the fifth tranche of EUR 92 million was made on 5 November 2020, the sixth tranche of EUR 171.4 million was made on 21 December 2020 and the last tranche of EUR 357.9 million was made on 30 December 2020.

To ensure that the TAP Group's obligations are met as a result of the loan granted by the Portuguese State, a financial pledge was granted over all the shares representing the share capital of TAP S.A. and Portugália – Companhia Portuguesa de Transportes Aéreos, S.A. in favour of the Portuguese state, which in the event of execution will have an impact on the share structure of TAP S.A..

Following the verification of several preceding conditions under the operations described above, the following occurred on 2 October 2020:

(i) The acquisition by the Portuguese state, through the Treasury and Finance Directorate-General, of shares, economic rights and a portion of the incidental benefits held by Atlantic Gateway in TAP SGPS, with the Portuguese state having effective control over 72.5% of TAP SGPS' share capital, the same percentage of economic rights in TAP SGPS and some of the incidental benefits realised by Atlantic Gateway in TAP SGPS; and

(ii) The depreciation of the share held by HPGB in Atlantic Gateway, against the receipt of shares representing 22.5% of the share capital and voting rights of TAP SGPS and some of the incidental benefits realised by Atlantic Gateway in TAP SGPS, with Atlantic Gateway no longer a shareholder of TAP SGPS and HPGB now holding a direct share in TAP SGPS.

In this context, as of that date TAP SGPS changed to the following share structure:

- Parpública owning 750,000 ordinary shares, representing 50% of the share capital and voting rights of TAP SGPS;

- The Portuguese state, through the Treasury and Finance Directorate-General, owning 337,500 ordinary shares, representing 22.5% of the share capital, voting rights and economic rights of TAP SGPS;

- HPGB owning 337,500 ordinary shares representing 22.5% of the share capital, voting rights and economic rights of TAP SGPS;

- A number of shareholders jointly hold 75,000 ordinary shares, representing 5% of the share capital, voting rights and economic rights of TAP SGPS.

On May 24, 2021 the Portuguese State, through the General Directorate of Treasury and Finance (DGTF), carried out a capital increase in TAP S.A. in the amount of EUR 462 million.

Following that capital increase, the shareholder structure changed to the following:

- The Portuguese Republic, through the General Directorate of Treasury and Finance, holding 91.8% of the shares representing the share capital and voting rights;
- TAP SGPS holding 8.2% of the shares representing the share capital and voting rights.

On 31 August 2021, the financing repayment date was extended, with the repayment term of the loan granted to TAP S.A. under the Financing Agreement being extended until 31 December 2021 (and not 1 September 2021 as initially provided for in the Financing Agreement) in case of non-adoption of a final decision by the European Commission on the restructuring aid by that date.

If a final favourable decision was adopted by the European Commission on the restructuring aid until 31 December 2021, the date for repayment of said loan should be maintained as that which may be established in the TAP Group's Restructuring Plan approved by the European Commission.

Following the approvals by the European Commission on 21 December 2021 of State aid for (i) the restructuring of TAP Group and (ii) for the compensation of losses suffered by TAP S.A. as a result of the COVID-19 pandemic, on 30 December 2021, the following corporate transaction ("Transactions") were approved at the Extraordinary General Meeting of TAP S.A. and submitted to the Lisbon Commercial Registry Office for registration:

- The increase in the share capital of TAP S.A. from EUR 503,500,000 to EUR 657,853,400, fully subscribed by TAP SGPS, through the conversion of supplementary payments, in the total amount of EUR 154,353,400;
- The reduction of its share capital to EUR 0.00, for partial coverage of losses;
- The increase in its share capital from EUR 0.00 to EUR 1,794,544,230, fully subscribed by the Portuguese Republic, through the DGTF, with the amount of EUR 1,258,544,230 being paid exclusively through contributions in kind, by converting credits from the Portuguese Republic on TAP S.A. (which represents the value of the remunerated loan plus interest accrued up to the date of conversion), and the amount of EUR 536,000,000, realized through cash entries;
- The reduction of its share capital from EUR 1,794,544,230 to EUR 904,327,865, to partially cover losses.

As a result of the Operations, the share capital of TAP S.A. increased to EUR 904,327,865, represented by 180,865,573 shares, with a nominal unit value of EUR 5.00.

Also as a result of the Operations, TAP S.A. now has the Portuguese Republic as its sole and direct shareholder, through the Directorate-General for the Treasury and Finance, without materially altering the control exercised over TAP S.A., insofar as the Portuguese Republic was already the beneficial owner of TAP S.A..

The consolidated financial statements for the period ended on 31 December 2021, approved at the Board of Directors meeting of 10 April 2022 and subjected to the approval of the General Meeting, were prepared for presentation to multiple stakeholders.

The members of the Board of Directors who sign this report declare that, to the best of their knowledge, the information contained herein was prepared in accordance with the applicable Accounting Standards, giving a true and appropriate image of the assets and liabilities of the financial situation and results of the Group.

Ongoing Restructuring Plan for the TAP Group - State Aid

Following the European Commission's decision of 10 June 2020 that authorized the granting of State Aid to the sole shareholder of TAP S.A., TAP SGPS, in the form of a loan, in the amount of EUR 1.2 billion (“Decision of the European Commission”), and the financing contract signed on 17 July 2020 between the Portuguese Republic , TAP S.A., TAP SGPS and Portugália, which made the granting of the State aid to the TAP Group, the was the possibility of the repayment date of the loan granted to the TAP Group, initially fixed on 10 December 2020, to be extended if the Portuguese State submits a TAP Group Restructuring Plan (“Restructuring Plan”) to the European Commission by that date: within six months from the date of the Decision of the European Commission.

The TAP Group became aware that the Portuguese State submitted to the European Commission on 10 December 2020 a Restructuring Plan draft for its discussion and approval.

As part of the preparation of the Restructuring Plan that involves the key areas of the TAP Group, a steering committee was created and a strategic consultant was hired to assist TAP SGPS in the elaboration of the Plan.

The Restructuring Plan incorporates a significant transformation of TAP's operation in order to guarantee economic viability in 2023 and sustainability in 2025. This restructuring includes measures to improve operational efficiency, a resizing of the fleet and a reduction in expenses with personal.

The Restructuring Plan project presented to the European Commission has the purpose of ensuring the survival and sustainability of the TAP Group, the maintenance have about 7 thousand direct jobs, as well as the preservation of the whole eco-system of TAP Group suppliers, ensuring that it continues to contribute to the Portuguese economy.

This Restructuring Plan project is based on four pillars: (i) focus on the core business, (ii) capacity adjustment (fleet dimensioning and network optimization); (iii) optimization of operating costs (lease negotiation, review of third party costs and adjustment of labour costs); and (iv) revenue improvement (passenger revenues and other revenues). All these initiatives seek to achieve a balanced cash flow and, consequently, to balance the Group's capital structure.

In the course of preparation of the Restructuring Plan, updated projections up to date of reference entities in the sector were used, in particular the International Air Transport Association (IATA) projections, considering their greater suitability to the operational reality of TAP S.A., with a business model based on connecting flights and long-haul operations, without, however, disregarding the Eurocontrol projections (together, the "Projections"). These Projections indicated that the 2019 activity figures would only be reached again in 2025, estimating a 50% recovery of the operation in 2021 compared to the 2019 operation.

In this framework, and with a view to adjusting its capacity, the draft Restructuring Plan presented to the European Commission assumed the goal of reducing the TAP Group's fleet to 88 aircraft, a number of aircraft higher than the 75 aircraft that made up their fleet in 2015.

In terms of the optimization of operational costs, EUR 1.3 billion were expected to arise from fleet-related negotiations, as well as 200 to EUR 225 million per year in negotiations with other operational suppliers of the TAP Group. From the labour costs perspective, it was foreseen to redimension the TAP Group's operations, through, among others, the implementation of voluntary measures, such as rescissions by mutual agreement, part-time work and long-term unpaid leave, without prejudice to other additional mechanisms, besides a reduction in the salaries of the Group's employees.

These adjustments to capacity, fleet and the workforce will ensure that the TAP Group, and in particular TAP S.A., will be large enough to respond to the upturn as soon as it happens, while preserving its leadership of the Lisbon hub and its strategy of connecting Europe, the Americas and Africa.

As a part of the work related to the process of preparing the Restructuring Plan, a Resolution of the Council of Ministers was approved on 22 December 2020 at a meeting of the Council of Ministers declaring TAP S.A. (as well as Portugália and Cateringpor - Catering de Portugal, S.A.) in a difficult economic situation, attributing to that declaration the effects provided for in the applicable legislation, specifically the reduction of working conditions and the non-application or suspension, total or partial, of the clauses of the applicable company agreements or collective regulatory instruments, with the establishment of the respective substitute regime (Resolution of the Council of Ministers no. 3/2021, of 22 December 2020, regulated by Order no. 818-A/2021, of 14 January 2021). The status of difficult economic situation attributed to TAP S.A. (and to Portugália e Cateringpor – Catering de Portugal, SA) was renewed by the Council of Ministers Resolution no. 185/2021, dated 29 December 2021, producing effects until December 2022.

In accordance with this determination, in December 2020, a joint negotiation process was developed, between unions, Administration and the Portuguese Government, with a view to the celebration of the so-called "Emergency Agreements", seeking to find a consensual solution on a path to enable the recovery and restructuring of TAP. This process ended favorably, with all unions representing a vast majority of TAP workers ratifying the negotiated emergency agreements (“Emergency Agreements”). The Emergency Agreements came into force on 1 March 2021, allowing, without harming the metrics proposed under the Restructuring Plan, the protection of a greater number of jobs, when compared to the substitute regime. The non-unionized employees of TAP S.A. benefited from a substitute regime in everything equal to the Emergency Agreements in force in their professional group.

In parallel, between February and June 2021, TAP developed a set of labour measures for voluntary adherence for TAP Employees, which include mutually agreed terminations, early retirement, pre-retirement, part-time work and unpaid leave. As a result of these voluntary measures, the initial target of resizing the Restructuring Plan could be adjusted downwards and allowed the number of workers eligible for unilateral measures to be reduced to 124 workers, that is, adjusted by about 94% compared to the number initial forecast and imposed by the Restructuring Plan. The continuation of the execution of the Restructuring Plan led, on July 8, 2021, that TAP started a collective dismissal procedure involving these 124 workers, which followed its procedures in accordance with an indicative timetable.

With these measures, TAP S.A. obtained the commitment of several unions, getting closer to the labor cost targets included in the Restructuring Plan.

During an initial phase of this collective dismissal process, TAP S.A. continued to offer conditions similar to those offered in the voluntary phases for workers who choose to reconsider their previous decision not to adhere to the voluntary measures, as well as maintain the possibility of candidacy for the remaining vacancies in Portugália and others in TAP S.A. that emerged according to the Company's needs, having these initiatives reduced the number of workers to 62 with unilateral departures in the process of collective dismissal (Note 1.13).

In the context of State aid to TAP S.A., approved by the European Commission by decision of 23 April 2021, as compensation for COVID-19 damages verified during the period from March 19 to June 30, 2020, on 24 May 2021, a capital increase of TAP S.A. was carried out, through a contribution in cash, in the amount of EUR 462,000,000, by the Portuguese Republic, through the General Directorate of Treasury and Finance, and the subscription, by the latter, of EUR 92,400,000 new ordinary shares representing the Company's share capital, with a unit face value of EUR 5.00. Following the aforementioned capital increase, the share capital of TAP S.A. was increased from EUR 41,500,000 to EUR 503,500,000, with TAP S.A. now having the Portuguese Republic as its direct shareholder, through the General Directorate of Treasury and Finance, with a representative shareholding of approximately 92% in TAP, the remaining approximately 8% of TAP's share capital continuing to be held directly by TAP SGPS.

Following interactions with the European Commission over the months, on 10 June 2021, the Portuguese State updated the Restructuring Plan initially submitted on December 10, 2020, having notified the European Commission of a EUR 3.2 billion restructuring aid, with the objective of financing a restructuring plan for TAP SGPS, which establishes a package of measures to rationalize TAP's operations and to reduce costs (under which, for example, it is foreseen that TAP will reduce its fleet, rationalize its network and adapt to reduced demand before 2023).

On July 16, 2021, the European Commission approved the following two autonomous decisions:

(i) Re-approval of EUR 1.2 billion rescue aid

The European Commission decided to re-approve the EUR 1.2 billion emergency loan to TAP SGPS, which it had previously approved by decision of 10 June 2020, specifying the rationale for the approval of the aid (related to the situation of the TAP Group and its shareholders in June 2020), as required under the judgment of the General Court of the European Union of May 19, 2021 (case T465/20), which annulled the initial emergency aid decision, while suspending the effects of the cancellation until the adoption of a new decision by the European Commission.

Therefore, this new decision of the European Commission confirms the previous decision of this authority of 10 June 2020, which considered that the said rescue aid of EUR 1.2 billion was compatible with the internal market under Article 107(3)(c) of the Treaty on the Functioning of the European Union and in accordance with the requirements of the European Commission Guidelines on State aid for rescuing and restructuring non-financial firms in difficulty.

(ii) TAP Group Restructuring Plan

The European Commission has decided to initiate an in-depth investigation procedure to further assess the compliance of the proposed Restructuring Plan and the corresponding aid with the conditions set out in the European Commission's Guidelines on State aid for rescuing and restructuring non-financial companies in difficulty.

Following the interactions with the European Commission that took place after the date of the aforementioned decision of the European Commission, namely with regard to obtaining additional information, on 16 November 2021, the Portuguese State updated the Restructuring Plan submitted on 10 June 2021, which presents an update of the financial projections / sensitivity analysis for the restructuring period (until the year 2025), as well as the inclusion of the years 2026 and 2027, which incorporated the most recent perspectives of the air transport flow, as well as the price of jet fuel and the inflation rate, which generated an estimated increase in revenues and costs for the restructuring period until 2025, with no significant variations in terms of operating results.

This update of the TAP Group Restructuring Plan, including additionally the years 2026 and 2027, was approved by the Board of Directors of TAP SGPS and TAP S.A. on 3 November 2021.

Based on an in-depth investigation by the European Commission and the observations of interested parties and the Portuguese State, the European Commission approved the TAP Group Restructuring Plan on 21

December 2021 (“Approved Restructuring Plan”), within the framework of the European Union rules on state aids, which is intended to be in force until 31 December 2025 and is currently being implemented.

More specifically, the European Commission evaluated the Restructuring Plan, which sets out a package of measures to rationalize the operations of the TAP Group and reduce costs. The plan provides for a division of activities in i) TAP S.A. airlines and Portugália (which will be supported and restructured) and ii) perimeter of non-core assets to be sold or liquidated during the restructuring, namely Groundforce, TAP ME Brasil and Cateringpor. In addition, TAP SGPS and TAP S.A. will be inhibited from making any acquisitions and will reduce the fleet until the end of the Restructuring Plan, streamlining their network and adjusting to the most recent forecasts that estimate that demand will not recover before 2023 due to the coronavirus pandemic. Additionally, TAP S.A. will make up to 18 slots available per day at Lisbon airport to a competing company. The European Commission considers to be relevant that the commitment to transfer the slots does not compromise the viability of TAP S.A.

Based on the above, the European Commission concluded that the restructuring aid complies with the rules of the European Union, having considered that the Approved Restructuring Plan presents itself as realistic, coherent and credible, in order to achieve the objective of ensuring the viability medium/long term and solve the TAP Group's liquidity and insolvency problems.

State support approved by the European Commission amounts to a total value of EUR 3.2 billion, detailed as follows:

- ✈ EUR 2.55 billion related to restructuring support measures to allow the return to viability of TAP S.A. Group, including the conversion of the emergency loan of EUR 1.2 billion into equity, with EUR 990 million planned for 2022;

- ✈ EUR 640 million aid as compensation for COVID-19 damage incurred during the years 2020 and 2021 between 1 July 2020 and 30 June 2021.

1.1. COVID-19 pandemic impact

On 11 March 2020, the World Health Organization declared the existence of a pandemic related to the new coronavirus disease (COVID-19), as a result of which a set of exceptional and temporary measures concerning the epidemiological situation of COVID-19 has been established in the markets in which the TAP S.A. Group operates, with additional restrictions on economic activity being imposed in those markets. The Group's consolidated financial position and the results of the years ending 31 December 2021 and 2020 were significantly impacted by the effects of the COVID-19 pandemic.

1.1.1 Impact on operational indicators

The evolution of the main operational indicators for the financial year 2021 compared with 2020 and 2019 is detailed as follows:

Operational indicators	2021	2020	Variation	
			Value	%
Passenger (000)	5,827	4,657	1,170	+25.1%
RPK (million)	14,917	11,876	3,041	+25.6%
ASK (million)	23,663	18,376	5,287	+28.8%
Load Factor	*63.0%*	*64.6%*	-1.6p.p.	n.a.
Block Hours	195,636	147,213	48,423	+32.9%
Number of Departures	61,664	47,900	13,764	+28.7%
Average Stage Length (km)	2,147	2,044	103	+5.0%
Staff (end of period)	6,626	8,106	-1,480	-18.3%

Operational indicators	2020	2019	Variation	
			Value	%
Passenger (000)	4,657	17,052	-12,395	-72.7%
RPK (million)	11,876	42,065	-30,189	-71.8%
ASK (million)	18,376	52,527	-34,151	-65.0%
Load Factor	64.6%	80.1%	-15.5p.p.	n.a.
Block Hours	147,213	409,522	-262,309	-64.1%
Number of Departures	47,900	136,705	-88,805	-65.0%
Average Stage Length (km)	2,044	1,956	88	+4.5%
Staff (end of period)	8,106	9,006	-900	-10.0%

The fall in activity from March 2020 onwards as a result of the COVID-19 pandemic significantly impacted the Group's performance in the remaining months of 2020 and in 2021, and was significantly affected by the containment measures taken by national and international authorities that were reflected in a sharp drop in demand and led the Group to decrease its operational capacity, resulting in a deterioration in activity throughout 2020 and 2021.

In financial year 2021, the number of passengers transported increased by 25.1%, capacity (measured in ASKs) increased by 28.8%, and demand for passenger traffic (expressed in RPKs) increased by 25.6%, resulting in a deterioration of load factor of 1.6.p.p..

Despite the improvement in 2021 comparing to 2020, the main operational indicators are still far from those registered in 2019, before the pandemic situation.

1.1.2 Impact on financial indicators

The evolution of the main financial indicators for the year ending 31 December 2021 compared with the years ending 31 December 2020 and 2019 are detailed as follows:

Financial indicators	dec/21	dec/20	Variation	
			Value	%
Income statement data				
Operating income	1,388,542,492	1,060,184,366	328,358,126	+31.0%
Ticket revenue	1,067,193,102	848,373,665	218,819,437	+25.8%
EBITDA *	(998,965,458)	(380,090,410)	(618,875,048)	n.a.
EBITDA Margin	*-71.9%*	*-35.9%*	-36.1p.p.	n.a.
Recurring EBITDA **	11,728,277	(273,724,683)	285,452,960	n.a.
Recurring EBITDA Margin	*0.8%*	*-25.8%*	+26.7p.p.	n.a.
Operational result (EBIT)	(1,488,670,669)	(964,762,471)	(523,908,198)	n.a.
EBIT margin	*-107.2%*	*-91.0%*	-16.2p.p.	n.a.
Cash flow statement data				
Cash flow from operating activity	(28,615,698)	(312,914,301)	284,298,603	-90.9%
Cash flow from investment activities	(108,935,312)	(165,140,557)	56,205,245	-34.0%
Cash flow from financing activities	430,623,522	572,919,100	(142,295,578)	-24.8%

Financial position data	dec/21	dec/20	Variation	
			Value	%
Total assets	4,718,062,437	4,957,101,564	(239,039,127)	-4.8%
Total liabilities	5,186,136,460	6,111,353,737	(925,217,277)	-15.1%
Total equity	(468,074,023)	(1,154,252,173)	686,178,150	-59.4%

* EBITDA = Operating Income + Depreciation, amortisation and impairment losses.

** Recurring EBITDA = EBITDA – Restructuring – Other non recurrent items

Financial indicators	dec/20	dec/19	Variation	
			Value	%
Income statement data				
Operating income	1,060,184,366	3,298,753,526	(2,238,569,160)	-67.9%
Ticket revenue	848,373,665	2,914,005,095	(2,065,631,430)	-70.9%
EBITDA *	(380,090,410)	522,926,690	(903,017,100)	n.a.
EBITDA Margin	*-35.9%*	*15.9%*	-51.7p.p.	n.a.
Recurring EBITDA **	(273,724,683)	528,410,885	(802,135,568)	n.a.
Recurring EBITDA Margin	*-25.8%*	*16.0%*	-41.8p.p.	n.a.
Operational result (EBIT)	(964,762,471)	47,181,525	(1,011,943,996)	n.a.
EBIT margin	*-91.0%*	*1.4%*	-60.3p.p.	n.a.
Cash flow statement data				
Cash flow from operating activity	(312,914,301)	337,083,803	(649,998,104)	-192.8%
Cash flow from investment activities	(165,140,557)	(134,701,648)	(30,438,909)	+22.6%
Cash flow from financing activities	572,919,100	15,805,992	557,113,108	+3524.7%

Financial position data	dec/20	dec/19	Variation	
			Value	%
Total assets	4,957,101,564	5,152,800,895	(195,699,331)	-3.8%
Total liabilities	6,111,353,737	5,018,263,972	1,093,089,765	+21.8%
Total equity	(1,154,252,173)	134,536,923	(1,288,789,096)	-957.9%

* EBITDA = Operating Income + Depreciation, amortisation and impairment losses.

** Recurring EBITDA = EBITDA – Restructuring – Other non recurrent items

Financial performance in 2021 was severely impacted by the reduction in activity as a result of the COVID-19 pandemic, however, there was an increase in total operating income by 31.0% in the year and in ticket revenues by 25.8% compared to year 2020. EBITDA fell by EUR 638.1 million to a negative amount of EUR 1,018.2 million and Operating Income (EBIT) deteriorated from a negative amount of EUR 964.8 million in 2020 to a negative amount of EUR 1,507.9 million in 2021. These indicators were negatively impacted, among others, by the recording of an impairment loss in the amount of EUR 884.7 million referring to an account receivable from TAP SGPS (Note 1.1.3).

Consequently, Recurring EBITDA (net of restructuring costs and non-recurring items) shows a positive variation of EUR 265,596 thousand, essentially explained by the improvement in the operational activity of the Group in 2021 compared to 2020 following the positive evolution of the COVID-19 pandemic in 2021 compared to 2020 as well as the adaptation of the Group and society to the pandemic situation.

Regarding the variation presented in the consolidated statement of cash flows, there is a positive variation of EUR 284 million in operating cash flows, resulting essentially from the increase in the Group’s revenue compared to 2020. Investment cash flows recorded a positive variation of EUR 56 million as a result, among others, of the sale of eight aircraft (Note 4). Regarding financing cash flows, there was a reduction of EUR 142 million, being these figures impacted by the capital increases carried out by the Portuguese State (see Introductory Note).

1.1.3 Impact on key estimates

The impact of the COVID-19 pandemic and of the approval of TAP Group Restructuring Plan by the European Commission on the main estimations made by the board of directors, is shown in detail below.

It is the understanding of the Board of Directors that the best estimate, as of 31 December 2021, is reflected in the projections included in the Approved Restructuring Plan, which were approved by the Board of Directors of TAP SGPS and TAP S.A. on 26 May 2021, updated by the Board of Directors on 3 November 2021 and submitted to the European Commission, concerning the years 2026 and 2027.

It should be noted that the Approved Restructuring Plan did not generate relevant changes in the estimates used with reference to 31 December 2021 when compared to those used with reference to 31 December 2020.

These estimates should be contextualized within the scope of the Approved Restructuring Plan, which establishes all revenue and cost assumptions including network and fleet. If reality differs significantly from this plan, namely in terms of fleet, service and sales, or if the Group does not successfully implement its current fleet, routes and cost efficiencies plan, the Group's results may be negatively impacted in the future, which may lead to significant changes in the estimates to be used.

Restructuring provision (Note 30)

In the scope of the ongoing Restructuring Plan, some measures related with organizational restructuring and operational efficiency have been defined, among which is included the reduction of the number of workers (in order) to assure the financial and economic sustainability of the Group.

Following the restructuring process related with the Group's workers, included to the Restructuring Plan approved by the board of directors on 2 December 2020, and the subsequent communications made by TAP' Group's board of directors to the Group's workers, it has been set in motion a process of enrolment for voluntary measures that comprise the mutually agreed termination of the labor contract, the worker's early retirement, worker's anticipated retirement, reduced time work regime and leaves without compensation, and submission of work applications to Portugália.

During the month of June 2021, with the adhesion to the voluntary measures made available, the redimensioning of the number of employees went from 2,000 workers, foreseen, to 124 workers, representing a reduction of 94%. These workers are divided into the following professional groups:

- 35 pilots

- 28 cabin crew
- 38 maintenance & engineering workers
- 23 headquarters workers

In the second semester of 2021, the Company allowed some of its employees to take part in other voluntary termination measures. From the 124 employees:

- 40 adhered to terminations by mutual agreement
- 12 were transferred to Portugália with termination by mutual agreement of 50%
- 10 did not integrate any measure, nor were considered for dismissal (this situation was possible due to the various changes in management positions and accordingly to the needs)

Therefore, from the 124 employees, 62 employees were in a situation of collective dismissal, broken down as follows:

- 20 pilots
- 16 cabin crew
- 14 maintenance & engineering workers
- 12 headquarters workers

Consequently, as at 31 December 2021, and taking into account the best estimate of the Board of Directors regarding the conclusion of the negotiation processes in progress and the payments already made during 2021, the Group revised the provision for expenses to support with the restructuring, to be concluded in 2022, for the amount of approximately EUR 37.0 million, which refers to the estimate of processes to be concluded and future payments already agreed.

Other Provisions (Note 18)

The Group has recorded provisions for any eventual contingencies. The Board regularly evaluates the criteria used to measure such provisions.

Concerning the provision for redelivery costs, being that the date of such event and the value to be accounted for is intimately related with the effective usage of the equipment (chiefly aircraft) and its state of preservation on the delivery date, the Board of Directors has conducted a review of such provision taking into consideration the new information related with the deadlines and costs associated to the phase-out process under the Approved Restructuring Plan.

During the year ended 31 December 2021, the Board of Directors has increased the provision related with the costs of the equipment's redelivery operated under lease agreements with no purchase option, roughly EUR 54 million, net of reversions.

As at 31 December 2021, the Group constituted a provision in the amount of EUR 140.3 million, corresponding to the estimate of additional charges that TAP S.A. will have to bear in connection with the ongoing corporate reorganization.

Following the Approved Restructuring Plan, the Board of Directors of TAP SGPS approved on 29 December 2021 the closure of the operations of its subsidiary TAP ME Brasil with the purpose to liquidate it. On the same date, and also taking into account the Approved Restructuring Plan, TAP S.A. assumed the responsibility of financing TAP SGPS to face the contingencies and liabilities that may result from the liquidation process, namely, those resulting from legal proceedings, restructuring and taxes.

Current asset impairment losses (Notes 10,11 and 28)

The Group maintains provisions for impairment losses on some current assets, and the Board regularly evaluates the criteria used to measure them.

As a result of the approval by the European Commission on 21 December 2021 of the Restructuring Plan and the shareholder change that took place in TAP S.A. in 2021, the Board of Directors identified the need to reinforce impairment losses regarding (i) the balance receivable from TAP SGPS as at 31 December 2021, in the amount of EUR 884.7 million within the scope of the corporate reorganization of the TAP SGPS Group, (ii) accounts receivable from SPdH in the amount of EUR 10.7 million, given the insolvency situation in which it finds itself, (iii) from other accounts receivable in the amount of EUR 5.4 (Note 10), resulting from the increase in the collectability risk identified in some customers, as well as (iv) balances receivable from TAP ME Brasil in the amount of EUR 6.8 million (EUR 4.2 million in customers and EUR 2.6 million in other debtors) arising from the liquidation process in progress at the Brazilian subsidiary of TAP SGPS (Note 28), and (v) inventories amounting to EUR 12.5 million (Note 11), resulting from the reduction in rotation and the expectation of using some items used in the repair of its own and third-party fleet.

Non-current asset impairment losses – Air fleet (Note 4)

On 31 December 2021, the total of non-current consolidated assets related with the air fleet, subject to impairment testing in accordance with IAS 36 in the case impairment indications exist, amount to EUR 2,840 million.

The World Health Organization's declaration of a pandemic resulted in limitations on mobility, plus the economic and social effects of the pandemic itself, resulting in a sharp decline in the Group's activities, and the Board of Directors understood that there was a need to review the impairment tests of non-current assets related to the air fleet, similar to the one carried out as at 31 December 2020.

The recoverable amount of certain assets is calculated considering discounted cash flows models, which require the utilization by the Board of directors of estimates and assumptions which rely on economic and market projections, namely in what concerns cash-flows associated with the operational activity of the Group, exchange rates, growth rates in perpetuity and adjust rates of use in the respective model.

Consequently, and taking into account the Approved Restructuring Plan and the approval by the Board of Directors of the financial projections for the fiscal years 2022-2027 on 3 November 2021, comprising a group of assumptions related with medium and long term evolution of the air fleet, level of activity and operational performance, inserted into the present scenario due to the uncertainty factor associated with the future evolution of COVID-19 pandemic, and its impacts on the civil aviation activity, the same was the basis for the air transport tangible and intangible assets assessment made by the Board of Directors on 31 December 2021.

It is the understanding of the Group's Board of Directors that the best estimate, as of 31 December 2021, is reflected in the projections embedded in the impairment test carried out.

Considering that the projections included in the Restructuring Plan throughout this process did not significantly change the operating results of the Group, it should be noted that the update of the Restructuring Plan approved by the European Commission did not generate relevant changes in the impairment assessment to non-current assets made by the Group with reference to 31 December 2021 compared to the estimated as at 31 December 2020.

It25uppord be noted that any unfavorable variations in the coming years between the actual cash flows and those estimated in the Approved Restructuring Plan may have significant impacts on the calculation of the recoverable value of said assets and consequently significantly affect the financial and economic position of the Group.

Discontinuance of coverage accounting (Note 23)

Until the outbreak of the COVID-19 pandemic, the Group had as policy, regarding the risk reduction on the price volatility of fuel used on civil aviation business, namely, the contracting of Jet fuel derivatives through the negotiation of contracts with a period of up to 12 months comprising between 50% and 60% of the total estimated consumption. The Group uses coverage accounting when the IFRS 9 requirements are fulfilled.

With the reduction of air transport activity resulting from the COVID-19 pandemic and based on the best available information, the Board has reviewed the short-term fuel consumption assumptions and identified that some existing contracts related with coverage operations that did not meet the requirements under IFRS 9, on the account of future transactions that are now very unlikely to occur. Regarding IFRS 9, in these cases the coverage accounting was disrupted. The losses associated with such disruption were recognized in a separate line under the title over hedge costs, in accordance with the Group's accounting policy, in the amount of EUR 165 million in 2020.

In the year ending 31 December 2021, it was recorded a gain of approximately EUR 8.7 million related to the difference in the estimate for derivatives that as at 31 December 2020 did not comply with the hedge accounting requirements, namely by variation of quantities actually consumed and the mark-to-market of said derivatives.

Deferred Taxes

The Group recognizes deferred taxes under IAS 12 by recording deferred tax assets on tax losses whenever their recoverability in legal terms can be assessed.

As a result of the COVID-19 pandemic, in June 2020 a number of amendments to tax legislation were adopted within the framework of the Economic and Social Stabilization Plan, in particular with regard to the period of limitations and deduction percentage of the tax losses generated in 2020 and 2021, and the increase of the period of limitations for another two years with regard to tax losses generated before 2020.

In 2020, taking into account that the Restructuring Plan was under evaluation by the of the European Commission and the existing uncertainty about the evolution of the COVID-19 pandemic no deferred tax assets were recorded on the tax losses generated the same year.

Following the change in the shareholder structure of TAP S.A. in May 2021 which determined TAP S.A.'s exit from the Special Taxation Regime for Groups of Companies ("RETGS"), the losses calculated in 2018, 2019 and 2020 are no longer subject to deduction in the sphere of TAP S.A., and consequently, deferred tax assets were derecognized for tax losses relating to 2018 and 2019 in the amount of EUR 56.6 million.

Based on the Approved Restructuring Plan, as of 31 December 2021, the Group has recorded deferred tax assets on reported tax losses for the years 2015 and 2021, corresponding to deferred taxes in the amount of EUR 134.1 million, and for which there is a prospect of recovery of said amount, taking into account the deadline for deduction of the tax losses (2029 and 2033 for tax losses generated in 2015 and 2021, respectively) as well as the projections of future taxable profits generating taxable income in the period 2022 – 2025, as included in the Approved Restructuring Plan and in the projections of tax profits approved by the Board of Directors of TAP S.A. Group in the sensitivity analysis presented to the European Commission in November 2021 for the period 2026 – 2027. For the remaining periods, a growth rate of 2% was defined and an annual haircut of 3% resulting from the respective time horizon, which ends in 2033.

It should be noted that any unfavourable future variations between the actual results and those estimated in the Approved Restructuring Plan may significantly alter the value of the Group's deferred tax assets.

Unused flight tickets (Note 22)

As of 31 December 2021 and 2020, the total value of unused tickets amounted to approximately EUR 643.6 million and EUR 602.0 million, respectively. The amount of unused tickets as of 31 December 2021 and 2020 was significantly impacted by the effects of the COVID-19 pandemic.

As a result of the reduction in activity after April 2020 and the cancellation of flights imposed on the aviation sector and the Group, the unused tickets as of 31 December 2021 and 2020 include significant amounts related to flights not carried out by that date, while the Group remains responsible for providing the service in the future or for refunding the tickets under the contractual terms.

In this context, the Board of Directors has revised the policy for the use of unused tickets, specifically regarding the possibility of rebooking tickets at no additional cost and the reimbursement of tickets as vouchers of a higher value and extended validity periods, which together with the cancellation of flights due to the COVID-19 pandemic, resulted in an increase in liabilities recorded on 31 December 2021.

The criteria used to estimate the valuation of unused flight tickets have been revised in accordance with the aforementioned policy, including, but not limited to, differentiated estimates regarding the future use of refund vouchers and future use of tickets. Any changes to the policy for the use of unused tickets and new relevant information may result in changes in the estimates made by the Board of Directors regarding the valuation of this liability.

Customer loyalty programme (Note 21)

The performance obligations associated with the award of miles to members of the Miles & Go program are measured, based on historical information on the number of miles allocated and not used or expired at the end of each year, adjusted for the estimated miles to expire without use, and the "stand-alone price", which is based on the equivalent average price of the ticket, considering the miles redemption history.

In 2020, in order to mitigate the impacts caused by the pandemic, TAP S.A. extended by 12 months the validity of the miles allocated to customers, to miles expiring between March and September 2020 and as a caution it did not change the “stand-alone price” calculated in 2019. If the redemption of miles, in the coming years, does not reach the pre-pandemic COVID-19 historical values and the commercial strategy does not involve the attribution of new validity extensions, the results of the Group may register a positive impact.

1.1.4 Mitigation measures for the COVID-19 pandemic effect

During the year ending 31 December 2021, and in the same line of action followed since the beginning of the COVID-19 pandemic, the Group adopted liquidity protection measures, namely suspension or postponement of non-critical investments, renegotiation of contracts and payment terms with suppliers and lessors, cutting ancillary expenses and staff adjustment, as well as maintenance of the layoff regime.

Providers and lessors

As a result of the reduction in activity and liquidity management, the Group continued to reduce the hiring of current service providers, reducing accounts payable and renegotiating, whenever possible, payment plans with the respective extension of the payment period.

As a result of the slowdown in commercial and operational activity, there were also contacts with lessors with a view to the contractual renegotiation of some conditions of the aircraft lease contracts, which represent almost the entire fleet. These negotiations that took place in 2020 and continued in 2021, represented savings of around EUR 96 million, focused mainly on the decrease and deferral of rent payments and maintenance reserves.

It should be noted that, taking into account the effects of the pandemic, in 2020 an agreement was negotiated with Airbus SAS (“Airbus”) which amended the contracts for the acquisition of aircraft of the A320neo and A330neo families, allowing for a reduction in CAPEX in the years 2020 to 2022 in approximately 1,000 million dollars, in order to achieve a better alignment with the current market situation and the prospects of recovery for the coming years. With regard to the contract for the acquisition of A320neo family aircraft, the number of aircraft to be delivered in 2020 was reduced, postponing some deliveries to 2021. In addition, the agreement allowed for the postponement of most deliveries originally planned for 2021 and 2022 for the period between 2025 and 2027. With regard to the contract for the acquisition of A330neo aircraft, a postponement to 2024 was agreed for the 2 aircraft with delivery originally scheduled for 2022, guaranteeing TAP S.A. the deferral of commitments with the payment of Pre- Delivery Payments and the possibility of exchanging these aircraft for other models, to be evaluated based on the resumption of demand and the company’s future needs.

Layoff

The year 2021 began with the management of the evolution of the epidemiological situation, with the 3rd wave of the pandemic, in Portugal and in the World, with the adjacent effects at the health, humanitarian, operational and economic levels.

Temporary restrictions on all non-essential travel outside the country, as well as the ban and suspension of flights on air connections between Portugal and some countries, caused high and increased constraints to TAP S.A. activity.

In this scenario, with the abrupt reduction in the Group's revenue and activity, the Board of Directors decided to resort to the classic Layoff, pursuant to Articles 298 et seq. of the Labour Code. This is one of the support mechanisms available to companies in a difficult economic situation and took place in parallel with the current Restructuring Plan.

Adherence to this regime on 1 March 2021 may be extended up to 12 months, with this assessment being carried out monthly and individually, in accordance with the Group's needs.

In 2021, as a result of the support schemes identified above, it was verified a saving in personnel costs of around EUR 26 million (EUR 127 million in 2020), due to the financial support provided by Social Security.

Government Support

Besides all the support mentioned in the Introductory Note arising from the approval of the Restructuring Plan, the Group adhered to a set of supports to the economy that the Portuguese Government promoted in the context of the COVID-19 pandemic, namely: (i) the support mechanisms under the state of emergency, established in Decree-Law no. -E/2021, of January 15th; (ii) the application of the exceptional and temporary regime of suspension of judicial, administrative and tax deadlines, pursuant to Law No. 1-A/2020, of March 19, in its current wording, and (iii) the exceptional regime protection of corporate credits, within the scope of the COVID-19 disease pandemic, contained in Decree-Law No. 10-J/2020, of March 26, in its current wording.

Finally, it should be mentioned the use of the classic layoff as recommended by the Labour Code, when applicable.

1.1.5. Going concern

The Board of Directors of the Group understands that the consolidated financial statements of TAP S.A. Group as at 31 December 2021 must be prepared using the principle of continuity, based on (i) the Approved Restructuring Plan (Introductory Note) which, taking into account the respective base scenario, foresees the gradual growth of the activity, combined with a strategy of fleet reduction, operational and investment costs, (ii) shareholder financial support from the Portuguese State to TAP S.A. already carried out (in the total amount of EUR 2,198 million) and to be carried out (EUR 990 million), included in the Approved Restructuring Plan (Introductory Note), with the fundamental purpose of ensuring the financial and economic sustainability, viability and continuity of the operations of TAP S.A. Group, as well as (iii) the ability to obtain external financial resources..

The Board of Directors considers that the high degree of uncertainty resulting from the War in Ukraine, as mentioned in Note 41, does not allow the determination of possible impacts on the Group's activity in 2022, considering that the main effect at the date of approval of the financial statements may arise from the price of jet fuel, for which the Group is negotiating derivative financial instruments in order to fix the price of a part of the fuel necessary for its operation in 2022, similar to the derivative hedging instruments that it has been contracting in previous years (Note 3). Additionally, the Group is monitoring the impacts arising from the evolution of the COVID-19 pandemic in the air transport sector, namely regarding the scenarios of a possible worsening, which currently seems more unlikely considering the behavior of the pandemic in recent months.

The Board of Directors considers that, considering the derivative instruments for jet fuel hedging and the financing and treasury management lines that the Group has contracted and available, this situation will not result in any circumstance that determines difficulties in the pursuit of its activities. To this end, it should be noted that the Group presents a cash balance of EUR 813 million as at 31 December 2021 arising from the approved State aid measures, having also been approved, within the scope of the Approved Restructuring Plan, an amount of EUR 990 million to be injected into the Group during the year 2022.

Bearing in mind the aforementioned, the Board of Directors is convinced that the Group's continuity of operations and liquidity are assured, based on the financing of the estimated treasury needs, as of this date, for a period of twelve months, regardless of the impact to be generated in the Group's operational activity arising from the risks described above.

It should also be noted that the sustainability and financial and economic viability of the TAP S.A. Group in the medium term is dependent on compliance with the Approved Restructuring Plan until 2025, as well as the management of the risks of execution of the Restructuring Plan arising, among other factors, the evolution of the COVID-19 pandemic and the conflict in Eastern Europe in future operational activity. The

Board of Directors is carefully and diligently monitoring the current situation of uncertainty associated with these factors and will define/adjust its commercial strategy to the impacts arising from the current situation, if necessary.

Finally, it should be noted that any unfavorable future variations between the actual results and those estimated in the Approved Restructuring Plan may change the assessment of continuity of operations at each closing date of future years.

2 Summary of key accounting policies

The main accounting policies applied in drawing up these financial statements are described below.

2.1. Preparation Base

These financial statements relate to the period ended 31 December 2021 and were prepared in accordance with International Financial Reporting Standards adopted by the European Union ("IFRS" – previously called 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 previous Standing Interpretations Committee ("SIC"), effective on 1 January 2020. From now on, all of those standards and interpretations will be generically called 'IFRS'.

The acc"mpanying consolidated financial statements have been prep"red"on a going concern basis (Note 1.1.5), from the books and accounting records of the Group, and under the historical cost convention, except for derivative financial instruments and investment properties, which are stated at fair value.
In preparing the financial statements in accordance with IFRS, the Board of Directors has used critical estimates, assumptions, and judgments that impact on the value of assets and liabilities and the recognition of income and expenses for each reporting period. Although these estimates are based on the best information available at the time of preparing the financial statements, the current and future outcomes may differ from these estimates. The key assertions involving a higher level of judgment or complexity, or the most significant assumptions and estimates for the preparation of such financial statements, are published in Note 2.33.

The figures shown, unless otherwise indicated, are expressed in Euro.

2.2. New standards, changes to standards and interpretations as mandated on 31 December 2021

The new standards, interpretations, and changes to existing standards identified below, which became effective on 1 January 2021, are as follows:

Description	Changes	Effective date
1. New Standards, Amendments to Standards Effective January 1, 2021		
• IFRS 16 – Income Bonuses Related to COVID-19	Application of exemption in the accounting of bonuses granted by lessors related to COVID-19, as modifications	June 1, 2020
• IFRS 4 – deferral of the application of IFRS 9	End of the deferral of the start of the application of IFRS 9 for entities with insurance activity, postponed to January 1, 2023	January 1, 2021
• IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Reform of benchmark interest rates – phase 2	Additional exemptions related to the impacts of the reform of the reference interest rates ("IBOR"), and especially the replacement of a reference interest rate by another alternative in the financial instruments traded	January 1, 2021

2 . Standards (new and amended) that become effective on or after January 1 , 2022 , already endorsed by the EU		
• IAS 1 – Disclosure of accounting policies	Requirement to disclose material accounting policies rather than significant accounting policies	January 1, 2023
• IAS 16 – Income obtained before commissioning	Prohibition of deducting the income obtained from the sale of items produced during the testing phase, at the cost of acquisition of tangible assets	January 1, 2022
• IAS 37 – Onerous contracts – costs of complying with a contract	Clarification on the nature of the expenses to consider in determining whether a contract has become onerous	January 1, 2022
• IFRS 3 – References to conceptual structure	Update to the references to the Conceptual Framework and clarification on the recording of provisions and contingent liabilities within the scope of a concentration of business activities	January 1, 2022

• Improvement Cycle 2018 – 2020	Specific and specific amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	January 1, 2022
• IAS 1 – Disclosure of accounting policies	Requirement to disclose material accounting policies rather than significant accounting policies	January 1, 2023
• IAS 8 – Disclosure of accounting estimates	Definition of accounting estimate. Clarification on the distinction between changes in accounting policies and changes in accounting estimates	January 1, 2023
• IFRS 16 – Income Bonuses Related to COVID-19 after June 30, 2021	Extension of the period of application of the exemption in the accounting of bonuses granted by lessors related to COVID-19, as modifications , until June 30, 2022	April 1, 2021
• IFRS 17 – Insurance contracts	New accounting for insurance contracts, reinsurance contracts and investment contracts with discretionary participation features	January 1, 2023
• IFRS 17 – Insurance contracts (amendments)	Inclusion of amendments to IFRS 17 in areas such as: i) scope of application; ii) level of aggregation of insurance contracts; iii) recognition; iv) measurement; v) modification and un-recognition; vi) the presentation of the Statement of Financial Position; vii) recognition and measurement of financial statements; and viii) disclosures	January 1, 2023

2 . Standards (new and amended) that become effective on or after January 1 , 2022 , not yet endorsed by the EU		
• IAS 1 – Presentation of financial statements – Classification of liabilities	Classification of a liability as current or non-current, depending on an entity's right to defer payment. New definition of "settlement" of a liability	January 1, 2023
• IAS 12 – Deferred tax related to assets and liabilities associated with a single transaction	Deferred tax recognition requirement on the registration of assets under right of use / lease liability and provisions for dismantling / related asset , when their initial recognition gives rise to equal amounts of taxable temporary differences and deductible temporary differences , as they are not relevant for tax purposes	January 1, 2023

• IFRS 17 – Initial application of IFRS 17 and IFRS 9 – Comparative Information	This amendment makes it possible to avoid temporary accounting mismatches between financial assets and liabilities of insurance contracts in the comparative information presented, in the application of IFRS 17 for the first time. This amendment allows the application of an overlay in the classification of a financial asset for which the entity does not update the comparative information of IFRS 9.	January 1, 2023

The new and changed standards referred to above in point 1, which became effective on 1 January 2021, did not impact the financial statements of the Group for the financial year ending 31 December 2021. It is not estimated that the new and changed standards referred in points 2 and 3 will have relevant impact in the financial statements of the Group.

2.3. Comparability of financial statements

The financial statements of 31 December 2020, presented for comparative purposes, are fully comparable.

2.4. Consolidation perimeter

Subsidiaries

Subsidiaries are the entities over which the Group has 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 is able to affect that return through existing control over that entity, in particular when it directly or indirectly holds more than half of the voting rights.

The existence and effect of possible voting rights that are currently exercisable or convertible are taken into consideration when the Group evaluates whether it has control over another entity.

The participation of third parties in their equity and net income is shown separately in the consolidated statement of financial position and in the consolidated statement of income, respectively, under the heading "Non-controlling interests".

Entities included in the consolidation perimeter are detailed below:

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

Costs directly associated with acquisitions (consulting services, legal advice, administrative expenses, etc.) are recorded in the Group's consolidated financial statements as expenses for the year in which the acquisition took place, as recognised in the consolidated income statement.

Identifiable assets acquired, liabilities, and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date, regardless of uncontrolled interests. The excess of acquisition cost over the fair value of the Group's share, the identifiable assets and liabilities acquired, is recorded as goodwill.

Investments in subsidiaries where the Group has control are fully consolidated from the date the Group takes control of its financial and operational activities until the moment the control no longer exists.

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

Internal transactions, balances, unrealised gains on transactions, and dividends distributed among Group companies are discarded. Unrealized losses are also eliminated, unless the transaction reveals evidence of an impairment of a transferred asset.

When, at the time of acquisition of control, the Group already has a previously acquired share, the fair value of that share goes to determining goodwill or negative goodwill.

When the acquisition of control is less than 100%, in applying the purchase method, non-controlling interests can be measured at fair value or in the proportion of the fair value of the assets and liabilities acquired, and that option is defined for each transaction.

Subsequent transactions in the sale or acquisition of non-controlling interest, which do not imply change in control, do not result in the recognition of gains, losses, or goodwill, and any difference is determined between the transaction value and the book value of the traded equity recognised.

The equity and net income corresponding to the participation of third parties in the subsidiary companies are shown separately in the consolidated statement of financial position and in the of consolidated profit statement, respectively, under the heading of uncontrolled interests. The losses and gains applicable to the interests they do not control are attributable to them.

Any contingent amount to be transferred by the Group is recognised at fair value at the date of acquisition. Any subsequent remeasurements do not affect goodwill balances unless performed within 12 months after the date of acquisition.

Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5. Segment reporting

As recommended in IFRS 8, the Group presents operating segments based on internally produced management information. In fact, operating segments are reported consistently with the internal management information model, provided to the Group's chief operational decision maker, who is responsible for allocating resources to the segment and evaluating its performance, as well as for strategic decision-making. The Group does not present segmental assets and liabilities, since this information is not presented to the chief operational decision maker.

Two operational segments were identified: air transportation and maintenance and engineering. The activities aggregated in “Others” do not qualify to be reported separately.

Segment reporting accounting policies are consistently used in the Group. All inter-segment revenues are priced at market prices and eliminated in consolidation. Information regarding identified segments is provided in Note 24.

2.6. Currency conversion

Functional and presentation currency

The details included in the financial statements of each of the entities in the Group are measured using the currency of the economic environment in which the entity operates (functional currency). Consolidated financial statements are presented in Euro, with the Euro being the functional currency of TAP S.A. and the Group's display currency.

Balances and transactions in foreign currency

Transactions in currencies other than the Euro are translated into the functional currency using the exchange rates at the date of transactions. Foreign exchange gains or losses resulting from the payment/receipt of transactions, and the conversion, by the exchange rate, at the reporting date, of monetary assets and liabilities denominated in foreign currency, are recognised in the consolidated income statement under the net exchange rate financial differences item.

The exchange rates used to translate consolidated financial statements expressed in a currency other than the Euro or to update balances expressed in foreign currency on 31 December 2021 and 2020 were as follows:

			Average Rate	
Currency	**2021**	**2020**	**2021**	**2020**
USD	1.1326	1.2271	1.1816	1.1470
CHF	1.0331	1.0802	1.0799	1.0709
GBP	0.8403	0.8990	0.8584	0.8893
BRL	6.3101	6.3735	6.3786	5.9988
AOA	635.7510	797.1291	722.2535	663.6039

2.7. Tangible fixed assets

Tangible fixed assets, namely buildings and land, acquired until 1 January 2004 (date of transition to IFRS), are recorded at cost, or cost reassessed in accordance with generally accepted accounting principles in Portugal up to that date, minus accumulated depreciation and impairment losses.

Additionally, at the transition date, TAP S.A. applied the exception set forth in IFRS 1 – First-time Application of the International Financial Reporting Standards, by which the fair value of some categories of assets, reported at transition date (January 1, 2004), can be considered as deemed cost.

With effect from 1 January 2004, assets belonging to the category of buildings of TAP S.A. were revalued to their fair value at that date. The fair value of these tangible fixed assets was determined by an on-balance-sheet evaluation study by an independent expert entity, which also determined the remaining useful life of those assets at the transitional date.

Tangible fixed assets, acquired after the transition date, are presented at cost minus depreciation and impairment losses. 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 acquiring the asset whenever it is likely that future economic benefits will flow to the Group. Other current maintenance charges are recognised as an expense for the period in which they are incurred.

Depreciation is calculated on the acquisition cost, using the straight-line method by twelfths, at rates that best reflect their estimated useful life, as follows:

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

Residual asset values and their useful lives are reviewed and adjusted prospectively, if necessary, on the reporting date (Note 4). If the carrying amount is greater than the recoverable value of the asset, it is readjusted to the estimated recoverable value by recording impairment losses (Note 2.10.).

Gains or losses arising from write-downs or disposals are determined by the difference between the proceeds of disposals less transaction costs and the carrying amount of the assets, and are recognised in the consolidated income statement as other operating income or costs.

For right of use please refer to Note 2.25.

2.8. Investment properties

Investment properties are properties (land, buildings or parts of buildings) held for the purpose of increasing capital, earning rent, or both. Investment properties were valued at fair value at the date of transition to IFRS and then valued according to the fair value model, which is applied to all assets classified as investment property.

The fair value of investment properties is determined on the basis of assessments by external appraisers taking into account the conditions of use or best use, depending on whether they are rented or not.

2.9. Intangible assets

Intangible assets essentially includes software to support the activity, recorded at acquisition cost minus amortisations and impairment losses, according to the straight-line method, for a period ranging from 3 to 10 years.

The amounts capitalized under the caption “Computer programs” refer to amounts paid to external entities for the development and parameterization of information systems to support the activity, not including the capitalization of internal costs.

2.10. Non-financial asset impairment

Non-financial assets, which have no defined useful life, are not subject to depreciation or amortisation, but are subject to annual impairment tests. Assets subject to amortisation/depreciation are revised for impairment whenever events or changes in circumstances indicate that the value at which they are carried may not be recoverable.

Where the recoverable value determined is less than the book value of the assets, the Group records the respective loss due to impairment.

An impairment loss is recognised by the amount of excess of the asset’s carrying amount over its recoverable value. The recoverable amount is the greater of the fair value of an asset, less costs for sale, and its value in use.

For impairment testing, assets are grouped at the lowest level at which cash flows (units that generate cash flows to which the asset belongs) can be identified separately, when it cannot be identified individually for each asset.

The reversal of impairment losses, recognised in previous years, is recorded when it is concluded that recognised impairment losses no longer exist or have decreased.

The reversal of impairment losses is recognised in the consolidated income statement under the heading “Depreciations, amortisations and impairment losses”. However, the impairment loss is reversed up to the limit of the amount that would have been recognised (net of amortisation or depreciation) had the impairment loss not been recorded in previous years.

2.11. Financial assets

Classification

The Group classifies its financial assets according to their characteristics and business model that it has defined to manage the receipt of contractual cash flows. Classification is determined at the time of initial recognition of financial assets.

Financial assets and liabilities are offset, their amounts being reported as net in the consolidated statement of financial position, only when: i) there is a legally enforceable and non-opposable right to offset such amounts, and ii) when there is an intention to settle on a net basis, or when the asset is realised at the same time as the liability is settled. The legal right to offset exists when it is exercised at all times, during the normal course of the activity, and is not contingent upon the occurrence of future events or cases of default, insolvency or bankruptcy of the entity.

All purchases and disposals of these investments are recognised at the time of signing their purchase and sale contracts, regardless of the date of financial settlement.

- **Debt instruments**

A financial asset is measured at amortised cost if (i) it is held to receive the contractual cash flows; and (ii) the underlying contractual cash flows represent only the payment of principal and interest. The assets in this category are initially recognised at their fair value and subsequently measured at their amortised cost.

A financial asset is measured at fair value by other comprehensive income if (i) the purpose inherent in the business model used is achieved either by receiving the contractual cash flows or by selling the financial assets; and (ii) the underlying contractual cash flows represent only principal and interest payments. The assets in this category are initial and subsequently measured at their fair value, with changes in fair value recorded in other comprehensive income except for the recognition of impairment losses, interest and exchange rate gains or losses, values that are recorded directly in the consolidated income statement. When the financial asset is derecognised, the cumulative gain or loss on another comprehensive income is reclassified to a result of the period.

Financial assets that do not qualify for the above-mentioned situations are classified and measured at fair value through profit or loss, a residual category under IFRS 9.

✈ **Equity instruments**

Equity instruments are always measured at fair value. Equity instruments held for trading are measured at fair value by profit or loss. For all other equity instruments, the Group may choose to show changes in their fair value in other comprehensive income on initial recognition, instrument by instrument.

When the Group opts to do so, all changes in fair value except dividends that configure return on investment are recognised in other comprehensive income. In this case, on the date of derecognition of the asset, the cumulative gain or loss is not recognised in income for the period and is then transferred to retained earnings.

Impairment of financial assets

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

✈ **Other accounts receivable**

The Group uses the simplified approach set out in IFRS 9 to calculate and recognise impairment losses on client contract assets. Expected losses up to maturity are recorded, based on experience of actual losses over a period that has been considered statistically relevant and representative of the specific characteristics of the underlying credit risk, adjusted for forward-looking information.

The adjustment for impairment losses is posted against income for the period, under "Incoming Accounts and Inventory Impairment".

✈ **Other financial assets**

The Group considers that all debt instruments measured at amortised cost have zero credit risk.

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

If credit risk has risen significantly, the Group recognises an accumulated impairment equal to the expected loss that is estimated to occur until the respective maturity of the asset.
Any impairment loss on these financial assets is recognised in the income statement for the period under "Accounts receivable and inventories impairment" and "Provisions".

Derecognition of financial assets

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

2.12. Derivatives

The Group uses derivatives to manage the financial and operational risks to which it is subject. Where the expectations of interest rate and jet fuel price developments justify this, the Group seeks to employ operations to protect against adverse movements, using derivative instruments such as interest rate swaps ("IRS") and jet fuel swaps.

In the selection of derivative financial instruments, the economic aspects of these instruments are necessarily assessed. Derivatives are recorded in the financial position statement at their fair value.

To the extent that they are considered effective hedges, changes in the fair value of cash flow hedges are initially recorded in other comprehensive income for the period to which they relate and subsequently in operating profit or loss ("Aircraft fuel"), for jet fuel instruments, and net financial results ("Interest and similar income/expenses") for interest rate instruments, at their settlement date. The ineffective part of the hedge is recorded in net operating profit or loss or financial results, depending on the nature of the derivative at the time it occurs.

In this way, and in net terms, the expenses associated with the hedged finance are offset by the rate inherent in the contracted cover operation. Gains or losses arising from early termination of this type of instrument are recognised in profit or loss when the hedged operation also affects income.

Where possible, the fair value of derivatives is estimated on the basis of quoted instruments. In the absence of market prices, the fair value of derivatives is estimated through the discounted cash flow method and option pricing models, in accordance with generally accepted market assumptions. The fair value of derivative financial instruments is essentially included in other accounts receivable and other accounts payable.

Hedge accounting

Derivatives, used for hedging purposes, may be classified as hedging if they meet all of the following conditions:

- At the start date of the transaction the hedging relationship is identified and formally documented, including the identification of the hedged item, the hedging instrument and the assessment of the hedging effectiveness;
- The hedging relationship is aligned with the risk management strategy and management goals;
- The hedging effectiveness can be measured reliably at the start date of the transaction and throughout the life of the operation;
- There is an economic relationship (50%) between the hedged item and the hedging instrument; and
- Variation risk is not primarily a function of credit risk.

2.13. Assets and liabilities at fair value

Fair value measurements and related disclosures are based on a fair value hierarchy. The hierarchy categorises entries used in evaluation techniques into three levels.

Level 1 inputs are prices quoted in active markets for identical assets or liabilities, which the Group can access on the balance sheet date.

Level 2 inputs are inputs other than the listed market prices included in level 1, which are directly or indirectly observable for the asset or liability.

Level 3 inputs are not observable for the asset or liability. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, allowing for situations where 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 may include the entity’s own data.

2.14. Income tax

Income tax includes current tax and deferred tax. Current income tax is determined on the basis of net income, adjusted in accordance with the tax legislation in force at the reporting date.

Deferred tax liabilities are recorded based on the temporary differences between the book values of assets and liabilities and their tax base. Deferred tax assets are recognised whenever there is a reasonable probability that future tax will be generated, or if there are deferred tax liabilities they can be offset against. Deferred tax assets are reviewed periodically and diminished whenever they are likely not to be used.

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

Deferred tax is recorded as an expense or income for the fiscal year, unless it is due to amounts recorded directly in equity, in which case deferred tax is also recorded under the same heading, i.e. amounts to be included in current and deferred tax, resulting from transactions and events recognised in reserves, are recorded directly under those same headings, not affecting the net profit for the financial year. Thus, the impact of tax rate changes is also recognised in net income, except for items recognised directly in equity, in which case that impact is also recognised directly in equity.

The recording of the tax impacts of the transactions carried out by the Group corresponds to management's understanding of the tax treatment applicable in the light of the legislation issued. In situations where there is an interpretation and this is questioned by the Tax Authorities, management reviews the interpretation, evaluating the probability (above or below 50%) that the adopted tax treatment will be accepted and consequently determines the most probable or expected value of tax assets or liabilities to be recorded.

2.15. Inventories

Goods and raw, subsidiary and consumable materials are valued at the lower of the acquisition cost and the net realisable value. Acquisition cost includes expenses incurred up to the arrival of the goods at the warehouse, using the weighted average cost as a cost method.

The inventories held relate essentially to parts for maintaining engines and aircraft components. Recovered material refers essentially to equipment and spare parts to be used in aircraft and engines and is valued at cost.

The net realisable value is the estimated sales price minus the estimated finishing and marketing costs. The difference between cost and net realisable value, if lower, is recorded under “Impairment in accounts receivable and inventories”.

2.16. Customers and other accounts receivable

Customer balances and other current accounts receivable are initially accounted for at the agreed consideration value unless they have a significant financing component, in which case they are accounted for at fair value. The Group holds current customer and other receivable balances for the purpose of recovering them, so that they are subsequently measured at amortised cost minus impairment losses (Note 10).

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

2.17. Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits and other short-term investments with an initial maturity of up to 3 months that can be immediately mobilised without significant risk of value fluctuations. For the purposes of the consolidated cash flow statement, this item also includes bank overdrafts, which are shown in the consolidated statement of financial position under current liabilities under the heading of interest-bearing liabilities.

2.18. Share capital

Ordinary shares are classified in shareholder equity (Note 15).

Expenses directly attributable to the issuance of new shares or other equity instruments are presented as a deduction, after tax, from the amount received following the issue.

Expenses directly attributable to the issuance of new shares or options for the purchase of a business are included in the acquisition cost as part of the purchase amount.

2.19. Interest-bearing liabilities

Interest-bearing liabilities and lease liabilities are initially recognised at fair value, net of transaction costs incurred and subsequently presented at amortised cost. Any difference between receipts (net of transaction costs) and the amount refunded is recognised in the consolidated income statement over the debt period using the effective interest rate method.

Interest-bearing liabilities and lease liabilities with option to purchase are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the date of the consolidated financial position (Note 19).

2.20. Borrowing costs on loans

Borrowing costs for generic and specific loans, directly related to the acquisition, construction (if the construction or development period exceeds one year) or production of fixed assets that take a substantial period of time to be completed, are capitalised, and form part of the cost of the asset.

Capitalisation of these costs begins after the start of the preparation for constructing or developing the asset and is terminated after the start of use or when the execution of the project in question is suspended or substantially completed.

Other financial charges are recognised as expenses when incurred.

2.21. Provisions

Provisions are recognised where the Group has a legal, contractual or constructive obligation as a result of past events, and it is likely that outflows and/or resources will become necessary to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions for ongoing legal proceedings are made according to the risk assessments by the Group and its legal advisers, based on historical success rates, by nature of the case and the likelihood of an unfavourable outcome for the Group.

The Group recognises a provision for restructuring costs when the general criteria for recognising provisions are met, in particular when there is a detailed formal plan for restructuring and a valid expectation has been created for those affected that it will carry out the restructuring by beginning to implement that plan or by announcing its main characteristics to those affected by it. Underlying expenses are recognised in the consolidated income statement under “Restructuring”.

Provisions for future operating losses are not recognised. Provisions are revised at the reporting date and adjusted to reflect the best estimate at that date (Note 18).

The costs of aircraft restorations performed immediately prior to return to the *lessor* at the end of the lease (defined as *redelivery* for the purposes of IFRS 16) are recognised as a provision, provided that they can be reliably estimated. Additionally, an asset component is recognised in the right-of-use asset that is depreciated by the linear method across the lease term.

2.22. Post-employment employee benefits

The Group has committed to paying its employees cash benefits in the form of supplementary pensions, early retirement benefits, health care and retirement bonuses. The Group has set up autonomous pension funds as a way of financing some of its liabilities for these payments.

In order to estimate its liability for the benefit plans defined above, the Group periodically obtains actuarial calculations of the liabilities determined according to the "Projected Unit Credit Method".

Remeasurements resulting from differences in assumptions used for calculating liabilities and what actually occurred (as well as changes made to them and the difference between the expected return on fund assets and the actual return) are recognised when incurred directly in the consolidated statement of the entire income.

Liabilities, recognised under the heading "Pensions and other post-employment benefits" in the consolidated statement of financial position, represent the present value of bonds with defined benefit plans, minus the fair value of the fund assets.

Plans that are overfinanced are recorded as an asset when there is express permission for their compensation with future employers' contributions, or if the repayment of that financial surplus is expressly authorised or permitted.

Gains and losses, generated by cutting or settling a defined benefit pension plan, are recognised in income for the year when the cut or settlement occurs. A cut occurs when there is a material reduction in the number of employees.

Expenses for past liabilities resulting from the implementation of a new plan or accruals of assigned benefits are immediately recognised in Group results. The increase in spending on past services resulting from early retirement (retirement before the employee reaches the retirement age) or plan changes is recognised in the income statement when it is incurred.

Contributions made under the defined contribution plans are recorded as expenses in the consolidated income statement at the time they are due. According to these plans, in the event that the fund does not have sufficient assets to pay all employees the benefits related to the services provided this year and in previous years, the sponsor does not have a legal or constructive obligation to make additional contributions.

2.23. Other accounts payable

Supplier balances and other current amounts payable are initially recorded at fair value and subsequently measured at amortised cost (Note 20).

2.24. Grants

State grants are only recognised after there is certainty that the Group will meet the conditions for them and that the grants will be received.

Operating grants, received for the purpose of compensating the Group for costs incurred, are recorded systematically in the consolidated income statement during the periods when the expenses that those grants are intended to offset are recognised.

Investment grants, received for the purpose of compensating the Group for investments in tangible/intangible assets, are included under the heading “Other accounts payable” and are recognised in income over the estimated lifetime of its subsidised asset by deducting from the value of depreciations/amortisations.

2.25. Leases

The Group evaluates whether a contract is or contains a lease at the start of the contract. The Group recognises a right-of-use asset and its lease liability for all lease contracts under which it is a lessee, except for short-term leases (defined as leases of 12 months or less) and low-value asset leases (such as tablets and personal computers, small office furniture and telephones).

For such leases, the Group recognises lease payments as an operating expense linearly over the lease term, unless another systematic basis is more representative of the pattern of time during which the economic benefits of the leased assets are generated.

Lease liabilities are initially measured by the present value of payments not made on the date each lease takes effect, discounted based on the implicit rate of the lease. If that rate cannot be readily determined, the Group uses its incremental financing rate.

Lease payments included in the measurement of lease liabilities include:

- Fixed lease payments (including in-substance fixed payments), minus any receivable incentives associated with the lease;
- Variable payments that depend on an index or rate, measured initially based on the index or rate at the start date of the contract;
- Amounts relating to residual value guarantees that are expected to be paid;
- The price of exercising any purchase options, if the lessee reasonably believes that its exercise is certain; and
- Payments for early cancellation of the lease if the contract term reflects the exercise of an option to terminate the contract early.

Lease liabilities are shown on two separate lines in the consolidated statement of financial position under the headings “Lease liabilities with option to purchase” and “Lease liabilities without option to purchase”.

Lease liability is measured subsequently with increases that reflect past due interest on the liability and reductions that reflect payments made.

The Group remeasures the leasing liability (and makes an adjustment corresponding to the related right-of-use asset) whenever:

i) The lease term changes or a significant event or change in circumstances occurs, resulting in a change in the evaluation of exercising a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments, using a revised discount rate.

ii) Lease payments are changed due to changes in an index or rate or there is a change in the expectation of payment of a guaranteed residual value. In such cases the lease liability is remeasured, discounting revised lease payments using an unchanged discount rate (unless in circumstances where changes in payments result from a change in the variable interest rate, in which case a revised discount rate is used).

A lease contract is modified and the modification of the lease is not accounted for as a separate lease, in which case the lease liability is remeasured based on the modified term of the modified lease, discounting the revised lease payments using a revised discount rate on the effective date of the modification. As a result of renegotiations on lease contracts without option to purchase, the Group has reviewed the discount rate applicable to these leases.

Right-of-use assets include initial measurement of the corresponding liabilities, payments made before or on the day of the start of the lease, minus the incentives received, plus any initial direct costs. They are subsequently measured at cost, minus accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation to spend on dismantling and removing a leased asset, restoring its location, or restoring the underlying asset to the condition required by the lease terms and conditions, a provision is recognised and measured in accordance with IAS 37. To the extent that expenses are related to a right-of-use asset, expenses will be included in the related right-of-use asset.

Right-of-use assets are depreciated for the shortest period between the lease term and the life of the underlying asset. If a lease transfers the underlying asset's ownership or the right-of-use asset's value reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the life of the underlying asset. Depreciation starts on the start date of the lease. Right-of-use assets are shown in the statement of financial position under "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 "Tangible fixed assets" policy.

Variable-value leases that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. Their payments are recognised as being spent in the period in which the event or condition that determines the occurrence of such payments occurs, and are included under the heading "Other expenses" (Note 29) in the consolidated income statement.

IFRS 16 allows the lessee to not separate non-lease components and to account for any associated lease and non-lease components as a single contract. The Group did not use this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the contractual consideration for each lease component based on the price, independent of the lease component, and on the price independent of the non-lease components.

2.26. Dividend distribution

The distribution of dividends to holders of capital is recognised as a liability in the Group's financial statements in the financial year in which the dividends are approved by the shareholder until they are settled.

2.27. Revenue

The Group recognises revenue in accordance with the core principle introduced by IFRS 15, i.e. to reflect the transfer of contracted goods and services to customers, in an amount corresponding to the consideration that the entity expects to receive in return for the delivery of those goods or services, based on a 5-stage model, namely: (i) identifying a contract with a customer; (ii) identifying performance obligations; (iii) determining a transaction price; (iv) allocating the transaction price to performance obligations and (v) recognising revenue when or as the entity meets a performance obligation.

The value of the sale of passenger and cargo transport Is, at the time of sale, recorded as a liability under the heading “Unused flight documents”. When the transport takes place or the ticket expires, the value of the sale is transferred from this line to income for the financial year or to an account payable depending on whether the transport was: (i) by the Group or the ticket expired without right to refund; (ii) by another air carrier or the ticket expired with right to refund, respectively, for an amount generally different from that recorded at the time of the sale. Periodic checks are carried out on the balance of the unused flight documents item in order to correct the balances of tickets sold in order to verify those which have already been used or whose coupons have lost their validity and cannot therefore be used or refunded.

Commitments, allocated to third parties by the Group on the sale of tickets, are deferred and recorded as expenses in the financial year according to the year-to-year accruals of their respective transport revenues.

The Group recognises revenue from maintenance contracts according to the *cost-to-cost* method (also called the percentage of completion method), which is defined as the ratio of spending on each contract to a given date to the estimated spending to complete it. Differences obtained between the amounts resulting from applying the percentage of completion method to the total estimated revenue and the amounts already invoiced are recorded in the accounts receivable as creditor accruals (Note 10). In addition, the Group Board of Directors believes that the *cost-to-cost* method is the most appropriate method for measuring the degree to which performance obligations are met in maintenance contracts.

When total spending for an agreement is likely to exceed total revenue, the expected loss is recognised immediately as an expense. Please note that maintenance contracts typically have a duration of less than 3 months.

In the frequent flyer programme “TAP Miles&Go” (formerly “TAP Victoria”), the Group follows the procedure of allocating miles to customers participating in the loyalty programme under defined conditions and on the basis of the flights taken, which can then be used to book flights under preferential conditions, in particular at reduced rates.

At the time of selling a ticket, the Group considers that it has a separate performance obligation corresponding to the Miles&Go programme points allocated. Based on the history of miles allocated but unused and unexpired at the end of each financial year, adjusted to the estimate of unused miles expiring, and the assigned unit value, the Group recognises the estimated deferred revenue as being equal to the allocation of miles. The value of the miles is determined using the stand-alone price, which is based on the average equivalent value of the ticket, considering the miles redemption history. The revenue is thus recognised when miles are used or expire, usually three years after the date of issue, not considering the impact of the extension of the miles' validity in 2020 (see Note 1.1.3).

Revenue is recognised net of indirect taxes, discounts and other costs incurred in delivering it.

2.28. Accruals and deferrals

The Group's companies record their income and expenses as they are generated according to the principle of accrual-based accounting, regardless of when they are received or paid.

Differences between the amounts received and paid and the corresponding income and expenses are recorded in the other accounts receivable, other current assets, other accounts payable, or other current liabilities.

2.29. Contingent assets and liabilities

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

Provisions are recognised for liabilities that meet the conditions in Note 2.21.

Contingent assets are not recognised in the consolidated financial statements but are disclosed in the annex when a future economic benefit is likely to exist.

2.30. Non-recurring items

In accordance with the provisions of paragraphs 85 and 86 in IAS 1, non-recurring items reflect unusual income and expenses that should be reported separately from the usual income statement lines, given their magnitude and relevance to understanding Group operations. The Group seeks to display an underlying performance measure that is not impacted by relevant non-recurring items. Items classified as non-recurring include significant or unusual events not directly related to the operating activity, in particular events intrinsic to its business, aviation activity, as described in Notes 30 and 31.

2.31. Consolidated cash flow statement

The consolidated cash flow statement is prepared in accordance with IAS 7 using the direct method. The Group classifies under "Cash and cash equivalents" those investments maturing in less than three months and for which the risk of changing value is insignificant. For the purposes of the consolidated cash flow statement, the cash and cash equivalents item also includes bank overdrafts included in the consolidated statement of financial position under "Current interest-bearing liabilities".

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

Operating activities mainly include customer receipts and payments to suppliers and staff. They also include net indirect tax payments, income tax payments and payments relating to retirement benefits.

Cash flows covered in investment activities include, but are not limited to, the acquisition and disposal of financial investments, dividends received from associated companies, and receipts and payments from the purchase and sale of intangible and tangible assets.

Cash flows related to financing activities include, but are not limited to, payments and receipts in respect of loans obtained, lease contracts, interest and related expenses, the acquisition of own shares and payment of dividends.

Lease payments are shown in the cash flow statement as follows:

- i) Lease payments representing cash payments from the principal portion of the lease liabilities are shown as cash flows arising from financing activities;
- ii) Lease payments representing the interest portion are also shown as cash flows arising from financing activities; and
- iii) Lease payments that have not been included in the measurement of lease liabilities, including variable payments, short-term leases, and low-value asset leases, are displayed as operating cash flows.

2.32. Subsequent events

Events that occur after the reporting date that provide additional information about conditions that existed at that time are reflected in the consolidated financial statements.

Events that occur after the reporting date that provide information about conditions that occur after that date are reported, if material, in the notes to the consolidated financial statements.

2.33. Estimates and judgements

Preparing the financial statements requires that the Group's management make judgments and estimates that affect the amounts of income, expenses, assets, liabilities, and disclosures at the reporting date.

These estimates are determined by the judgements of TAP S.A. management, based on: (i) the best information and knowledge of present events and, in some cases, reports by independent experts and (ii) the actions that the Group believes it can take in the future. However, at the time of completing the transactions, their results may differ from these estimates. As set out in IAS 8, changes to these estimates that occur after the date of the financial statements are corrected in income prospectively. As a result of COVID-19 pandemic some of these estimates were materially affected as described in Note 1.1.3.

Estimates and assumptions that present a significant risk of material adjustment to the book value of assets and liabilities for the following period are shown below:

✈ **Deferred taxes (Notes 1.1.3 and 9)**

The Group recognises net income tax on the basis of the results of transactions settled in accordance with the tax legislation in force. In accordance with IAS 12, the Group recognises deferred tax assets and liabilities based on the difference between the book value and the tax bases of the assets and liabilities. The Group periodically analyses the recoverability of deferred tax assets based on the projection of the future taxable profit and the estimated period to roll back the time differences.

✈ **Post-employment benefits (Note 17)**

The present value of liabilities on retirement benefits is calculated on the basis of actuarial methodologies, which use certain assumptions. Any changes to those assumptions will have an impact on the book value of these liabilities. The main demographic and financial assumptions used in calculating retirement benefit liabilities are described in Note 17. The Group's policy is to periodically review the main demographic and financial assumptions.

✈ **Recognition of provisions and impairments (Notes 1.1.3, 10, 11, and 18)**

The Group has a number of ongoing legal cases for which, based on the opinion of its legal advisers, it makes a judgment as to whether provision should be made for such contingencies.

Impaired accounts receivable (Note 10) are calculated based on the estimated credit risk for each customer profile and their financial situation.

Inventory impairments are calculated based on criteria that take into account the nature, purpose of use, age, and rotation of materials.

✈ **Customer loyalty programme (Notes 1.1.3 and 21)**

The Group recognises a contractual obligation under the TAP Miles&Go customer loyalty programme based on the per-mile value, taking into account 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 financial statements.

Changing the percentage of miles to expire by 10% would result in an impact on results of EUR 4,461 thousand and changing the stand-alone price by 10% would result in an impact on results of EUR 4,102 thousand.

✈ **Unused flight documents (Notes 1.1.3 and 22)**

The Group periodically analyses the balance of the "Unused flight documents" item in order to correct the amounts of tickets sold for which coupons are no longer valid. The estimated amount of such coupons, which may not be exchanged or refunded, requires judgement by the Board of Directors. As such, changes in the assumptions used by the Group in the calculation of this estimate may have a significant impact on the consolidated financial statements.

Considering the impact of the COVID-19 pandemic, the Administration has reviewed the policy on the use of unused flight documents, in particular as regards the possibility of rebooking tickets at no additional cost and reimbursing passengers with *vouchers* with mark-up and extended validity periods. As such, as a precaution, the percentage of revenue recognized associated with the history of tickets issued and not used was reduced on 31 December 2021 and 31 December 2020 compared to 31 December 2019 (Note 1.1.3).

If that percentage had been recognized in 2021, the Group's results would have had a positive impact of around EUR 45 million.

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

The determination of the useful lives of assets, the determination of the residual value and the depreciation method to be applied, are essential in determining the depreciations to be recognised in the consolidated income statement for each period.

These parameters are defined according to the Board of Directors' best judgment for the assets in question, and also taking into account practices adopted by industry companies at international level.

✈ **Lease liabilities with and without purchase option (Notes 4 and 19)**

The Group recognises the right to use lease assets and liabilities with and without a purchase option (rent falling due on lease contracts) where the contract provides the right to control the use of an identifiable asset for a certain period in exchange for a consideration. To check whether there is control over the use of an identifiable asset, the Group evaluates whether: (i) the contract involves the use of an identifiable asset; (ii) it is entitled to substantially obtain 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 analysis of the lease contracts, in particular the cancellation and renewal options provided for in the contracts and the determination of the incremental rate of funding to be applied for each portfolio of leases identified, requires that the Group use judgements.

The Group determines the useful life of these assets based on the non-cancellable lease period and reviews their periods of use whenever there are changes to the lease contracts that modify the non-cancellable lease period.

✈ ***Redelivery* provision (Notes 1.1.3, 4 and 18)**

The TAP S.A. Group is responsible for maintenance costs for aircraft operated under leases without option to purchase. These are derived from legal and constructive contractual obligations regarding the condition of the aircraft when returned to the lessor. In order to meet these obligations, the Group will normally have to undertake structural maintenance during the lease period. The TAP S.A. Group specialises in this responsibility on the basis of the actual use of the aircraft, such as hours or cycles flown. In measuring this responsibility, several assumptions are considered, the most relevant of which are: (i) the use (flight hours, cycles etc.) and condition of the aircraft, (ii) the expected costs of structural maintenance interventions at the time they are expected to occur, and (iii) the discount rate used.

The key assumptions are reviewed periodically, taking into account available information, and there may be circumstances that significantly change this estimate, such as renegotiating aircraft redelivery conditions, significantly changing the use of the aircraft and their navigability conditions, renegotiating leasing contracts, and changes in the cost of such structural maintenance. The estimated future cost of the structural maintenance of aircraft requires judgement by the Board of Directors, so changes in the assumptions used by the Group in the calculation of this estimate may have a significant impact on the consolidated financial statements.

✈ **Recoverability of tangible and intangible fixed assets (Notes 1.1.3 and 4)**

In accordance with IAS 36, annual impairment tests should be performed or whenever there is strong evidence that non-current assets may be impaired.

The Group will review on an annual basis the assumptions underlying the judgement of whether or not there has been an impairment. The assumptions used have been reviewed in the light of the macroeconomic environment, the indicators in the sector and the strategic assumptions of the Approved Restructuring Plan.

Given the uncertainty about the net book value recovery value of tangible and intangible fixed assets, as they are based on the best information available to date, changes in assumptions could result in impacts on determining the level of impairment and, consequently, on results.

✈ **Restructuring provision (Notes 1.1.3 and 30)**

Based on the ongoing Restructuring Plan, the Group made available to its employees a set of voluntary measures, which include terminations by mutual agreement, early retirements, pre-retirements, part-time work, unpaid leave and transfers to PGA, with the objective of ensuring the metrics of the operational balance of the Restructuring Plan.

Taking into account a firm expectation of strong adherence by the Group's employees to these voluntary measures, combined with a final phase of resizing, the Group recorded a provision for charges to be incurred with the defined restructuring measures, based on the best information available to date, taking into account the target universe of employees and the measures applicable to each one.

However, considering the uncertainty regarding the final number of employees and the specific measures applicable to each of the various alternatives available, changes in the assumptions associated with this estimate could result in impacts in determining the level of provision and, consequently, in the results.

3 Financial risk management policies

Risk management is conducted at the strategic level by the Group and constantly monitored by the management bodies. The guidelines set and decisions taken in the field of risk management are key elements in the Group's position on the external threats posed by the markets and the economic and financial environment. Given the multitude of possible scenarios and developments, the Group's risk management strategy incorporates elements of flexibility and discretion that allow timely adaptation to change in the context in which it operates.

The Group's activities are exposed to a variety of financial risk factors, including effects of market price changes, such as fuel price risk and CO2 emission allowances, as well as exchange rate risk, interest rate risk, credit risk, and liquidity risk.

The Group's risk management is managed and monitored by the Executive Board and the Board of Directors and executed by the relevant management areas of the Group and, in particular, in respect of risk management financial instruments, including fuel-derived, interest rate and exchange rate operations, by the Corporate Finance department, following the guidelines and policies defined and disclosed, as well as specific instructions issued.

During the 2021 financial year, the effects of the COVID-19 pandemic on the Group's economic and financial position were significant, and the financial risks to which the Group is subject in the development of its business and the management of its activities were significantly affected.

✈ **Market risk**

The Group is exposed to various geographical markets, namely Europe, South America, North America, and Africa.

The civil aviation market has been widely impacted by the COVID-19 pandemic, mainly as a result of abrupt reduction in demand, both for economic and public-health reasons, and the reduction in the number of flights resulting from the constraints imposed by the various countries. According to IATA's latest forecasts, the volume of the civil aviation market is not expected to recover earlier than 2024, in comparison with the levels observed in 2019.

TAP S.A. had been implementing a Lisbon hub-based destination diversification strategy, with more than 70% of its revenue coming from the following international markets: Brazil, the USA and countries of the European Union. These markets have imposed a number of limitations on flight operations, they are facing a severe economic crisis, which together with the expected reduction in the prices of service provision may significantly affect the Group's results.

Considering the significant drop in the Group's income from tickets in 2021, the largest declines comparing to 2019 relate to the geographical segments with the highest restrictions imposed throughout the year, namely income on routes to/from South Atlantic (-72.0% YoY), North Atlantic (-55.1% YoY), and some geographies in Europe and United Kingdom (-67.3% YoY).

On the European market, competition is based on: (i) pricing, notably depending on route and type of customer (leisure or business) and (ii) business models and route networks that airlines use to adjust their services to customer needs. This differentiated product incorporates elements such as reliability, regularity, punctuality, schedule diversity, flight frequency, equipment comfort, product quality and flight experience quality. Given the sharp contraction in demand for air tickets, coupled with the mobility restrictions imposed throughout the year, the Group has continuously adapted its network and capacity on the different routes, prioritising profitability.

Regarding the aircraft features such as comfort level, modernity, technological advances, economy of use, low consumption, low noise, low emissions and flexibility in flying range, the renewal of the Group's fleet as one of the newest fleets in Europe is a fundamental competitive advantage. Despite the significant drop in activity, in the course of 2021, five new-generation Airbus aircraft (2 A321neo LR, and 3 A320neo) came into operation and fourteen aircraft (7 A319, 3 A320 and 4 A332) left the fleet.

These changes must be contextualized in the Approved Restructuring Plan, which establishes all revenue and cost assumptions, including network and fleet costs. If reality differs significantly from this plan, namely in terms of fleet, service and sales, or if the Group does not successfully implement its current fleet plan, the Group's revenues and results may be negatively impacted in the future.

✈ **Fuel price risk**

Fuel is one of the main costs borne by the Group, with a strong exposure to fluctuations in its price, which is usually reduced by contracting price hedging derivatives. In order to accommodate the new post-pandemic reality with the greater need for operational flexibility, uncertainty in demand, significant changes in fuel prices and other risk factors unrelated to TAP S.A., the Board of Directors is reviewing the policy and strategy for contracting jet fuel derivative.

As a result of the increased volatility generated by the COVID-19 pandemic, the spot price of jet fuel registered a strong appreciation during the 2021 financial year, having reached a minimum at the beginning of January of USD 432.06 per ton of jet fuel and a maximum in October of USD 774.14 per ton. As a result of this fluctuation and an increase of 62.6% compared to the closing price on 31 December 2020, jet fuel derivatives still presented an unfavourable position during the first quarter of 2021, reaching a minimum on 31 January 2021 with a negative fair value of EUR 32 million.

In the second semester of 2021, with the prospects of economic recovery, jet fuel prices had a great appreciation, which contributed to its derivatives presenting a favourable position during that period. Thus, on 31 December 2021, the fair value of contracted derivatives is favourable by EUR 0.2 million, with no derivatives being *overhedged* as of that date (Note 23).

Any relevant variations in the price of jet fuel after 31 December 2021 could have a significant impact on the Company's consolidated financial statements, as disclosed in Note 1.1.5. If jet fuel prices were those presented in the forward curves as at 24 March 2022, and taking into account the price coverage in the meantime carried out by the Group (hedging), the budget value of the fuel costs item in 2022 would suffer an aggravation of approximately 12.2%.

The Group is also subject to changes in the prices of CO2 emission allowances, which are acquired each year to comply with European Union standards. During 2021, the prices of these allowances ranged from EUR 31.53 to EUR 88.87 per ton.

- **Exchange rate risk**

The Group's exposure to exchange rate variations results from the presence in various geographic markets which affect various relevant cost items and various assets and liabilities. In all the markets in which the Group is present, exchange rate exposure is significant according to operation on more than 80 routes, and also given the high profile on routes between Europe, the American continent and the African continent in terms of air transport activity.

The Group purchases a significant share of third-party goods and services in USD, took over a set of liabilities in USD (Note 19) with lease contracts, has some assets in BRL (accounts receivable), and 44% of its revenues were generated in currencies other than the Euro in 2021 (mainly USD and BRL).

The current economic instability as a result of the COVID-19 pandemic resulted in increased currency-market volatility, with the US dollar and BRL appreciating against the euro by 7.7% and 1.0%, respectively throughout 2021.

Despite the Group's diverse geographic presence, the inherent risks of exchange rate fluctuations and the exchange rate policy decisions of the monetary authorities, markets such as the Brazilian, North American and Angolan markets are within the most significant part in which revenues are obtained in a different currency from the Euro and therefore the Group is subject to fluctuations in costs and income obtained in the referred markets.

In terms of ticket revenue, in 2021 Brazil's share of revenue declined approximately 1% compared to the previous year and 6% compared to 2019, reflecting the long period in which this market was closed to non-essential flights. Also, regarding the Brazilian market, the following situations deserve to be highlighted, with a potential impact on treasury via foreign exchange, favourable or unfavourable: the practice of sales in instalments and the agreements occasionally established with acquirers or banks for the anticipation of revenues raised. The volatility that characterizes the Brazilian currency has consequences in terms of tariff policy, requiring great flexibility in capacity management and rapid reaction in network management and pricing, in order to mitigate the effects of competition and maintain satisfactory occupancy rate.

By the end of 2021, the North American market represented around 18.6 % of the total for ticket sales and was restricted for most of the year, reopening only in November. The prospects continue to be focused on the North American market, given that the expansion in the North Atlantic continues to be an element of the commercial strategy and a relevant source of diversification not only in economic terms, but also in foreign exchange terms.

Another market with a relevant foreign exchange expression in the Group's revenues is the Angolan market, although only a portion of this market's revenues is denominated in Kwanzas. At the end of 2021, assets denominated in Kwanzas represented around 13% of total cash and cash equivalents denominated in foreign currency.

The Group's various foreign exchange costs are responsible for the significant imbalance in its foreign exchange balance, which is in deficit against the dollar. In general terms, the Group's cost items are, for the most part, dependent on the euro and the dollar, with the remaining currencies, with the exception of the Brazilian real, having a reduced expression. The dollar is the reference currency in the aviation sector and covers such important and diverse inputs as fuel, aircraft leasing, maintenance materials and services, aviation insurance, navigation and airport fees 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 collected is indexed, and established by reference, to the exchange rate of the dollar against the euro, with fuel expenditure being almost fully exposed to the dollar, in which only certain fees and commercial commissions are excluded.

In the case of leases and *wet leases* the market is denominated in dollars, from monthly rents, to maintenance reserves and guarantee deposits. Aircraft maintenance is another source of dollar exposure that is not always passed on to the end customer in terms of billing in that currency. The various materials used in the Group fleet are also mainly purchased in dollars. On a strictly financial level, as some Group loans are denominated in dollars, their interest and principal repayments also represent liabilities and additional exposure to the US currency. As of 31 December 2021, around 28% of the Group's interest-bearing financial debt was denominated in dollars, compared with 13% as of 31 December 2020.

The exposure to the dollar also has a long-term dimension as a result of the liabilities incurred on the purchase of aircraft in the current investment framework contracted with Airbus (Note 36). The order of aircraft signed with this manufacturer over the next few years means exposure to the dollar, in the medium and long term, at a significant value, but it also means, in the short term, an annual investment effort of large amounts in dollars as advance payments to the manufacturer.

The Group's exposure to exchange rate risk, as of 31 December 2021 and 2020, based on the Group's financial position, financial assets and liabilities in currencies converted to Euros at the reporting date, is as follows:

	2021				
	USD	BRL	AOA	OTHER	TOTAL
ASSETS					
Cash and cash equivalents (Note 14)	12,138,715	8,324,217	5,667,594	18,321,863	44,452,389
Other financial assets (Note 8)	455,915	-	-	-	455,915
Receivables - customers (Note 10)	42,523,333	79,542,547	649,558	16,781,422	139,496,860
Receivables - other (Note 10)	160,121,476	(24,099)	28,797	9,753,015	169,879,189
	215,239,439	**87,842,665**	**6,345,949**	**44,856,300**	**354,284,353**
LIABILITIES					
Borrowing and lease liabilities with purchase option (Note 19)	410,954,442	-	-	(673,762)	410,280,680
Lease liabilities without purchase option (Note 19)	1,923,733,085	-	-	-	1,923,733,085
Payables - suppliers (Note 20)	27,370,102	(979,042)	2,006,495	6,062,966	34,460,521
Payables - other (Note 20)	23,735,166	3,020,147	1,182,393	3,358,215	31,295,921
	2,385,792,795	**2,041,105**	**3,188,888**	**8,747,419**	**2,399,770,207**

	2020				
	USD	BRL	AOA	OTHER	TOTAL
ASSETS					
Cash and cash equivalents (Note 14)	13,750,540	35,543,376	9,515,709	13,354,096	72,163,721
Other financial assets (Note 8)	455,915	-	-	-	455,915
Receivables - customers (Note 10)	52,148,136	28,154,332	511,605	14,467,851	95,281,924
Receivables - other (Note 10)	138,881,465	1,535,727	32,081	6,815,546	147,264,819
	205,236,056	**65,233,435**	**10,059,395**	**34,637,493**	**315,166,379**
LIABILITIES					
Borrowing and lease liabilities with purchase option (Note 19)	336,389,636	-	-	(664,299)	335,725,337
Lease liabilities without purchase option (Note 19)	1,894,535,964	-	-	-	1,894,535,964
Payables - suppliers (Note 20)	5,674,436	1,071,506	10,811	4,085,184	10,841,937
Payables - other (Note 20)	35,280,243	1,760,161	1,547,152	2,928,116	41,515,672
	2,271,880,279	**2,831,667**	**1,557,963**	**6,349,001**	**2,282,618,910**

Net foreign exchange losses of EUR 176 million were recorded in the 2021 financial year (Note 33), including negative effects on the impact of the USD's appreciation on recorded liabilities, of which EUR 147.1 million concern lease liabilities with no purchase option.

Exchange rate market volatility may significantly affect the measurement of the Group's assets and liabilities and significantly impact the amounts of foreign-currency receipts and payments.

As of 31 December 2021, a (positive or negative) variation of 10% of all exchange rates referring to the euro would result in an impact on the financial year's results of approximately EUR 205 million (2020: EUR 197 million).

✈ Interest rate risk

Regarding the reform of the reference interest rates, since the financial instruments held by the Group are exposed only to Euribor, and as this reference interest rate was restructured in 2019 to match a risk-free interest rate, and its replacement is not expected in the coming years, there are no impacts to consider in the measurement and classification of financial instruments.

The Group maintained throughout 2021 the aid from the Portuguese State amounting to EUR 1.2 billion, which was converted into equity on 30 December 2021. Due to the termination of this financing remunerated at a variable rate, the amount of fixed rate financing in the Group's debt as a whole increased from around 41% at the end of 2020 to 78% at the end of 2021. Most variable rate loans bear interest at Euribor, plus the contractual margin and, as this index registered negative values for all maturities throughout 2021, the value applied to the respective operations was zero, in accordance with the floor imposed by the financing entities. In practice, all loans stated in Euros and at a variable rate had only the contractual margin as a cost.

In the years prior to 2021, the Group carried out three fixed-rate bond issues, therefore there is a very considerable part of its debt that is not subject to interest rate variations. Even so, and even in relation to floating rate debt, the risk has not materialized significantly in recent years, given the prolonged period of interest rates close to zero, which has been observed in the Eurozone. The future impacts of an increase in the general level of interest rates will be relevant for the Group, not only in terms of existing debt, but also in terms of debt amounts to be contracted in the future as a result of the planned investments in the fleet. Interest rates are also a factor of cost aggravation in leasing, transactions in which, normally, the level of long-term interest rates is reflected in the rent of the aircrafts.

As of 31 December 2021 and 2020, financial liabilities subject to the risk of interest rate variation are summarised as follows:

	2021					
	< 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Variable Rate						
Borrowings	21,902,234	43,043,678	130,469,194	43,744,749	-	239,159,855
Lease liabilities with purchase option	14,127,714	14,264,771	54,980,395	-	-	83,372,880
	36,029,948	**57,308,449**	**185,449,589**	**43,744,749**	**-**	**322,532,735**
Fixed Rate						
Borrowings	119,554,672	201,099,958	377,379,667	-	-	698,034,297
Lease liabilities with purchase option	40,627,205	40,568,974	126,613,628	248,687,827	3,805,888	460,303,522
	160,181,877	**241,668,932**	**503,993,295**	**248,687,827**	**3,805,888**	**1,158,337,819**
Total	**196,211,825**	**298,977,381**	**689,442,884**	**292,432,576**	**3,805,888**	**1,480,870,554**
% fixed rate	**82%**	**81%**	**73%**	**85%**	**100%**	**78%**

	2020					
	< 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Variable Rate						
Borrowings	1,237,164,486	46,248,453	122,351,017	42,242,333	-	1,448,006,289
Lease liabilities with purchase option	12,848,064	17,243,012	54,639,814	-	-	84,730,890
	1,250,012,550	**63,491,465**	**176,990,831**	**42,242,333**	**-**	**1,532,737,179**
Fixed Rate						
Borrowings	318,621,109	7,456,122	376,717,666	1,008,069	-	703,802,966
Lease liabilities with purchase option	28,495,246	28,375,361	94,290,536	161,820,760	40,866,197	353,848,100
	347,116,355	**35,831,483**	**471,008,202**	**162,828,829**	**40,866,197**	**1,057,651,066**
Total	**1,597,128,905**	**99,322,948**	**647,999,033**	**205,071,162**	**40,866,197**	**2,590,388,245**
% fixed rate	**22%**	**36%**	**73%**	**79%**	**100%**	**41%**

It should be noted that the disclosure of financial liabilities traded at fixed interest rates is only presented in the tables above for the purposes of reconciliation with the financial statements, as they are not subject to change.
The Group uses the sensitivity analysis technique which measures estimated changes in output, an immediate increase or decrease in market interest rates, and all other constant variables. This analysis is for illustrative purposes only, since in practice market rates rarely change in isolation.

Sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect the interest income or expenses of variable financial instruments;
- Changes in market interest rates only affect interest income or expenses, in relation to financial instruments with fixed interest rates, if they are recognised at fair value.

Under these premises and also considering: (i) theoretical assumptions of interest rate and EUR/USD exchange rate and (ii) that the intra-annual amortization pace is linear for the purpose of calculating future interest (simpler assumption), a 0.5% increase or decrease in market interest rates for all currencies in which the Group has floating-rate loans on 31 December 2021 would result in a decrease or increase in the amount of interest due of approximately EUR 5.5 million (31 December 2020: EUR 8.0 million).

In November 2019, TAP S.A. obtained a credit rating for the first time from two international credit agencies, and was assigned a BB- (preliminary, stable Outlook) rating by Standard & Poor's, and a B2 (stable Outlook) by Moody's Investors Service. In 2020, as a result of the pandemic, and like most companies in the sector, TAP S.A.w its credit ratings changed and on 31 December 2020, the ratings of these credit agencies were B- (negative Outlook) and Caa2 (negative Outlook) respectively. As a result of the approval of the Restructuring Plan by the European Commission, these ratings are currently under review with upgrade expectations.

Note 19 shows the detail of the interest-bearing debt.

- **Liquidity risk**

The Group's liquidity risk is a confluence of factors arising from operation, existing financing and debt servicing, the conditions for negotiating new transactions, exchange rate losses or gains, and investment activities, when significant. The Group must provide an annual debt service which, while properly planned and distributed over time, has a bearing on cash holdings and must be regularly assessed in the light of developments during the financial year. Any dysfunctionalities in financial markets, such as those that occurred during the sovereign debt crisis, or market shocks in spending or current incomes such as those arising from the COVID-19 pandemic, impose greater or lesser intensity on the Group's cash holdings, liquidity, economic-financial balance, and prosperity.

Following the approved State aid and COVID-19 damage compensation and consequent capital injections carried out during 2021, the Group achieved adequate liquidity levels throughout 2021, ending 2021 with the highest cash value ever. In fact, the Company carried out two capital increases throughout 2021: in May 2021 with an injection of EUR 462 million and in December 2021 in the amount of EUR 536 million.

The Group's cash position, as at 31 December 2021, shows an increase compared to the end of 2020, from EUR 518.8 million to EUR 812.6 million at the end of 2021. This liquidity position reflects the receipt of the last capital injection carried out on 30 December 2021.

It should also be noted that TAP S.A.'s cash management has been carried out in a prudent manner since the start of the COVID-19 pandemic, taking into account the Group's current situation, through close monitoring of the position at every moment and its estimate for the next few months, as disclosed in Note 1.1.5.

In the table below, covering capital and interest, theoretical assumptions were made for market interest rates and EUR/USD exchange rates. The liabilities are the amounts payable within the specified time limits, including the estimate of all contractual cash flows with amortisation and undiscounted interest, until the end of the life of the loans. A simplifying assumption for the straight-line intra-annual depreciation rate for future interest calculation was considered:

	2021					
	< 1 year	**1 - 2 years**	**3 - 5 years**	**6 - 10 years**	**> 10 years**	**Total**
Other payables	406,153,858	-	-	-	-	406,153,858
Borrowings	193,076,356	282,317,389	536,277,645	48,549,712	-	1,060,221,102
Lease liabilities with purchase option	79,908,660	79,027,985	236,247,420	281,608,135	3,880,779	680,672,979
Lease liabilities without purchase option	435,572,934	325,595,955	633,116,824	647,442,684	76,809,930	2,118,538,327
Total	**708,557,950**	**686,941,329**	**1,405,641,889**	**977,600,531**	**80,690,709**	**3,859,432,408**

	2020					
	< 1 year	**1 - 2 years**	**3 - 5 years**	**6 - 10 years**	**> 10 years**	**Total**
Other payables	386,515,799	-	-	-	-	386,515,799
Borrowings	1,621,706,558	86,897,951	548,966,264	47,286,307	-	2,304,857,080
Lease liabilities with purchase option	59,329,117	63,310,005	188,014,065	190,345,928	41,984,294	542,983,409
Lease liabilities without purchase option	427,266,305	309,723,157	572,547,652	602,619,452	126,483,786	2,038,640,352
Total	**2,108,301,980**	**459,931,113**	**1,309,527,981**	**840,251,687**	**168,468,080**	**4,886,480,841**

✈ Credit risk

The following table shows items relating to the Group's assets as of 31 December 2021 and 2020, as well as accounts receivable balances, which reflect the maximum credit risk on those same dates:

	2021	2020
Non-current assets		
Other financial assets (Note 8)	488,725	488,730
Other receivables (Note 10)	112,077,476	92,173,501
Current assets		
Cash and cash equivalents (Note 14)	812,578,316	518,756,607
Other receivables (Note 10)	347,681,592	1,115,559,061
	1,272,826,109	**1,726,977,899**

The Group applies the simplified approach in IFRS 9 to measure expected credit losses, which uses an expected loss expectation for all accounts receivable. To measure expected credit losses, the accounts receivable has been grouped based on common credit risk characteristics and maturity. Expected loss rates are based on the payment profiles of the sales and services provided over a period of 36 months prior to 31 December 2021 and the corresponding historical credit losses incurred during this period. As a result of the analysis carried out and given that a substantial part of the Group's revenue is received in advance, the expected rate of credit loss is very low, and thus the resulting impact is immaterial.

Of the total value of customer accounts receivable, airline and travel agent balances, as identified in Note 10, are settled mainly through the IATA Billing and Settlement Plan ("BSP") and IATA Clearing House ("ICH") systems, which substantially minimises the Group's credit risk.

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

Following this analysis, in 2021 it was recorded an impairment for amounts receivable from related entities in the amount of EUR 902 million (Note 1.1.3), which essentially concerns the balance receivable from TAP SGPS in the amount of EUR 884.7 million (see Note 38).

For all other situations and types of balances receivable, the Group applies the general approach to the impairment model.

As part of its business, Group advanced payments to Airbus for the acquisition of new aircraft and entered into lease liabilities without purchase option contracts for the acquisition of aircraft in which it pays the lessors maintenance reserves and security deposits. In analysing the credit losses for these amounts, the Group considers the financial position of the counterparties and all transactions it has in progress with them.

In addition to short- and long-term financial and cash management, strict monitoring of customer positions and the impact of the economic crisis on their credit quality has also been adopted in the context of managing current assets, for example, it has been possible to limit the worsening of adjustments to a value that is not significant for the size of the activity.

✈ **Capital management**

In general terms the Group’s objective regarding capital management, which is a broader concept than capital revealed under the consolidated statement of financial position, is to maintain a balanced capital structure and debt contracting is analysed periodically by weighting of factors such as cost of financing, the maturity profile of existing funding and debt, and case requirements.

As a result of the COVID-19 pandemic, capital management has changed significantly, making it largely dependent on the State Aid obtained. The changes in equity items carried throughout 2021 aimed to strengthen the capital structure.

Regarding interest-bearing liabilities, current and non-current, there was a decrease of around 54% compared to 2020, given that the loan of EUR 1.2 billion obtained from the Portuguese State (plus interest) was converted into capital on December 30, 2021.

The Group’s debt uses a rigorous accounting measure, so that it can be analysed and measured more comprehensively and substantially, encompassing aggregates where the behaviour is, in some respects, similar to financing. This is the case with leases, especially of aircraft, which is the result of IFRS 16. Increasing the expenses on aircraft in lease without purchase option reflects an increase in significant future liabilities, as these are medium- and long-term contracts that are similar to the phased debt payment, but without risk to the asset’s residual value at the end of the lease. In addition to the renewal 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.

4 Tangible fixed assets

During the periods ending on 31 December 2021 and 2020, the movement under the item Property, plant and equipment item, as well as the respective accumulated depreciations and impairment losses, was as follows:

	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Tools and utensils	Administrative equipment	Other tangible fixed assets	Other assets in progress	Advances to suppliers of tangible assets	Right-of-use assets	Total
Acquisition Cost											
January 1, 2020	**41,125,597**	**156,024,418**	**1,073,552,123**	**2,270,501**	**27,912,533**	**66,751,616**	**12,726,109**	**40,017,604**	**75,228,289**	**2,741,459,859**	**4,237,068,649**
Acquisitions	-	1,047,094	251,526,999	2,417	2,156,009	666,949	171,766	8,547,154	8,617,354	379,960,050	652,695,792
Disposals	-	-	(483,759)	(18,678)	(35,796)	(20,106)	-	-	-	-	(558,339)
Regularisation, transfer and write-off	-	-	18,707,919	-	(11,940)	(14,588,333)	(5,437)	(26,421,566)	(22,202,182)	(144,712,404)	(189,233,943)
December 31, 2020	**41,125,597**	**157,071,512**	**1,343,303,282**	**2,254,240**	**30,020,806**	**52,810,126**	**12,892,438**	**22,143,192**	**61,643,461**	**2,976,707,505**	**4,699,972,159**
Acquisitions	-	297,441	134,325,415	42,331	640,009	232,638	326,938	2,931,175	45,007,563	214,526,311	398,329,821
Disposals	-	-	(289,924,589)	(66,250)	(563,517)	(215,005)	(211,729)	-	-	-	(290,981,090)
Regularisation, transfer and write-off	-	2,571,257	(8,790,432)	(16,316)	(70,266)	(132,939)	(25,369)	(5,655,242)	(1,074)	122,806,281	110,685,900
December 31, 2021	**41,125,597**	**159,940,210**	**1,178,913,676**	**2,214,005**	**30,027,032**	**52,694,820**	**12,982,278**	**19,419,125**	**106,649,950**	**3,314,040,097**	**4,918,006,790**
Accumulated deprec. and impairment losses											
January 1, 2020	**-**	**84,197,625**	**668,354,417**	**2,146,265**	**17,476,756**	**63,574,525**	**11,221,869**	**-**	**-**	**363,768,624**	**1,210,740,081**
Depreciations (Note 32)	-	5,522,652	74,527,228	45,302	796,512	1,330,473	282,060	-	-	486,658,675	569,162,902
Impairment losses (Note 32)	-	-	2,723,947	-	-	-	-	-	-	-	2,723,947
Disposals	-	-	(155,015)	(18,678)	(22,731)	(20,106)	-	-	-	-	(216,530)
Regularisation, transfer and write-off	-	-	(11,980,438)	-	(5,655)	(14,705,298)	(5,437)	-	-	-	(26,696,828)
December 31, 2020	**-**	**89,720,277**	**733,470,139**	**2,172,889**	**18,244,882**	**50,179,594**	**11,498,492**	**-**	**-**	**850,427,299**	**1,755,713,572**
Depreciations (Note 32)	-	5,610,824	58,290,362	64,074	803,052	728,589	264,293	-	-	401,666,532	467,427,726
Impairment losses (Note 32)	-	-	5,686,331	-	1,623,663	-	-	-	3,271,940	-	10,581,934
Disposals	-	-	(255,433,287)	(64,507)	(501,464)	(71,034)	(28,732)	-	-	-	(256,099,024)
Regularisation, transfer and write-off	-	-	(11,175,808)	(16,316)	(61,934)	(134,103)	(25,367)	-	(3,271,940)	-	(14,685,468)
December 31, 2021	**-**	**95,331,101**	**530,837,737**	**2,156,140**	**20,108,199**	**50,703,046**	**11,708,686**	**-**	**-**	**1,252,093,831**	**1,962,938,740**
Carrying amount as at December 31, 2020	**41,125,597**	**67,351,235**	**609,833,143**	**81,351**	**11,775,924**	**2,630,532**	**1,393,946**	**22,143,192**	**61,643,461**	**2,126,280,206**	**2,944,258,588**
Carrying amount as at December 31, 2021	**41,125,597**	**64,609,109**	**648,075,939**	**57,865**	**9,918,833**	**1,991,774**	**1,273,592**	**19,419,125**	**106,649,950**	**2,061,946,266**	**2,955,068,050**

On 31 December 2021 and 2020, the “Right of use” item had the following composition:

	Buildings and other constructions	Aircraft and engine leases	ACMI	Redelivery and Maintenance	Transport equipment	Total
Assets						
January 1, 2020	**1,832,381**	**2,167,304,777**	**431,433,720**	**139,996,692**	**892,289**	**2,741,459,859**
Acquisitions	-	163,245,404	-	216,714,646	-	379,960,050
Regularisation, transfer and write-off	-	(108,680,447)	(15,808,032)	(20,106,992)	(116,933)	(144,712,404)
December 31, 2020	**1,832,381**	**2,221,869,734**	**415,625,688**	**336,604,346**	**775,356**	**2,976,707,505**
Acquisitions	-	85,812,604	-	128,713,707	-	214,526,311
Regularisation, transfer and write-off	-	3,623,020	136,997,556	(17,814,295)	-	122,806,281
December 31, 2021	**1,832,381**	**2,311,305,358**	**552,623,244**	**447,503,758**	**775,356**	**3,314,040,097**
Accumulated depreciations						
January 1, 2020	**714,284**	**158,617,558**	**157,002,413**	**47,179,531**	**254,838**	**363,768,624**
Depreciations (Note 32)	710,226	246,393,959	108,526,010	130,750,527	277,953	486,658,675
December 31, 2020	**1,424,510**	**405,011,517**	**265,528,423**	**177,930,058**	**532,791**	**850,427,299**
Depreciations (Note 32)	407,871	213,446,051	95,952,226	91,663,364	197,020	401,666,532
December 31, 2021	**1,832,381**	**618,457,568**	**361,480,649**	**269,593,422**	**729,811**	**1,252,093,831**
Carrying amount as at December 31, 2020	**407,871**	**1,816,858,217**	**150,097,265**	**158,674,288**	**242,565**	**2,126,280,206**
Carrying amount as at December 31, 2021	**-**	**1,692,847,790**	**191,142,595**	**177,910,336**	**45,545**	**2,061,946,266**

Land and buildings and other constructions of the headquarters were transferred to the Group’s property under Decree-Law 351/89 of 13 October.

To guarantee payment of the amounts due under a loan agreement with a national institution in the amount of EUR 75 million, a mortgage was placed on one of the TAP S.A. urban properties, consisting of twenty-nine office buildings, construction material workshops and others, located at Lisbon Airport. In addition, a second mortgage for funding in the amount of EUR 25 million was contracted in February 2020. On 31 December 2021, the amount of the loan agreement was approximately EUR 92.5 million.

The main movements during the financial year ending 31 December 2021 are as follows:

- ✈ The additions of basic equipment in the amount of EUR 134,325 thousand refer mainly to: (i) acquisition of two aircraft in the amount of approximately EUR 117,715 thousand and (ii) acquisition of aircraft assistance equipment in the amount of EUR 6,486 thousand (acquired from SPdH), and (iii) capitalization of aircraft structural maintenance expenses in the amount of EUR 7,807 thousand.

- ✈ The sale of basic equipment with a net value of EUR 34,491 thousand, essentially refers to the sale of eight aircraft (six A319 and two A320), which generated a gain in the amount of EUR 11,477 thousand and the sale of aircraft assistance equipment purchased a few months earlier which generated a gain of EUR 794 thousand.

- ✈ The additions recorded in the caption “Right of use”, which essentially include: (i) six new lease contracts without a purchase option in the amount of EUR 77,115 thousand; (ii) increase in expenses with major maintenance capitalized in the amount of EUR 52,942 thousand, (iii) increase in the provision for redelivery and the capitalization of expenses with non-recoverable maintenance reserves in the amount of EUR 75,772 thousand.

- Right of use regularisation, transfer and write-off relate to, essentially, (i) the result of renegotiation of lease terms, which generated an increase in the caption amounting to EUR 141,524 thousand and (ii) the review of redelivery provision which led to a decrease in the amount of EUR 17,814 thousand.

- Additions of other assets in progress in the amount of EUR 2,931 thousand refer essentially to expenses with major maintenance in progress in the amount of EUR 2,780 thousand.

- Increase of advanced payments in the amount of EUR 45,008 thousand essentially concern pre-delivery payments.

- The impairment losses recorded include EUR 6,016 thousand concerning obsolete spare parts and tools.

The main movements during the financial year ending 31 December 2020 are as follows:

- The additions to basic equipment of EUR 251,527 thousand mainly relate to: (i) purchase of two aircraft amounting to approximately EUR 200,789 thousand and (ii) purchase of two engines under lease with a purchase option for EUR 27,472 thousand, and (iii) capitalisation of aircraft structural maintenance charges of EUR 9,875 thousand.

- Disposal of basic equipment for the net sum of EUR 329 thousand essentially relates to the sale of APU's (A340) and Spare Parts, which generated a gain of EUR 28 thousand.

- On 31 December 2020, additions under the Right of use item essentially include: (i) five new leasing contracts with no option to purchase in the amount of EUR 159,317 thousand; (ii) increase in capitalised large-scale maintenance spending by EUR 57,430 thousand, (iii) increase in the redelivery provision to the sum of EUR 106,098 thousand and (iv) increase in capitalization of non-recoverable maintenance reserves spending to the sum of EUR 48,120 thousand.

- In addition, settlements, transfers and write-offs under the Right of Use item essentially include: (i) reduction resulting from renegotiations of contracts with lessors amounting to approximately EUR 100,622 thousand and (ii) resulting from the revision of the redelivery provision, a reduction of EUR 36,653 thousand.

- Additions of other assets in progress amounting to EUR 8,547 thousand essentially relate to: (i) to an A330 flight simulator for an amount of EUR 5,888 thousand, (ii) spending on large-scale maintenance in progress in the amount of EUR 1,491 thousand, and (iii) building refurbishments in the amount of EUR 922 thousand.

- The decrease in Transfer and write-off of Other assets in progress includes the amount of EUR 26,750 thousand transferred in the merger of two aircraft;

✈ Additions of advances amounting to EUR 8,617 thousand essentially refer to pre-delivery payments

Depreciation of property, plant and equipment is recognised in full under the item “Depreciations, amortisations and impairment losses” in the income statement (Note 32).

As of 31 December 2021 and 2020, the “Basic equipment” (own assets) item had the following composition:

	2021			2020		
	Acquisition cost	Accumulated depreciation and impairment	Carrying amount	Acquisition cost	Accumulated depreciation and impairment	Carrying amount
Flight equipment						
Aircraft	88,158,127	(48,650,858)	39,507,269	322,921,384	(260,195,337)	62,726,047
Reserve engines	2,969,113	(2,319,949)	649,164	4,000,254	(2,699,214)	1,301,040
Spare parts	104,330,465	(68,628,122)	35,702,343	122,417,735	(78,486,005)	43,931,730
	195,457,705	(119,598,929)	75,858,776	449,339,373	(341,380,556)	107,958,817
Flight equipment under						
Leases with purcahse option						
Aircraft	783,983,286	(322,947,180)	461,036,106	693,681,606	(309,632,064)	384,049,542
Reserve engines	109,059,662	(17,194,713)	91,864,949	109,059,662	(12,040,881)	97,018,781
	893,042,948	(340,141,893)	552,901,055	802,741,268	(321,672,945)	481,068,323
Machinery and equipment	90,413,023	(71,096,915)	19,316,108	91,222,641	(70,416,638)	20,806,003
	1,178,913,676	**(530,837,737)**	**648,075,939**	**1,343,303,282**	**(733,470,139)**	**609,833,143**

As of 31 December 2021 and 2020, the Group’s aircraft fleet is broken down as follows:

	2021					2020				
	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 A330	-	-	3	-	**3**	-	-	7	-	**7**
Airbus A330 NEO	-	3	16	-	**19**	-	3	16	-	**19**
Airbus A319	-	3	4	-	**7**	6	3	5	-	**14**
Airbus A320	-	3	12	-	**15**	2	3	13	-	**18**
Airbus A320 NEO	-	-	11	-	**11**	-	-	8	-	**8**
Airbus A321	-	2	1	-	**3**	-	2	1	-	**3**
Airbus A321 NEO	-	-	10	-	**10**	-	-	10	-	**10**
Airbus A321 NEO LR	-	2	6	-	**8**	-	-	6	-	**6**
Embraer 190	-	-	-	9	**9**	-	-	-	9	**9**
Embraer 195	-	-	-	4	**4**	-	-	-	4	**4**
ATR 72	-	-	-	8	**8**	-	-	-	8	**8**
	-	**13**	**63**	**21**	**97**	**8**	**11**	**66**	**21**	**106**

TAP S.A.’s fleet underwent a significant adjustment throughout 2021 as a result of the implementation of the measures included in the Restructuring Plan.

Consequently, TAP ended 2021 with a fleet of 97 aircraft (94 in operation), a net decrease of 9 aircraft when compared to the end of 2020, when the Group had a fleet of 106 aircraft (96 in operation). Besides the 97 aircrafts, there is an aircraft which contract with no purchase option has already expired, but the aircraft remains with a parking contract.

During 2021, 5 new generation Airbus aircraft (3 A320neo and 2 A321neo LR) went into operation and 14 aircraft (7 A319, 3 A320, and 4 A330) went out of operation.

Thus, of the fleet of 94 aircraft in operation at the end of 2021, 92 aircraft were available for commercial passenger operations and 2 were allocated exclusively for cargo operations. At the end of 2021, 66% of the medium and long-haul operating fleet consisted of NEO family aircraft (compared to 57% as of 31 December 2020).

Impairment

In the year ended 31 December 2021, as a result of signs of impairment in non-current assets related to air transport, as a result of the reduction in activity resulting from the COVID-19 pandemic, an analysis of impairment of the respective assets was carried out.

For this purpose, the recoverable value of these assets was determined in discounted cash flow models for the subsequent 5-year period of 2021-2026, based on the projections embedded in the Approved Restructuring Plan and using a discount rate in line with the risk inherent in the business as of 31 December 2021.

It is the Board of Directors' understanding that the best estimate, as of 31 December 2021, is reflected in the projections embedded in the impairment test performed.

On 31 December 2021, TAP S.A. calculated the recoverable amount of air transport assets, essentially arising from the fleet, in the amount of EUR 2,840 million, by determining the value in use allocated to the cash-generating unit defined (Air Transport of the Group), according to the discounted cash flow method, considering in the respective impairment test the estimated impacts, to this date, related to the COVID-19 pandemic.

The main assumptions used, for the purposes of the impairment test, were as follows:

	2021	2020
Discont rate (WACC)*	8.4%	10.0%
Revenue CAGR**	0.9%	-0.4%
Growth in perpetuity (g)	2.0%	2.0%
Income tax rate	29.5%	22.5%

* Discount rate net of taxes

** Average growth rate of turnover. In 2021 was considered the period 2019-2026 and in 2020 was considered the period 2019-2025

The Approved Restructuring Plan was based on four axes: (i) focus on core business; (ii) capacity adjustment (fleet sizing and network optimization); (iii) optimization of operating costs (negotiation of leases, revision of costs with third parties and adjustment of labor costs); and (iv) revenue improvement (by optimizing the network, passenger revenues and other revenues).

As for fuel costs, a residual evolution of the fuel price is estimated, with the price of 2026 aligned with that of 2019 and an estimate of lower consumption per Block hour due to the phase-in of the NEO fleet, as it is more efficient.

Regarding passenger demand, the updated projections of reference entities in the sector were used, namely the projections of the International Air Transport Association (IATA), considering its greater adequacy to the operational reality of TAP S.A., with a business model based on flights connection and long-haul operation. With these projections, and due to the effect of the COVID-19 pandemic, it is estimated that the 2019 activity figures will only be reached again in 2025, with a gradual growth estimated between the years 2022 to 2026 as expected by the market. (See Note 1).

The Board of Directors,73upportted by the discounted cash flows considered in the Approved Restructuring Plan, at the rate considered applicable, concluded that, on 31 December 2021, the book value of the assets allocated to the air transport activity, does not exceed its recoverable amount.

A change in the main assumptions used in calculating the recoverable amount would have the impacts shown in the tables below:

	Base Scenario	Increase on WACC by 0.5 pp	Decrease of g by 0.5 pp	Joint effect (WACC + g)
Discount rate	8.4%	8.9%	8.4%	8.9%
Growth in perpetuity (g)	2.0%	2.0%	1.5%	1.5%
Sensitivity analysis conclusions	No impairment	No impairment	No impairment	No impairment

Based on the assumptions considered in the Approved Restructuring Plan, the following sensitivity analyzes are also presented:

(iii) Scenario 1 – Slower recovery in demand (from -4% to -9% of passengers for the years 2022 to 2026), which is estimated in the Restructuring Plan more conservatively than the baseline of the IATA projections referred above;

(ii) Scenario 2 – Increase in the price of jet fuel (+ 5% to +10%);

(iv) Scenario 3 – Evolution of operational yield / profitability (-2% to -5%);

(v) Scenario 4 – More pessimistic scenario, considering the occurrence of the three variables with more stressed parameters, described above.

	Base Scenario	Scenario 1 (-% Passengers)	Scenario 2 (+5% +10% Fuel)	Scenario 3 (-2% -5% Yield)	Scenario 4 (Worst case scenario)
Discount rate	8.4%	8.4%	8.4%	8.4%	8.4%
Growth in perpetuity (g)	2.0%	2.0%	2.0%	2.0%	2.0%
Sensitivity analysis conclusions	No impairment	Impairment	No impairment	No impairment	Impairment

It should be noted that the sensitivity scenarios presented above were not considered by the Board of Directors as the base scenario in the Approved Restructuring Plan, given that the assumptions in question are not estimated as probable, based on the operational strategy defined in the Approved Restructuring Plan, the positive evolution of COVID-19 pandemic during the first months of 2022, as well as the macroeconomic market estimates known to date, namely those relating to jet fuel, risk-free interest rate, inflation rates, among others.

The uncertainty resulting from the War in Ukraine (Note 41) does not allow the determination of the possible impacts on the Group's activity in the coming years, considering that the main effect at the date of approval of the financial statements may arise from the price of jet fuel, for which the Group is negotiating hedging derivative financial instruments in order to fix the price of part of the fuel required for its operation, similar to the hedging derivative instruments that it has been contracting (Note 3).

5 Investment properties

During the years ending 31 December 2021 and 2020, entries recorded in investment properties were as follows:

	2021	2020
Opening Value	**1,543,825**	**2,148,564**
Fair value adjustments (Note 25)	72,074	(604,739)
Closing Balance	**1,615,899**	**1,543,825**

In the year ending 31 December 2021, a gain of EUR 72,074 was recorded regarding the update of the fair value of the property of IMOPAR in Mozambique.

6 Intangible assets

During the years ended 31 December 2021 and 2020, "Intangible assets" roll-forward was as follows:

	Industrial property and other rights	Computer programmes	Assets in progress	Advances to suppliers of in tangible assets	Total
Acquisition cost					
Balance as at January 1, 2020	**11,951,704**	**37,559,887**	**3,709,913**	**1,491,662**	**54,713,166**
Acquisitions	-	10,432,421	3,339,740	-	**13,772,161**
Regularization, transfer and write-off	-	3,852,337	(3,852,337)	(1,491,662)	**(1,491,662)**
Balance as at December 31, 2020	**11,951,704**	**51,844,645**	**3,197,316**	**-**	**66,993,665**
Acquisitions	-	7,706,964	2,592,312	-	**10,299,276**
Regularization, transfer and write-off	-	1,683,875	(1,683,875)	-	**-**
Balance as at December 31, 2021	**11,951,704**	**61,235,484**	**4,105,753**	**-**	**77,292,941**
Accumulated amort. and impairment losses					
Balance as at January 1, 2020	**(11,951,704)**	**(17,384,685)**	**-**	**-**	**(29,336,389)**
Amortisations and impairment losses (Note 32)	-	(12,785,212)	-	-	(12,785,212)
Balance as at December 31, 2020	**(11,951,704)**	**(30,169,897)**	**-**	**-**	**(42,121,601)**
Amortisations and impairment losses (Note 32)	-	(11,695,551)	-	-	(11,695,551)
Balance as at December 31, 2021	**(11,951,704)**	**(41,865,448)**	**-**	**-**	**(53,817,152)**
Carrying amount as at December 31, 2020	**-**	**21,674,748**	**3,197,316**	**-**	**24,872,065**
Carrying amount as at December 31, 2021	**-**	**19,370,036**	**4,105,753**	**-**	**23,475,789**

The main movements during the financial year ending 31 December 2021 are as follows:

- The increase in the caption Computer programs in the amount of EUR 7,707 thousand essentially refers to software licensing contracts, namely SAP, IBM and Microsoft.

- The increase in the item Assets in progress in the amount of EUR 2,592 thousand refers to several development and implementation projects in progress, concerning support software in the areas of operations, sales and maintenance.

7 Financial holdings

As at 31 December 2021 and 2020, the caption includes the amount of EUR 29 thousand relating to the 20% financial interest held by the Group in the capital of the IC SAFIT Limited.

8 Other financial assets

As at 31 December 2021 and 2020, the other financial assets item had the following composition:

	2021		2020	
	Current	Non-Current	Current	Non-Current
Bank deposits in Guinea Bissau	-	1,738,465	-	1,661,670
SITA Group Foundation	-	455,915	-	455,915
Other	-	47,368	-	47,373
	-	**2,241,748**	**-**	**2,164,958**
Impairment losses	-	(1,753,023)	-	(1,676,228)
	-	**488,725**	**-**	**488,730**

The amount shown for SITA Group Foundation mainly relates to 519,778 certificates (unquoted shares) in that company, which was founded by the *Société International de Télécommunications Aéronautiques* (SITA).

The movements under this item during the fiscal years ending on 31 December 2021 and 2020 were as follows:

	2021		2020	
	Current	Non-Current	Current	Non-Current
As at January 1	-	488,730	4,880,346	481,040
Increases	-	-	-	7,690
Decreases	-	(5)	(4,880,346)	-
As at December 31	**-**	**488,725**	**-**	**488,730**

The decrease in the fiscal year ending 31 December 2020 to the value of EUR 4,880,346 refers to the "Angolan Treasury Bonds" subscribed to the value of 1,737,479,000 kwanzas, corresponding to the original exchange rate of 316,909 kwanzas/dollar, which matured on 18 December 2020.

9 Deferred tax assets and liabilities

As at 31 December 2021 and 2020, the tax rate used in Portugal to calculate deferred tax assets relating to reportable tax losses was 21%. For the remaining temporary differences, the rate used in 2021 was between 21% and 29.5%, depending on the estimated year of realization. In addition, deferred tax assets were not recorded regarding: (i) part of the impairment on the account receivable from TAP SGPS in the amount of EUR 884.7 million for which a deferred tax amounting to EUR 169.9 million was recognized (ii) the provision to face the corporate reorganization of the subsidiaries of the TAP SGPS Group in the amount of EUR 140.3 million (Note 31), (iii) the provision for restructuring recorded in 2020 and not yet used in the year 2021, in the amount of EUR 28.4 million (Note 30) and (iv) the provision for passenger compensation in the amount of EUR 7.0 million, as it is considered that deferred tax assets are only recoverable up to the net limit of deferred tax liabilities, considering the projections of future tax results.

Tax relief, because it is a collection deduction, is considered to be 100% recoverable. In some cases, its full acceptance is also subject to the approval of the authorities granting such 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 31 December 2020 and 2020, the corresponding deferred tax assets and liabilities and the respective effect on the results for the periods ending on 31 December 2021 and 2020 are as follows:

	2021			
	Opening balance	Effect in results (Note 34)	Effect in other comprehensive income	Closing balance
Deferred tax assets				
Tax losses carried forward	76,902,007	57,235,155	-	134,137,162
Post-employment benefits obligations	32,308,940	(3,211,930)	(1,731,976)	27,365,034
Impairment losses in inventories	6,264,906	1,519,584	-	7,784,490
Impairment losses of receivables	6,929,807	179,682,563	-	186,612,370
Tax benefits	456,670	693,827	-	1,150,497
Other provisions and adjustments not accepted for tax purposes	115,613	4,583,124	-	4,698,737
Impairment losses in fixed assets	-	1,774,848	-	1,774,848
Derivative financial instruments	6,092,975	-	(6,092,975)	-
	129,070,918	**242,277,171**	**(7,824,951)**	**363,523,138**
Deferred tax liabilities				
Revaluation of tangible fixed assets	17,134,632	(1,530,084)	-	15,604,548
Derivative financial instruments	-	-	48,940	48,940
Adjustments from IFRS 16	90,890,946	(72,521,661)	-	18,369,285
	108,025,578	**(74,051,745)**	**48,940**	**34,022,773**
	21,045,340	**316,328,916**	**(7,873,891)**	**329,500,365**

	2020			
	Opening balance	Effect in results (Note 34)	Effect in other comprehensive income	Closing balance
Deferred tax assets				
Tax losses carried forward	66,242,707	10,659,300	-	76,902,007
Post-employment benefits obligations	30,352,251	(4,268,385)	6,225,074	32,308,940
Impairment losses in inventories	7,158,124	(893,218)	-	6,264,906
Impairment losses of receivables	7,096,835	(167,028)	-	6,929,807
Tax benefits	-	456,670	-	456,670
Other provisions and adjustments not accepted for tax purposes	127,352	(11,739)	-	115,613
Impairment losses in fixed assets	-	-	-	-
Derivative financial instruments	-	-	6,092,975	6,092,975
	110,977,269	**5,775,600**	**12,318,049**	**129,070,918**
Deferred tax liabilities				
Revaluation of tangible fixed assets	19,324,081	(2,189,449)	-	17,134,632
Derivative financial instruments	7,549,515	-	(7,549,515)	-
Ajustments due the adoption of IFRS 16	32,964,031	57,926,915	-	90,890,946
	59,837,627	**55,737,466**	**(7,549,515)**	**108,025,578**
	51,139,642	**(49,961,866)**	**19,867,564**	**21,045,340**

✈ Reportable tax losses

According to the legislation in force in Portugal, tax losses generated in 2014 and 2015 are reportable for a period of twelve years, and tax losses generated after 2017 are reportable for a period of five years, after their occurrence, and susceptible to deduction from taxable income generated during that period, up to a limit of 70% of the taxable income. During the first half of 2020 was published in the economic and social stabilization program a two-year increase in the expiry date for periods before 2020, and a twelve-year period for expiry of losses generated in 2020 and 2021. Additionally, the deduction percentage for tax losses generated during 2020 and 2021 changed to 80% of the taxable income.

The Group considers that the reportable tax losses generated in 2015 and 2021 are recoverable, through their use to reduce future taxable income (calculated on the basis of the individual financial statements of TAP S.A., prepared in accordance with the Portuguese GAAP) considering the projections of future taxable income until 2033, based on the projections of future taxable income to generate taxable income in the period 2022 – 2025, as included in the Approved Restructuring Plan and on the taxable income projections approved by the Board of Directors of the TAP Group in the sensitivity analysis presented to the European Commission in November 2021 for the period 2026 – 2027. For the remaining periods, a growth rate of 2% in earnings was defined and an annual haircut of 3% arising from the respective horizon temporal, which ends in 2033.

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 securitisation operation in the years 2014 and 2015 amounting to EUR 99 million, currently under dispute in a tax court.

The change in the shareholder structure of TAP S.A. in May 2021 (Note 15), determined the exit of TAP S.A. from the Special Taxation Regime for Groups of Companies (“RETGS”) of TAP SGPS. As a result, the tax losses calculated in 2018, 2019 and 2020 are no longer subject to deduction in the sphere of TAP S.A., having been derecognized deferred tax assets for tax losses for the years 2018 and 2019 in the amount of EUR 56.6 million. Additionally, deferred taxes were recognized for tax losses related to the year 2021 in the amount of EUR 113.8 million.

The detail of tax losses as of 31 December 2021 is as follows:

	Without securitization	**Securitized**	**Total**	**Deadline for deduction ***
2014	-	31,071,827	31,071,827	2028
2015	96,780,011	67,927,000	164,707,011	2029
2021 (estimation)	541,968,377	-	541,968,377	2033
	638,748,388	**98,998,827**	**737,747,215**	

*According to the economic and social stabilisation programme.

10 Other accounts receivable

On 31 December 2021 and 2020, the detail of the other receivables item is as follows:

	2021		2020	
	Current	Non-current	Current	Non-current
Customers	275,737,564	-	211,852,190	-
Security deposits of lease contracts	7,942,181	48,654,070	3,681,690	48,075,004
Recoverable maintenance reserves	-	62,315,215	-	43,848,514
Advances to suppliers	15,234,138	-	21,396,362	-
Accrued income	13,889,002	-	9,603,494	-
Other debtors	1,032,803,970	3,029,579	960,406,235	2,171,371
	1,345,606,855	**113,998,864**	**1,206,939,971**	**94,094,889**
Receivables impairment losses	(997,925,263)	(1,921,388)	(91,380,910)	(1,921,388)
	347,681,592	**112,077,476**	**1,115,559,061**	**92,173,501**

There are no differences between the book values and fair value for the periods in question.

✈ Customers

As at 31 December 2021 and 2020, customer line is detailed as follows:

	2021	2020
Private entities	148,734,668	102,562,859
Related parties (Note 38)	17,055,898	17,216,531
Travel agency	25,466,540	12,981,721
Airline companies	19,129,075	11,147,484
Other	4,832,576	7,690,122
Doubtful customers	60,518,807	60,253,473
	275,737,564	**211,852,190**
Impairment	(88,937,364)	(80,535,448)
	186,800,200	**131,316,742**

As at 31 December 2021 and 2020, the credit card entity Elavon made a retention of approximately USD 60 million (EUR 53 million and EUR 48 million, respectively).

The change in this item essentially consists of the effect of the partial resumption of the activity in the year ended 31 December 2021.

The receivable balances from travel agencies and airline companies are primarily settled through IATA Billing and Settlement Plan (BSP) and IATA Clearing House (ICH), which does not fully cover the bankruptcy risks of Travel Agencies and Aviation Companies.

✈ Security deposits of lease contracts

Security deposits are made under lease contracts with no option to purchase for aircraft and engines which will be returned, without interest, as such aircraft and engines are returned to the lessors. In addition, on 31 December 2021, the expenses to be recognised item includes an amount of EUR 22.9 million related to the financial discount cost of these receivables, to be recognised in the period term of the related lease contracts (Note 13).

✈ Recoverable maintenance reserves

The recoverable maintenance reserves item refers to maintenance reserves paid on lease contracts with no option to purchase, which will be carried out during the contract period.

✈ Accrued income

As at 31 December 2021 and 2020, “Accrued income” item is detailed as follows:

	2021	2020
Work for aviation companies	10,070,865	7,007,606
Related parties (Note 38)	1,899,181	1,661,846
Airport facilities - incentives	201,067	591,157
Other	1,717,889	342,885
	13,889,002	**9,603,494**

The increase in the amounts of work for aviation companies results from the resumption of activity in 2021 in the maintenance of third-party aircraft and reactors, following the COVID-19 pandemic.

✈ Advances to suppliers

On 31 December 2021 and 2020, the “Advances to suppliers” item is detailed as follows:

	2021	2020
Related parties (Note 38)	516,432	3,340,117
Others	14,717,706	18,056,245
	15,234,138	**21,396,362**

The item “Others” includes advances to suppliers of a several natures, namely insurance companies and airport management entities.

As at 31 December 2020, the caption included a balance of EUR 3.3 million referring to advanced payments towards SPdH, settled in 2021.

Other debtors

As at 31 December 2021 and 2020, the other debtors item is detailed as follows:

	2021		2020	
	Current	Non-current	Current	Non-current
Related parties (Note 38)	948,181,025	-	882,666,366	-
Deposits and guarantees	21,512,320	-	16,417,099	-
Interline and other invoicing	18,978,784	-	14,412,247	-
Doubtful accounts	4,285,131	-	10,845,462	-
Employees	14,531,539	-	11,043,150	-
Advances related to lease contracts	6,309,157	-	14,380,537	-
Representations VAT	3,322,126	-	2,422,079	-
Jet Fuel Derivatives (Note 23)	233,046	-	-	-
Other	15,450,842	3,029,579	8,219,295	2,171,371
	1,032,803,970	**3,029,579**	**960,406,235**	**2,171,371**
Impairment	(908,987,899)	(1,921,388)	(10,845,462)	(1,921,388)
	123,816,071	**1,108,191**	**949,560,773**	**249,983**

As of 31 December 2021, the caption of other debtors (Related parties) includes an amount of EUR 921.5 million receivable from TAP SGPS, which results from its management of financial holdings in TAP ME Brasil, SPdH and Portugália.

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

Impairment losses on current receivables

The movement that occurred under the impairment losses on receivables item on 31 December 2021 and 2020 is as follows:

	2021		2020	
	Clients	Others	Clients	Others
Opening balance	80,535,448	10,845,462	61,755,150	4,172,605
Increases (Note 28 and 31)	9,781,832	898,287,753	20,243,982	6,686,434
Reversals (Note 28)	(454,914)	(56,263)	(340,788)	(13,577)
Utilisation	(925,002)	(89,053)	(1,122,896)	-
Closing balance	**88,937,364**	**908,987,899**	**80,535,448**	**10,845,462**

Following the analysis of the recoverability of accounts receivable, it were recorded (i) impairment losses in the amount of EUR 884.7 million relating to the accounts receivable from TAP SGPS, concerning to its management of financial holdings in TAP ME Brasil, SPdH and Portugália (Note 1.1.3); (ii) impairment losses in the amount of EUR 10.7 million on an account receivable from SPdH, essentially referring to the sale of aircraft assistance equipment previously acquired from SPdH in March 2021; and (iii) impairment losses amounting to approximately EUR 6 million in accounts receivable from TAP ME Brasil.

11 Inventories

The caption “Inventories” as at 31 December 2021 and 2020 is detailed as follows:

	2021	2020
Raw materials and consumables	82,944,908	101,403,150
Inventory impairment losses	(26,388,101)	(21,236,969)
	56,556,807	**80,166,181**

Raw materials and consumables refer to technical material for use in the maintenance and repair of own aircraft and in works for other airlines.

The movement that occurred under the impairment losses on receivables item for the periods ending on 31 December 2021 and 2020 is detailed as follows:

	2021	2020
Opening balance	21,236,969	22,724,204
Increases (Note 28)	12,498,098	5,300,972
Decreases (Note 28)	(7,163)	(37,577)
Utilisation	(7,339,803)	(6,750,630)
Closing balance	**26,388,101**	**21,236,969**

The amount recorded as an impairment increase during the year ended on 31 December 2021, concerns essentially items related to non-active fleets and active fleets with low turnover, namely in the A330 and A320Family fleets, combined with the low consumption resulting from the COVID-19 pandemic.

The amount recorded as utilisation during the periods ended 31 December 2021 and 2020 mainly results from material sold with impairment in the amounts of EUR 6.9 million and EUR 5.6 million, respectively.

12 Income tax receivables / payables

As of 31 December 2021 and 2020, the balance concerning income tax receivables or payables is detailed as follows:

	2021		2020	
	Current assets	Current liabilities	Current assets	Current liabilities
RETGS: Related Parties (Note 38)				
Payments on account	-	-	122,893	-
Withholding taxes	-	-	314,356	-
Current income tax (Note 34)	-	-	(146,212)	-
	-	**-**	**291,037**	**-**
State and Other Public Entities				
Other	-	(19,327)	-	(17,430)
Withholding taxes	-	28,410	-	-
Current income tax (Note 34)	-	(113,886)	-	-
	-	**(104,803)**	**-**	**(17,430)**
	-	**(104,803)**	**291,037**	**(17,430)**

As a result of the change in the shareholder structure of TAP S.A. in 2021, the Company ceased to belong to the RETGS of TAP SGPS (Note 15).

13 Other current and non-current assets

Other current and non-current assets as of 31 December 2021 and 2020 are detailed as follows:

	2021		2020	
	Current	Non-Current	Current	Non-Current
Deferred costs	19,313,229	22,903,458	21,935,413	23,784,741
State	2,607,648	-	4,028,587	-
	21,920,877	**22,903,458**	**25,964,000**	**23,784,741**

✈ Deferred costs

As of 31 December 2021 and 2020, the caption “Deferred costs” is detailed as follows:

	2021		2020	
	Current	Non-Current	Current	Non-Current
Security deposits (Note 10)	-	22,903,458	-	23,784,741
Related Parties (Note 38)	1,023,737	-	8,611,466	-
Commissions	13,667,982	-	6,892,747	-
Rental costs	295,000	-	894,353	-
Other	4,326,510	-	5,536,847	-
	19,313,229	**22,903,458**	**21,935,413**	**23,784,741**

Commissions relate to amounts paid to agents for tickets sold, but not yet flown and not expired, on 31 December 2021 and 2020 respectively. Their variation is mainly due to the partial resumption of the activity in 2021.

✈ **State**

As of 31 December 2021 and 2020, the caption "State" is detailed as follows:

	2021	2020
VAT	1,845,986	2,395,060
Other	761,662	1,633,527
	2,607,648	**4,028,587**

As of 31 December 2021 and 2020, the balance of VAT owed refers to requests for reimbursement not yet received.

14 Cash and cash equivalents

As of 31 December 2021 and 2020, the detail of cash and cash equivalents is detailed as follows:

	2021	2020
Bank deposits available on demand	48,256,116	504,838,428
Term deposits	764,104,851	13,807,641
Other deposits	176,000	93,000
Cash	41,349	17,538
Cash and cash equivalents in the cash flow statement	**812,578,316**	**518,756,607**

The Group's cash and cash equivalents position as at 31 December 2021 presents an increase compared to the end of 2020, from EUR 518.8 million to EUR 812.6 million at the end of 2021. This liquidity position reflects the last capital injection carried out by the shareholder on 30 December 2021 in the amount of EUR 536.0 million (Note 15).

15 Capital

The variation in this caption is justified by the following impacts:

On 24 May 2021, the Portuguese State, through the Directorate-General for the Treasury and Finance, carried out a capital increase in TAP S.A. in the amount of EUR 462 million.

In this context, the shareholder structure of TAP S.A. changed to the following:

- ✈ The Portuguese Republic, through the Directorate-General for the Treasury and Finance, holding 91.8% of the shares representing share capital and voting rights; and

- TAP SGPS holding 8.2% of the shares representing the share capital and voting rights of TAP S.A..

Following the approvals by the European Commission of State aid for (i) the restructuring of the TAP Group and (ii) for the compensation of losses suffered by TAP S.A. as a result of the COVID-19 pandemic, on 30 December 2021, the following corporate operations ("Operations") were approved at the Extraordinary General Meeting of TAP S.A. and submitted to the Lisbon Commercial Registry Office for registration:

- The increase in the share capital of TAP S.A. from EUR 503,500,000 to EUR 657,853,400, fully subscribed by TAP SGPS, through the conversion of supplementary payments, in the total amount of EUR 154,353,400;
- The reduction of its share capital to EUR 0, for partial coverage of losses;
- The increase in its share capital from EUR 0 to EUR 1,794,544,230, fully subscribed by the Portuguese Republic, through the Directorate-General for the Treasury and Finance, with the amount of EUR 1,258,544,230 being paid exclusively through contributions in kind, by converting credits from the Portuguese Republic on TAP S.A., and the amount of EUR 536,000,000, realized through cash entries;
- The reduction of its share capital from EUR 1,794,544,230 to EUR 904,327,865, to partially cover losses.

As a result of the Operations, the share capital of TAP S.A. increased to EUR 904,327,865, represented by 180,865,573 shares, with a nominal unit value of EUR 5.00.

Also, as a result of those Operations, TAP S.A. now has the Portuguese Republic as its sole and direct shareholder, through the Directorate-General for the Treasury and Finance, without materially altering the control exercised over TAP S.A., insofar as the Portuguese Republic was already the beneficial owner of TAP S.A..

As at 31 December 2021, the share capital of TAP S.A. is represented by 180,865,573 shares, with a unit value of EUR 5. As at 31 December 2020, it was represented by 8,300,000 shares, with a unit value of EUR 5.

16 Supplementary capital contributions and reserves

Supplementary capital contributions

Following the Shareholders General Meeting resolution on 13 November 2015, the shareholder TAP SGPS has made a fully realised cash entry of EUR 29,542,000 in the form of supplementary capital contributions. Additionally, on December 11, 2015, by a unanimous written resolution, supplementary capital contributions were approved, in the total amount of EUR 124,811,400, whose cash entry also took place in December.

On 30 December 2021, the Extraordinary General Meeting of TAP S.A. approved the increase in the share capital of TAP S.A. from EUR 503,500,000 to EUR 657,853,400, fully subscribed by TAP SGPS, through the conversion of supplementary payments, in the total amount of EUR 154,353,400 (Note 15).

Reserves

✈ **Legal reserve**

Commercial legislation provides that at least 5% of the annual net income must be earmarked for strengthening the legal reserve until it represents at least 20% of the capital.

This reserve is not distributable except in the event of the liquidation of the Group, but may be incorporated into the capital or used to absorb losses after the other reserves have been exhausted.

As at 31 December 2020, the legal reserve was fully constituted in accordance with current commercial legislation. Following the capital increase in 2021, as at 31 December 2021 the legal reserve is not yet fully constituted.

✈ **Fair value reserves**

As of 31 December 2021, the amount of EUR 184,106, shown under the "Fair value reserves" item, is the fair value of financial instruments classified as hedging amounting to EUR 233,046, net of tax of EUR 48,690 (Notes 9 and 10).

✈ **Other reserves**

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

Retained earnings

The item "Retained earnings" corresponds to the net income of previous years, as per the decisions made at the General Meetings. In addition, changes resulting from the application of International Financial Reporting Standards for the first time, as well as gains or losses from remeasurements of post-employment benefits, net of tax and adjustments arising from the adoption of IFRS 16, are recorded under this item.

On 30 December 2021, the Extraordinary General Meeting of TAP S.A. approved a reduction in share capital in the amount of EUR 1,548,069,765 to partially cover losses (Note 15).

17 Pensions and other post-employment benefits

As mentioned in Note 2.22, TAP S.A. is responsible for paying post-employment benefits to retired, pre-retired, and still active employees.

✈ Retirement pension supplements and early retirement instalments (VIVA)

According to current rules at Group, this guarantees employees hired before 31 May 1993 the difference between the pension, for age or disability, allocated by Social Security, and a minimum amount guaranteed by the Group. This amount corresponds to a fixed percentage of part of the salary (basic salary + annuities), at the retirement date, for each year in the Group's service, 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, the Group 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 TAP S.A. 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 start 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 will be paid by the Group);

- Pilots recruited after 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 the Group. 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.

The Group 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 measurement of liabilities took into consideration that, under the terms of the collective regulations establishing the aforementioned pension plan, the total pension guaranteed by the Group, 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 requirement is not applicable because it is not enshrined in the collective regulations governing the technical flight crew, for which the limit does not exist and the pensionable salary is the basic salary of the salary scale, plus the financial year salary and seniority.

In order to cover the liabilities related to the defined benefit plan, the Group concluded a contract to join 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 relating 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.

✈ **Retirement Bonus – PNT**

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

- Admission conditions: pilots who are still in active service;
- Standard retirement age: 65 years;
- 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 the Group 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 TAP S.A. and SPAC was amended, with the main changes being as follows:

- Pilots recruited before 31 May 2007: the one-off retirement bonus is maintained, but will 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 after 1 June 2007: there is no entitlement to a retirement bonus.

✈ **Healthcare**

The Group ensures that both pre-retired and early-retired employees, below the age of 65, are awarded with a healthcare plan providing access to medical care at reduced prices. In addition, the Group provides its retired employees with access to medical services from UCS – Cuidados Integrados de Saúde, S.A. (“UCS”), 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.

The Group considers that although it provides its former employees with access to the health care services of UCS, this is not an obligation but rather a freely granted benefit that, therefore, does not constitute a liability to provide any healthcare for workers after they leave employment at the Group. Therefore, to date, the company assumes no accounting liability regarding the provision of health care services for pre-retired, early-retired and retired employees. This liability was determined based on actuarial evaluation by an independent entity.

Assumptions used in the evaluation of liabilities

The liabilities of the different companies of the Group were calculated through actuarial studies reported as at 31 December 2021 and 2020, prepared by independent entities, individually for each company, using the “Projected Unit Credit Method” and essentially based on the following financial and demographic assumptions:

	2021		2020	
	Portugal VIVA	Portugal Jubileu	Portugal VIVA	Portugal Jubileu
Mortality table	TV 88/90	TV 88/90	TV 88/90	TV 88/90
Disability table	EKV1980	EKV1980	EKV1980	EKV1980
Discount rate	0.75%	0.75%	0.75%	0.75%
Fund yield rate	0.75%	1.00%	1.50%	1.50%
Growth rate				
Wages	[0%(until 2024)- 1.5%(2024+)]	[0%(until 2024)- 1,5%(2024+)]	[1.5%-3%]	1.50%
Pensions	1.00%	1.00%	1.00%	1.00%
Trend of medical costs	1.50%	--	1.50%	--
Regular retirement age	65	65	66	65

The Group reviews the actuarial assumptions periodically, or whenever relevant events occur, based on market financial information and information related to the beneficiaries covered by these plans. The reduction in the salary growth rate results from the best estimate as of this date, taking into account the Restructuring Plan.

Liabilities as of 31 December 2021 and 2020 are detailed as follows:

	2021					
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Liabilities from past services						
- Active employees	1,123,071	5,587,283	-	89,212,919	-	95,923,273
- Early retirement	101,613	8,191,930	412,468	-	-	8,706,011
- Retired	10,945,948	24,615,743	2,649,744	-	33,246,064	71,457,499
Fair value of the fund	(15,032,652)	-	-	(38,525,937)	(33,297,234)	(86,855,823)
Defit/(surplus)	**(2,862,020)**	**38,394,956**	**3,062,212**	**50,686,982**	**(51,170)**	**89,230,960**

	2020					
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Liabilities from past services						
- Active employees	1,071,326	2,872,138	-	99,759,690	-	103,703,154
- Early retirement	69,105	14,800,491	442,757	-	-	15,312,353
- Retired	11,679,575	28,258,481	2,765,200	-	31,073,490	73,776,746
Fair value of the fund	(15,234,853)	-	-	(36,914,250)	(31,121,319)	(83,270,422)
Defit/(surplus)	**(2,414,847)**	**45,931,110**	**3,207,957**	**62,845,440**	**(47,829)**	**109,521,831**

The best estimate of contribution to pension benefit plans for the subsequent year amounts to approximately EUR 6 million.

As at 31 December 2021, and in 2020, the Group's defined benefit plans in Portugal (excluding the UK Representation) covered 1,302 and 1,814 beneficiaries in active employment, respectively. The total number of retired and pre-retired employees entitled to a pension supplement on 31 December 2021 and 2020 was 632 and 652 recipients, respectively.

As at 31 December 2021 and 2010, the average maturity of the liabilities related to the defined benefit plan for the "VIVA fund" is 10 years and for the "Retirement Bonuses" is 11 years.

Sensitivity analyses

✈ **Annual discount rate**

An increase (decrease) of 0.25% in the annual discount rate of the defined benefit plans of the VIVA pension fund and Retirement Bonus would correspond to the following impacts on the Group's liabilities as at 31 December 2021 and 2020:

2021	Rate	VIVA Plan*	Jubileu Bonus
Annual discount rate of pensions	0.75%	50,565,588	89,212,919
0.25% increase in the discount rate	1.00%	49,484,822	86,238,083
0.25% decrease in the discount rate	0.50%	51,696,467	92,323,269

* Includes "VIVA Pensions" and "VIVA Fund"

2020	Rate	VIVA Plan*	Jubileu Bonus
Annual discount rate of pensions	0.75%	58,751,116	99,759,690
0.25% increase in the discount rate	1.00%	57,795,059	96,209,232
0.25% decrease in the discount rate	0.50%	59,754,261	103,477,886

* Includes "VIVA Pensions" and "VIVA Fund"

✈ Healthcare cost growth rate

If the growth rate of medical care costs increases or decreases by one percentage point, the respective impact on the Group's liabilities as at 31 December 2021 and 2020 is as follows:

	Rate	2021	2020
Annual growth rate of medical costs	1.50%	3,062,212	3,207,957
1% increase in the growth rate of medical costs	2.50%	3,304,734	3,467,511
1% decrease in the growth rate of medical costs	0.50%	2,847,905	2,978,852

✈ Pension growth rate

If the pension growth rate increase or decreases by 0.25 percentage points, the respective impact on the Group's liabilities as at 31 December 2021 and 2020 is as follows:

	Rate	2021	2020
Growth rate of VIVA Pension fund (*)	1.00%	50,565,588	58,751,116
0.25% increase in the Pension growth rate	1.25%	51,511,448	59,606,772
0.25% decrease in the Pension growth rate	0.75%	49,651,818	57,898,610

* Includes "VIVA Pensions" and "VIVA Fund"

Evolution of liabilities from past services

The evolution of liabilities for past services, reflected in the statement of financial position, during the period ending on 31 December 2021 and 2020, is as follows:

	2021					
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Liabilities at the beginning of the year	12,820,006	45,931,110	3,207,957	99,759,690	31,073,490	192,792,253
Currency translation differences	-	-	-	-	2,088,949	2,088,949
Values recorded through profit or loss for the year:						
Current services	61,962	(2,031,488)	-	4,577,625	-	2,608,099
Net interest	96,150	344,483	12,029	689,732	83,625	1,226,019
Restructuring (Note 30)	-	-	-	(2,455,530)	-	(2,455,530)
Actuarial gain and losses	29,263	1,348,311	(157,774)	(8,403,830)	-	(7,184,030)
Benefits paid	(836,749)	(7,197,460)	-	(4,954,768)	-	(12,988,977)
Liabilities at the end of the year	**12,170,632**	**38,394,956**	**3,062,212**	**89,212,919**	**33,246,064**	**176,086,783**

	2020					
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Liabilities at the beginning of the year	10,312,666	47,392,828	3,224,073	100,979,484	16,919,499	178,828,550
Currency translation differences	-	-	-	-	(84,689)	(84,689)
Values recorded through profit or loss for the year:						
Current services	29,993	-	-	5,223,104	12,243,195	17,496,292
Net interest	154,690	710,892	48,363	1,483,843	450,486	2,848,274
Restructuring - early retirement (Note 30)	-	932,552	-	-	-	932,552
Actuarial gain and losses	3,199,986	4,405,025	(64,479)	13,247,595	4,762,912	25,551,039
Benefits paid	(877,329)	(7,510,187)	-	(21,174,336)	(3,217,913)	(32,779,765)
Liabilities at the end of the year	**12,820,006**	**45,931,110**	**3,207,957**	**99,759,690**	**31,073,490**	**192,792,253**

Evolution of funds allocated to pensions benefit schemes

During the period ending 31 December 2021 and 2020, the evolution of the assets of the funds was as follows:

	2021			
	VIVA Fund	Jubileu Bonus	England Representation	Total
Opening balance	15,234,853	36,914,250	31,121,319	83,270,422
Contributions in the year	-	6,000,000	-	6,000,000
Net interest	634,548	378,995	3,344	1,016,887
Benefits paid	(836,749)	(4,954,768)	-	(5,791,517)
Return of plan assets (excluding net interest)	-	187,460	-	187,460
Exchange variation	-	-	2,172,571	2,172,571
Closing Balance	**15,032,652**	**38,525,937**	**33,297,234**	**86,855,823**

	2020			
	VIVA Fund	Jubileu Bonus	England Representation	Total
Opening balance	15,737,186	51,237,487	15,497,524	82,472,197
Contributions in the year	-	6,000,000	486,079	6,486,079
Net interest	374,996	720,063	18,598,492	19,693,551
Benefits paid	(877,329)	(21,174,336)	(3,217,913)	(25,269,578)
Return of plan assets (excluding net interest)	-	131,036	-	131,036
Exchange variation	-	-	(242,863)	(242,863)
Closing Balance	**15,234,853**	**36,914,250**	**31,121,319**	**83,270,422**

The composition of the funds and their category of amounts included as of 31 December 2021 and 2020 is as follows:

		2021			
	Fair value level	VIVA Fund	Jubileu Bonus	England Representation	Total
Shares	1	4,180,581	-	4,300,947	8,481,528
Bonds	1	5,509,467	35,675,018	1,826,772	43,011,257
Public debt	1	4,345,940	-	-	4,345,940
Real estate	1	484,051	231,156	-	715,207
Liquidity	1	478,038	2,619,764	673,585	3,771,387
Other current investments	1	34,575	-	26,495,930	26,530,505
		15,032,652	**38,525,937**	**33,297,234**	**86,855,823**

			2020		
	Fair value level	VIVA Fund	Jubileu Bonus	England Representation	Total
Shares	1	4,136,867	-	4,019,888	8,156,755
Bonds	1	5,619,578	36,626,319	1,707,396	43,953,293
Public debt	1	4,196,773	-	-	4,196,773
Real estate	1	479,515	-	-	479,515
Liquidity	1	802,120	287,931	629,567	1,719,618
Other current investments	1	-	-	24,764,468	24,764,468
		15,234,853	**36,914,250**	**31,121,319**	**83,270,422**

Expenses related to pensions and other post-employment benefits

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

			2021			
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Current Services	61,962	(2,031,488)	-	4,577,625	-	2,608,099
Net interest	(538,398)	344,483	12,029	310,737	80,281	209,132
Sub-total (note 27)	**(476,436)**	**(1,687,005)**	**12,029**	**4,888,362**	**80,281**	**2,817,231**
Restructuring (Note 30)	-	-	-	(2,455,530)	-	(2,455,530)
Total	**(476,436)**	**(1,687,005)**	**12,029**	**2,432,832**	**80,281**	**361,701**

			2020			
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Current Services	29,993	-	-	5,223,104	12,243,195	17,496,292
Net interest	(220,306)	710,892	48,363	763,780	(18,148,006)	(16,845,277)
Sub-total (note 27)	**(190,313)**	**710,892**	**48,363**	**5,986,884**	**(5,904,811)**	**651,015**
Restructuring - early retirement (Note 30)	-	932,552	-	-	-	932,552
Total	**(190,313)**	**1,643,444**	**48,363**	**5,986,884**	**(5,904,811)**	**1,583,567**

As mentioned, Group pilots recruited after 1 June 2007 benefit from a defined contribution plan. During the year ending 31 December 2021, expenses related to on post-employment benefits were recognised in the amount of EUR 2,489 thousand (2020: EUR 3,042 thousand), relating to contributions made during the year in favour of its employees (Note 27).

Expenditures on pensions and other post-employment benefits during the fiscal years ending on 31 December 2021 and 2020 are recorded under the personnel expenditure heading (Note 27).

Remeasurement gains/losses

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

			2021			
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Remeasurements						
Return of assets, excluding amounts included in net income	-	-	-	(187,460)	-	(187,460)
	-	**-**	**-**	**(187,460)**	**-**	**(187,460)**
(Gains)/losses due to changes in financial assumptions	-	-	-	(4,003,695)	-	(4,003,695)
(Gains)/losses due to experience	29,263	1,348,311	(157,774)	(4,400,135)	-	(3,180,335)
	29,263	**1,348,311**	**(157,774)**	**(8,403,830)**	**-**	**(7,184,030)**
Total remeasurements	**29,263**	**1,348,311**	**(157,774)**	**(8,591,290)**	**-**	**(7,371,490)**

	2020					
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Remeasurements						
Return of assets, excluding amounts included in net income	-	-	-	(131,036)	-	(131,036)
	-	**-**	**-**	**(131,036)**	**-**	**(131,036)**
(Gains)/losses due to changes in financial assumptions	930,980	2,174,901	-	14,940,826	-	18,046,707
(Gains)/losses due to experience	2,269,006	2,230,124	(64,479)	(1,693,231)	4,762,912	7,504,332
	3,199,986	**4,405,025**	**(64,479)**	**13,247,595**	**4,762,912**	**25,551,039**
Total remeasurements	**3,199,986**	**4,405,025**	**(64,479)**	**13,116,559**	**4,762,912**	**25,420,003**

The actuarial gains recognized in 2021 arising from changes in financial assumptions in the total amount of EUR 4,003,695, relate essentially to the change in the salary growth rate from 1.5% to 0% until 2024.

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

18 Provisions

During the years ending on 31 December 2021 and 2020, the item "Provisions" had the following movement:

	Provision for legal claims (Note 28)	Other (Notes 28 and 31)	Redelivery costs (Note 4)	Restructuring provision (Note 30)	Total
January 1, 2020	**8,715,934**	**404,293**	**68,664,627**	**-**	**77,784,854**
Increases	1,836,833	10,410,000	109,194,100	93,197,493	214,638,426
Reversals	-	(12,385)	(37,579,811)	-	(37,592,196)
Uses	-	-	(44,484,268)	-	(44,484,268)
Exchanges and interests	-	-	(8,178,025)	-	(8,178,025)
December 31, 2020	**10,552,767**	**10,801,908**	**87,616,623**	**93,197,493**	**202,168,791**
Increases	13,379,254	145,265,810	65,378,855	8,569,897	232,593,816
Reversals	-	(2,334,992)	(10,964,710)	(20,370,251)	(33,669,953)
Uses	-	(6,106,506)	(13,885,070)	(44,384,684)	(64,376,260)
Exchanges and interests	-	-	13,208,809	-	13,208,809
December 31, 2021	**23,932,021**	**147,626,220**	**141,354,507**	**37,012,455**	**349,925,203**

✈ Provision for ongoing legal proceedings

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. On 31 December 2021, the existing provision of EUR 10,552,767 is intended to deal with various legal proceedings brought against the Group in Portugal and abroad.

The increase in the amount of EUR 13.4 million verified in the provision for legal proceedings in progress refers, among others, to the increase in cases received in the USA and Spain arising from operational irregularities.

✈ Others

As a result of the COVID-19 pandemic on 31 December 2020, a provision of EUR 10.4 million was recorded for damages to passengers whose claims are being processed by the Group. As of 31 December 2021, this provision amounts to EUR 7.0 million.

Additionally, in 2021 a provision in the amount of EUR 140.3 million was booked, referring to the estimated costs that TAP S.A. will have to bear in connection with the corporate reorganization of TAP SGPS Group resulting from the Approved Restructuring Plan (Note 31). This provision refers to the estimated charges that TAP S.A. will assume within the scope of the financing of the liquidation process of TAP ME Brasil (Note 1.1.3).

✈ Redelivery costs (Note 1.1.3)

Increases in the redelivery provision are recognised in exchange for the right to use and are then subject to depreciation. The increase recognised against 31 December 2020 is the effect of the redelivery estimate made on 31 December 2021, taking into account the information available on that date (Note 1.1.3).

19 Borrowings and Lease liabilities with and without purchase option

As at 31 December 2021 and 2020, Borrowings and lease liabilities with and with no option to purchase are detailed as follows:

	2021		2020	
	Current	**Non-Current**	**Current**	**Non-Current**
Bank loans	-	-	1,200,000,000	-
Interest accrued	-	-	10,825,439	-
Remunerated bank debt	**-**	**-**	**1,210,825,439**	**-**
Bank loans	31,380,257	225,782,394	34,553,137	228,193,571
Interest accrued	1,335,092	-	1,495,224	-
Initial expenses	(1,173,334)	(1,276,500)	(1,417,234)	(2,220,723)
Remunerated bank debt	**31,542,015**	**224,505,894**	**34,631,127**	**225,972,848**
Bonds	118,410,509	575,000,000	321,099,187	375,000,000
Interest accrured	2,526,020	-	2,602,732	-
Initial expenses	(11,021,636)	(3,768,654)	(13,372,891)	(4,949,188)
Bond issuance	**109,914,893**	**571,231,346**	**310,329,028**	**370,050,812**
Lease liabilities with purchase option	53,537,660	490,781,631	40,331,578	399,700,211
Interest accrued	1,874,106	-	1,797,633	-
Initial expenses	(656,849)	(1,860,142)	(785,900)	(2,464,531)
Lease liabilities with purchase option	**54,754,917**	**488,921,489**	**41,343,311**	**397,235,680**
Lease liabilities without purchase option	**435,572,934**	**1,682,965,393**	**427,266,305**	**1,611,374,047**
Total Borrowings	**631,784,759**	**2,967,624,122**	**2,024,395,210**	**2,604,633,387**

✈ Net debt

As at 31 December 2021 and 2020, net debt is detailed as follows:

	2021	2020
Borrowings except Lease liabilities without purchase option		
Non-Current	1,284,658,729	993,259,340
Current	196,211,825	1,597,128,905
	1,480,870,554	**2,590,388,245**
Cash and Cash Equivalents (Note 14)		
Cash	41,349	17,538
Bank deposits available on demand	48,256,116	504,838,428
Other deposits	764,280,851	13,900,641
	812,578,316	**518,756,607**
Net debt	**668,292,238**	**2,071,631,638**
Net debt without State aid	**668,292,238**	**860,806,199**

As of 31 December 2021 and 2020, the interest-bearing debt and leasing liabilities with a purchase option, by maturity and by type of interest rate, is broken down as follows:

	2021	2020
Variable rate		
Up to 1 year	36,029,948	1,250,012,550
1 to 2 years	57,308,449	63,491,465
2 to 3 years	58,186,097	64,443,846
Over 3 years	171,008,241	154,789,318
	322,532,735	**1,532,737,179**
Fixed rate		
Up to 1 year	160,181,877	347,116,355
1 to 2 years	241,668,932	35,831,483
2 to 3 years	417,050,807	31,055,984
Over 3 years	339,436,203	643,647,244
	1,158,337,819	**1,057,651,066**
	1,480,870,554	**2,590,388,245**

✈ State Support

This item includes the loan paid by the Portuguese State in the amount of EUR 1.2 billion, distributed in seven instalments until 30 December 2020 (see introductory Note). On 30 December 2021, this loan was converted into equity (Note 15).

✈ Bank loans

This heading includes EUR 147 million for financing with a syndicate of banks. According to the conditions established in the Share Purchase Agreement, complemented by the Agreement on the Debt Service

Restructuring and Monitoring of the TAP Group, referred to in Note 1, on 30 June 2017, bank debt was restructured. The main changes were related to the loans' maturity and conditions, namely the applicable interest rate and spread.

On 23 December 2019 and 12 February 2020, TAP S.A. made a voluntary early repayment for financing with a syndicate of Portuguese Banks of EUR 47.5 million and EUR 133.6 million respectively. Following the first voluntary repayment mentioned, it is no longer necessary to establish the Net Debt/EBITDAR Ratio for the purpose of this financing.

In addition, the bank loans line includes two loans with a national credit institution of EUR 92.2 million and financing from a Luxembourg financial institution of EUR 10.5 million.

✈ **Bond loans**

TAP S.A. issued a private bond subscribed on 14 January 2019, in the amount of EUR 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 Financial Position Statement, as a deduction to the Gross Financial Debt) and from additional guarantees over contractual rights that do not affect any assets recognised in financial position of the Group.

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 EUR 200 million, called “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 EUR 375 million, called “TAP 2019-2024 Bonds”. The issue and financial and physical settlement of the transaction, as well as the bonds' admission to trading, took place on 2 December 2019.

As of 31 December 2021 and 2020, all loans are denominated in Euro.

✈ **Lease liabilities with purchase option**

As at 31 December 2021 and 2020, leasing liabilities with option to purchase (plus interest expense minus initial charges) essentially relate to aircraft and engines.

Leases with purchase option are denominated in the following currencies:

	2021	2020
Lease liabilities in EUR	139,439,418	106,621,809
Lease liabilities in USD	404,236,988	331,957,182
	543,676,406	**438,578,991**

As at 31 December 2021 and 2020, lease liabilities with purchase option, by maturity, are broken down as follows:

	2021	2020
Up to 1 year	54,754,917	41,343,310
1 to 2 years	54,833,745	45,618,373
2 to 3 years	57,082,339	47,564,335
3 to 4 years	59,417,553	49,804,162
4 to 5 years	65,094,130	51,561,853
More than 5 years	252,493,722	202,686,958
	543,676,406	**438,578,991**

✈ **Lease liabilities without purchase option**

The Lease liabilities without purchase option item refers essentially to the Company's non-cancellable payments under lease contracts, which vary in duration up to 14 years and may be extended at the express wish of the contracting parties, which are recognised in the statement of financial position from 1 January 2019 with the adoption of IFRS 16.

As at 31 December 2021, there are 63 aircraft, 6 engines on lease agreements without purchase option and 21 aircraft under ACMI (as per Note 4).

As at 31 December 2021 and 2020, leasing liabilities without purchase option per maturity are detailed as follows:

	2021	2020
Up to 1 year	435,572,934	427,266,305
1 to 2 years	325,595,955	309,723,157
2 to 3 years	247,457,716	223,928,336
3 to 4 years	202,203,875	181,756,599
4 to 5 years	183,455,233	166,862,717
Over 5 years	724,252,614	729,103,238
	2,118,538,327	**2,038,640,352**

Liabilities without purchase option are determined largely in USD.

✈ **Financial Covenants**

The financial covenants in the lease and loan contracts are the usual ones in operations of this nature, including compulsory provisions such as the maintenance of the airline operator activity, commitments to periodically disclose the available financial information, and, in the specific case of leases with no option to purchase, 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, among others.

Additionally, following the restructuring of the aforementioned financial debt and the issue of bond loans, commitments were made to monitor the financial performance of the TAP Group, through the analysis and compliance with certain ratios related to the consolidated financial statements of the TAP Group, particularly with equity, EBITDAR, Net Debt/EBITDAR and unsecured net financial debt and minimum amount of cash and its unrestricted equivalents. These ratios are intended to monitor the financial situation of the TAP Group and measure its ability to service debt.

Due to the COVID-19 pandemic and the consequent deterioration of EBITDAR with the drop in activity in the months of 2020, the Group failed to comply with certain financial covenants, namely those related to the maintenance of Equity and the compliance with the Adjusted Net Debt/EBITDAR ratio as fixed in certain borrowings.

Regarding the financing with a Portuguese Banks syndicate in the outstanding amount of EUR 147 million as of 31 December 2021, the financial covenants that refer to the financial statements as of this date are higher than the contractually agreed limits. However, failure to comply does not generate the possibility of early repayment. Additionally, as of the date of approval of these financial statements, it is expected to obtain a waiver regarding the breach of its covenants within the allowed period.

Regarding the issuance of bonds by private offering placed with foreign institutional investors in the amount of EUR 118.4 million as at 31 December 2021, the financial covenant of the Adjusted Net Debt/EBITDAR ratio that will refer to the financial statements on this date is higher than the agreed contractual limit, having the Group reclassified the debt to Current Liabilities. At the date of approval of these financial statements, it is expected to obtain the waiver within the permitted period.

Regarding the public offering of 4-year bonds called “TAP 2019-2023” bonds in the amount of EUR 200 million, on 19 July 2021, authorization was obtained for the breach of the financial covenant of the Adjusted Net Debt/EBITDAR ratio until the maturity date of the bonds.

✈ Reconciliation of finance cash flows

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

	Remunerated bank debt and Bonds	Leases with purchase option	Leases without purchase option	Total
January 1, 2020	**1,083,402,487**	**274,892,757**	**2,278,678,486**	**3,636,973,730**
Receipts	1,225,011,144	16,311,909	-	1,241,323,053
Payments	(226,677,585)	(50,722,069)	(245,986,517)	(523,386,171)
New lease agreements	-	248,238,399	159,316,917	407,555,316
Exchange variation	270,102	(39,493,270)	(160,876,996)	(200,100,164)
Other	69,803,106	(10,648,735)	7,508,462	66,662,833
31 December 31, 2020	**2,151,809,254**	**438,578,991**	**2,038,640,352**	**4,629,028,597**
Receipts	-	-	-	-
Payments	(56,462,323)	(55,740,491)	(443,587,346)	(555,790,160)
Conversion in Equity (Note 15)	(1,258,544,230)	-	-	(1,258,544,230)
New lease agreements	-	107,245,066	218,783,591	326,028,657
Exchange variation	75,700	16,779,698	144,991,258	161,846,656
Other	100,315,747	36,813,142	159,710,472	296,839,361
31 December 31, 2021	**937,194,148**	**543,676,406**	**2,118,538,327**	**3,599,408,881**

The amounts considered as “Other” refer essentially to the negotiation of the lease terms and payments concerning lease contracts without purchase option, which resulted in an increase in lease liabilities amounting to EUR 142 million in 2021 (EUR 96 million decrease in 2020) and the impact of recognizing the effective interest rate.

20 Other accounts payable

As at 31 December 2021 and 2020 the detail of “Other payables” item is as follows:

	2021	2020
Accrued expenses	179,861,141	185,162,637
Suppliers	104,447,082	69,627,086
Swaps jet fuel (Note 23)	-	42,896,210
Advances from customers	558,381	548,038
Other	121,287,254	88,281,828
	406,153,858	**386,515,799**

✈ Suppliers

On 31 December 2021 and 2020, the Suppliers item shows the following composition:

	2021	2020
Suppliers - pending invoices	69,693,896	32,613,419
Suppliers - current account	16,624,650	30,461,814
Suppliers - related parties (Note 38)	18,128,536	6,551,853
	104,447,082	**69,627,086**

The variation in this caption is essentially the result of the increase in the contracting of the supply of services as a result of the partial resumption of activity in 2021.

✈ Accrued expenses

As at 31 December 2021 and 2020, the expense accruals item is broken down as follows:

	2021	2020
Remunerations	75,766,092	99,823,149
Aircraft fuels and licenses and CO2 emissions	40,293,659	25,784,370
Navigation fees	11,615,008	5,546,989
Insurance to be settled	7,017,426	12,442,894
Specialized w ork	5,722,832	8,278,771
Special sales charge	4,901,111	3,661,684
Related parties (Note 38)	4,106,281	6,839,784
Remuneration - air crew	4,087,186	2,857,144
Handling services	3,416,098	6,146,494
Other accrued expenses	22,935,448	13,781,358
	179,861,141	**185,162,637**

The increase in aviation fuels and CO2 licenses and emissions is essentially explained by the partial resumption of activity in 2021 and by the increase in the price of fuel« and CO2 licenses.

The special sales charges refer to commissions granted to agents according to the flight revenue for the period obtained through this sale channel.

The reduction in the in remunerations to be paid accrual is essentially due to the decrease in the number of employees on 31 December 2021 compared to 31 December 2020.

The increase in the caption of other accrued expenses is essentially due to the partial resumption of activity in 2021 and the consequent increase in the hiring of external services.

✈ Others

As of 31 December 2021 and 2020, the Others item is detailed as follows:

	2021	2020
Taxes and fees	96,336,660	63,835,545
Fixed assets suppliers	3,537,233	4,577,042
Compensation for accidents at w ork	867,873	859,724
Personal	431,614	359,685
Related Parties (Note 38)	28,377	13,551
Other	20,085,497	18,636,281
	121,287,254	**88,281,828**

The fees and taxes to be paid item relates essentially to amounts payable to various entities concerning fees charged to customers on tickets issued. The variation compared to 31 December 2020 is essentially due to the increase in fees and taxes payable at airports and ticketing following the increase in activity in the second half of 2021 compared to the second half of 2020.

21 Other current liabilities

As of 31 December 2021 and 2020, the other current liabilities item mainly relates to:

	2021	2020
Deferred income	41,340,328	53,523,983
State	22,336,817	20,514,616
	63,677,145	**74,038,599**

✈ Deferred income

As of 31 December 2021 and 2020, the deferred gains line is broken down as follows:

	2021	2020
Customer loyalty program	41,001,381	52,619,203
Investment grants	-	586,194
Related Parties (Note 38)	337,425	317,066
Other deferred income	1,522	1,520
	41,340,328	**53,523,983**

In the scope of application of IFRS 15 – Revenue from contracts with customers, in the allocation of air miles to customers participating in the loyalty program called “TAP Miles&Go”, a contractual obligation is recognised based on the unit value of the air mile. The variation in this item is mainly related to the increased use of air miles in comparison with 2020 and the expiry of miles.

✈ State

As at 31 December 2021 and 2020, this item’s balances are detailed as follows:

	2021	2020
Personal income tax	9,099,305	10,680,153
Social security contribution	12,456,617	9,447,787
Others	780,895	386,676
	22,336,817	**20,514,616**

The variation in the balance payable to the State results, on the one hand, from the reduction of the workforce and, on the other hand, from the impact of the fact that the payment of Christmas allowance for the year 2020 was made in December 2020, while the payment of the Christmas allowance for the year 2021 was made in January 2022.

22 Unused flight tickets

As at 31 December 2021 and 2020, the item for the Group's liabilities relating to unused flight tickets issued and unused was as follows:

	2021	2020
Passengers	438,687,424	319,340,615
Voucher	203,982,238	282,488,168
Cargo	892,005	160,500
	643,561,667	**601,989,283**

As a result of the significant reduction in activity after April 2020 and the cancellation of flights imposed on the aviation sector and the Group, the unused tickets caption as of 31 December 2021 includes significant amounts relating to flights not completed by that date, while the Group remains responsible for providing the service in the future or for refunds as the contractual terms. It should also be pointed out that the amounts included in the unused flight tickets item include vouchers and unused tickets for cancelled flights.

23 Derivatives

As at 31 December 2021 and 2020, the Group had negotiated financial derivatives relating to jet fuel swaps.

The Group's risk coverage policy aims to cover approximately 50% of the estimated consumption of jet fuel for the following 12 months and may cover its exposure for periods of up to 24 months, depending on market conditions. As of this date, the Group is reviewing the jet fuel risk coverage management policy, taking into account the impacts associated with the uncertainty generated by the COVID-19 pandemic and the War in Ukraine on the quantities and price of jet fuel.

In 2021, approximately EUR 8.7 million of gains were recorded as financial results, related to the difference in estimate for derivatives that as at 31 December 2020 did not comply with the hedge accounting requirements, namely due to variation in quantities actually consumed and the aggregate value of said derivatives as a consequence of the impacts of COVID-19 pandemic in air transport.

For contracts in which it was possible to ensure compliance with the hedge accounting requirements, an amount of approximately EUR 0.2 million was recorded as at 31 December 2021, under the caption "Equity reserves", related to the the fair value of derivatives still open to this date.

As at 31 December 2021, the Group had contracted derivatives on 31% of the estimated consumption of jet fuel in the 1st half of 2022 whose market value at that date was positive at EUR 0.2 million (Note 10) and with maturities between January and June 2022.

24 Segment Reporting

The following operational segments have been identified: air transport and maintenance. The results of each segment correspond to those directly attributable to them and those that can be reasonably assigned to them. The activities aggregated in “Others” do not qualify to be reported separately.

Financial information by business segments on 31 December 2021 and 2020 is as follows:

	2021				2020			
	Air Transport	Maintenance and engeneering	Other	Total	Air Transport	Maintenance and engeneering	Other	Total
Operating Income	1,319,875,550	57,149,593	11,517,349	1,388,542,492	978,937,275	72,174,412	9,072,679	1,060,184,366
Operating results	(510,184,936)	(19,155,759)	(959,329,974)	(1,488,670,669)	(890,957,336)	(1,751,838)	(72,053,297)	(964,762,471)
External net financial results	(422,595,726)	(3,856,779)	-	(426,452,505)	(210,058,959)	(5,375,876)	-	(215,434,835)
Income tax	175,520,859	3,291,178	137,200,248	316,012,285	(49,795,708)	(23,654)	(239,108)	(50,058,470)
Net Income	**(757,259,803)**	**(19,721,360)**	**(822,129,726)**	**(1,599,110,889)**	**(1,150,812,003)**	**(7,151,368)**	**(72,292,405)**	**(1,230,255,776)**

The Group does not present segmental assets and liabilities, since this information is not presented to the chief operational decision maker.

The Operating income and gains item for the year ending 31 December 2021 and 2020 is as follows:

	2021				
	Passenger	Maintenance	Cargo and Mail	Other	Total
Revenue					
Sales	-	2,221,703	-	355,294	2,576,997
Services provided	1,067,193,102	51,985,763	236,236,180	6,686,522	1,362,101,567
Other income	-	-	-	23,863,928	23,863,928
	1,067,193,102	**54,207,466**	**236,236,180**	**30,905,744**	**1,388,542,492**

	2020				
	Passenger	Maintenance	Cargo and Mail	Other	Total
Revenue					
Sales	-	1,704,737	-	39,642	1,744,379
Services provided	848,373,665	66,173,742	125,689,785	6,589,277	1,046,826,469
Other income	-	-	-	11,613,518	11,613,518
	848,373,665	**67,878,479**	**125,689,785**	**18,242,437**	**1,060,184,366**

The sales and services provided by geographical area in the fiscal years ending 31 December 2021 and 2020 are as follows:

	2021					2020				
	Air Transport	Maintenance	Cargo and Mail	Other	Total	Air Transport	Maintenance	Cargo and Mail	Other	Total
Mainland and islands	103,568,059	17,937,053	5,592,901	5,555,028	132,653,041	72,971,361	10,713,779	5,327,783	5,638,591	94,651,514
Europe	370,067,740	27,133,415	10,103,355	966,034	408,270,544	305,647,595	47,764,393	5,660,041	637,291	359,709,320
South Atlantic	203,017,839	7,865,841	142,598,773	157,355	353,639,808	228,176,751	7,999,118	62,259,383	168,900	298,604,152
North Atlantic	198,985,223	884,194	50,531,208	161,045	250,561,670	117,282,054	124,641	26,767,305	71,325	144,245,325
Mid Atlantic	2,033,811	-	9,175,893	889	11,210,593	2,639,897	-	949,238	1,067	3,590,202
Africa	186,911,848	101,885	17,481,428	198,706	204,693,867	119,006,915	133,803	17,439,852	109,402	136,689,972
Other	2,608,582	285,078	752,622	2,759	3,649,041	2,649,092	1,142,745	7,286,183	2,343	11,080,363
	1,067,193,102	**54,207,466**	**236,236,180**	**7,041,816**	**1,364,678,564**	**848,373,665**	**67,878,479**	**125,689,785**	**6,628,919**	**1,048,570,848**

25 Other income

For the years ending 31 December 2021 and 2020, the “Other income” caption is detailed as follows:

	2021	2020
Gains from tangible fixed assets (Note 4)	12,647,962	132,470
Shared Services	6,686,522	6,589,277
Rents and Subleases	5,339,272	2,691,928
Recovered w arehouse material	1,575,881	2,226,856
Operating government grants	1,616,589	1,302,392
Publicity	103,232	439,481
Fair value (Note 5)	72,074	-
Commissions	4,368	-
Other supplemental operating income	2,859,844	4,860,033
	30,905,744	**18,242,437**

In 2021, the amount recorded as gains from tangible fixed assets mainly refers to the sale of eight aircraft (Note 4).

26 Expenses by nature

During the financial years 2021 and 2020, operational expenditure by nature is as follows:

	2021	2020
Traffic operating costs	372,176,563	350,750,131
Aircraft fuel	340,478,438	260,455,413
Comercial, communication and marketing costs	71,418,381	69,204,310
Cost of materials consumed	30,169,492	40,283,352
Aircraft maintenance costs	19,429,846	24,426,407
	833,672,720	**745,119,613**

✈ Aircraft fuel

For the years ending 31 December 2021 and 2020, the “Aircraft fuel” item is detailed as follows:

	2021	2020
Aircraft fuel		
Consumption	332,038,942	209,187,470
Jet fuel hedge	(10,985,626)	51,031,791
CO2 emission licences	19,425,122	236,152
	340,478,438	**260,455,413**

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

The increase in CO2 emission allowances is mainly due to the increase in the unit price of allowances.

The variation in jet fuel derivatives is essentially due to the significant increase in the price of jet fuel during the second half of 2021.

✈ Traffic operating costs

In the fiscal years ending on 31 December 2021 and 2020, the “Traffic operating costs” item is as follows:

	2021	2020
Handling services	105,825,645	80,528,273
Operational irregularities	25,810,931	74,037,705
Navigation fees	72,499,814	56,350,714
Landing charges	57,470,446	37,961,801
In-flight expenses	41,584,799	37,788,230
Accommodation and meals during stopovers	14,484,352	15,217,039
Baggage, cargo and mail charges	19,464,765	13,715,246
Facilities at airports	8,051,456	11,989,507
Air traffic control charges	14,173,049	10,819,392
Aircraft charters	6,979,184	4,884,267
Ground costs related to executive class passengers	2,862,496	3,095,602
Other traffic operating costs	2,969,626	4,362,355
	372,176,563	**350,750,131**

The increase in most items is essentially the result of the increase in the Group’s activity during 2021.

It should be noted that in the item of operational irregularities, EUR 37.8 million are considered, referring to the increase attributed when issuing vouchers as a form of compensation for non-flown and non-reimbursed tickets (Note 22). The decrease in the caption in 2021 compared to 2020 is essentially due to the adaptation of the Group’s operation to the pandemic situation.

✈ Aircraft maintenance costs

In the fiscal years ending 31 December 2021 and 2020, the line "Aircraft maintenance costs" item is detailed as follows:

	2021	2020
Maintenance subcontracting of TAP flight equipment	10,802,116	15,761,623
Consumed inventories	8,627,730	8,664,784
	19,429,846	**24,426,407**

The aircraft maintenance costs item relates to the recurring maintenance costs, including line costs, of the TAP fleet. The variation observed is a consequence of the reduction in maintenance activity.

✈ Cost of materials consumed

In the fiscal years ending 31 December 2021 and 2020, the "Cost of materials consumed" item is as follows:

	2021	2020
Sold and consumed inventories	24,912,671	27,445,756
Maintenance subcontracting for third parties flight equipment	5,256,821	12,837,596
	30,169,492	**40,283,352**

The variation is a consequence of the reduction in the maintenance activity for third parties during the COVID-19 pandemic.

✈ Commercial, marketing and communication costs

The "Commercial, marketing and communication costs" item for the financial years ending 31 December 2021 and 2020 contains the following composition:

	2021	2020
Commissions	22,572,339	22,641,245
Booking fees	24,611,984	19,602,077
Publicity	9,500,320	13,443,651
Special sales charges - air transport	9,886,413	9,496,200
Specialised work	4,780,081	3,935,475
Other comercial, communication and marketing expenses	67,244	85,662
	71,418,381	**69,204,310**

27 Employee costs

The “Employee costs” item for the years ending 31 December 2021 and 2020 has the following detail:

	2021	2020
Fixed remuneration	218,006,813	252,698,644
Social security contributions	66,338,766	64,823,282
Variable remuneration	44,128,238	54,267,178
Insurance	14,719,591	17,583,045
Social action costs	9,153,042	8,615,083
Work accident insurance	7,877,299	8,268,406
Meals allowance	4,751,034	4,704,525
Post-employment benefits (Note 17)	5,306,199	3,693,285
Training and recruitment	1,413,308	3,073,878
Uniform and work clothes	789,244	815,192
Other expenses with employees	914,350	1,177,445
	373,397,884	**419,719,963**

The variation observed in 2021 compared to 2020 in staff costs is essentially due to the decrease in the number of employees compared to the same period last year and the salary cuts agreed with the employees within the scope of the Restructuring Plan.

The remuneration attributed to the Governing Bodies, in 2021 and 2020, was as follows:

	2021	2020
Remunerations		
Employees	373,382,798	419,685,792
Statutory Bodies (*)	15,086	34,171
	373,397,884	**419,719,963**

(*) This item includes only the remuneration for the Tax Council, and the remainder of the Governing bodies security is being paid at TAP SGPS.

During fiscal years 2021 and 2020 the average number of employees serving the Group and all its subsidiaries was 7,188 and 8,939, respectively and is detailed as follows:

	2021	2020
Head office		
Cabin Crew employees	2,517	3,411
Maintenance and engineering employees	1,558	1,844
Ground employees	1,503	1,902
Technical flight employees	1,287	1,355
Representations		
Brazil	90	103
USA	38	41
Spain	34	35
France	20	22
Angola	21	23
Germany	18	20
Italy	23	25
UK/Ireland	20	21
Venezuela	7	7
Switzerland	4	4
Other	48	56
	7,188	**8,869**

28 Impairment losses in inventories, receivables and provisions

In the fiscal years ending 31 December 2021 and 2020, the “Impairment losses in inventories, receivables and provisions” had the following detail:

	2021	2020
Inventory impairment (Note 11)	(12,490,935)	(5,263,395)
Receivables impairment (Note 10)	(22,886,590)	(26,576,051)
Provisions (Nota 18)	(16,041,875)	(12,234,448)
	(51,419,400)	**(44,073,894)**

29 Other expenses

The caption "Other expenses" in the financial years ending 31 December 2021 and 2020, had the following detail:

	2021	2020
Specialised w ork and subcontracts	71,141,579	69,267,498
Rents	11,891,700	11,237,787
Conservation and repair of other assets	6,091,538	8,274,834
Comunication	5,960,403	8,617,367
Insurance	3,938,314	3,821,607
Surveillance and security	3,069,059	2,746,389
Transportation	2,580,196	3,256,629
Cleaning, hygiene and comfort	2,393,035	1,995,621
Electricity	1,557,804	1,761,900
Books and technical documentation	1,446,945	1,735,101
Financial services	1,092,058	943,878
Taxes	777,213	677,044
Travel costs	666,365	2,045,027
Fraudulent use of credit cards	696,377	65,526
Fees	451,471	3,243,105
Other operating expenses	4,570,154	5,306,266
	118,324,211	**124,995,579**

The caption "Rents" includes short-term lease contracts concerning property and software amounting to EUR 8.5 million.

30 Restructuring

The restructuring item for the financial years ending 31 December 2021 and 2020 had the following detail:

	2021	2020
Restructuring provision (Note 18)	(11,800,354)	93,197,493
Employee indemnities	9,605	1,956,480
Early retirements (Note 17)	-	932,552
Post-employment benefits (Note 17)	(2,455,530)	-
	(14,246,279)	**96,086,525**

The positive impact of approximately EUR 12 million results from the reduction in the number of employees covered by the measures of the Restructuring Plan and the updating of the amount earned by each employee upon leaving.

The item "Post-employment benefits" refers to gains from the departure of employees from the post-employment benefit plan by adhering to the voluntary measures included in the Restructuring Plan.

31 Other non-recurring items

In the fiscal years ending 31 December 2021 and 2020, the caption “Other non-recurring items” is detailed as follows:

	2021	2020
Seniority - compensatory benefits to crew employees	-	136,058
Aircraft preservation costs	-	10,143,144
Other accounts receivable impairment (Note 10)	884,671,817	-
Provisons for other risks (Note 18)	140,268,197	-
	1,024,940,014	**10,279,202**

Impairment of accounts receivable and provisions for other risks

Considering its relevance and magnitude in the financial statements of the Group, taking into account the projections included in the Approved Restructuring Plan and consequent corporate reorganization in progress of TAP SGPS Group resulting from this approval, the Board of Directors proceeded with the recording of impairment losses in accounts receivable from TAP SGPS in the amount of 884.7 million EUR and the recording of a provision in the amount of EUR 140.3 million referring to the estimate of additional charges that TAP S.A. will have to bear related to said corporate reorganization, including those arising from the liquidation process of TAP ME Brasil (Note 1.1.3).

✈ **Aircraft preservation costs**

For the year ending 31 December 2020, aircraft preservation expenses refer to non-recurring expenses incurred as a result of the maintenance of aircraft that are stopped due to the COVID-19 pandemic.

Given their context and nature, these situations were considered by the Board of Directors as non-recurring in the context of these financial statements.

32 Depreciation, amortization and impairment losses

In the fiscal years ending 31 December 2021 and 2020, the item depreciation, amortisation and impairment losses is broken down as follows:

	2021	2020
Depreciation of Tangible Fixed Assets (Note 4)		
Buildings and other constructions	5,610,824	5,522,652
Basic equipment	58,290,362	74,527,228
Transport equipment	64,074	45,302
Tools and utensils	803,052	796,512
Administrative equipment	728,589	1,330,473
Other tangible fixed assets	264,293	282,060
	65,761,194	**82,504,227**
Depreciation of Right-of-use (Note 4)		
Buildings and other constructions	407,871	710,226
Basic equipment	401,061,641	485,670,496
Transport equipment	197,020	277,953
	401,666,532	**486,658,675**
Amortization of Intangible Assets (Note 6)		
Computer Programs	11,695,551	12,785,212
	11,695,551	**12,785,212**
Impairment losses in tangible assets (Note 4)		
Basic equipment	5,686,331	2,723,947
Tools and utensils	1,623,663	-
Advanced payments	3,271,940	-
	10,581,934	**2,723,947**
Total	**489,705,211**	**584,672,061**

As of 31 December 2021, it was scheduled to begin the phase-out works of 2 ATR aircraft under *ACMI* for January 2022. Consequently, in the year ended 31 December 2021, it was recorded an extraordinary depreciation regarding the respective right-of-use assets to reflect this, in the amount of EUR 4,451 thousand, broken down into depreciation of rents, maintenance, maintenance reserves and redelivery.

In 2021, impairment losses were recorded in Basic Equipment in the amount of EUR 7 million, referring to obsolete spare parts and tools.

Taking into account the anticipated delivery to lessors of 2 aircraft under a lease with no purchase option, contracted at the end of 2020 under the impact of the pandemic COVID-19, depreciations were recognized in the year ended 31 December 2020 unforeseen losses due to impairment losses, in the amount of EUR 37,588 thousand, broken down into depreciation of rents, maintenance, maintenance reserves and redelivery.

33 Financial results

The financial results item for the year ending 31 December 2021 and 2020 is as follows:

	2021	2020
Interest expenses	(92,600,310)	(55,451,175)
Lease interests related w ith contracts w ith purchase option	(23,216,966)	(19,279,671)
Lease interests related w ith contracts w ithout purchase option	(164,390,448)	(157,927,401)
Other financial expenses	(13,400,921)	(13,170,305)
Interests and similar expenses	**(293,608,645)**	**(245,828,552)**
Interest income	33,952,821	33,566,552
Interests and similar income	**33,952,821**	**33,566,552**
Net foreign exchange differences	(175,473,763)	162,108,338
Net currency exchange	**(175,473,763)**	**162,108,338**
Overhedge cost (Note 23)	8,677,082	(165,281,173)
Overhedge cost	**8,677,082**	**(165,281,173)**
Total	**(426,452,505)**	**(215,434,835)**

The unfavourable exchange rate differences that occurred in the fiscal year ending 31 December 2021 were essentially due to the appreciation of the Dollar and the Real against the Euro. The impact of this update referring to lease liabilities, with and without purchase option, as at 31 December 2021 and 2020 amounts to EUR 175,941 thousand (unfavourable) and EUR 195,627 thousand (favourable), respectively.

The increase in interest paid during the year ending 31 December 2021 is essentially due to the increase in debt, namely resulting from the State support loan, as well as the lease contracts.

34 Income tax

The income tax item for the years ended 31 December 2021 and 2020 is detailed as follows:

	2021	2020
Deferred taxes (Note 9)	(316,328,916)	49,961,866
Current taxes (Note 12)	113,886	146,212
Differences from prior years tax estimates	202,745	(49,608)
	(316,012,285)	**50,058,470**

The tax assessment is made in the sphere of individual accounts of TAP S.A. prepared in accordance with the provisions of the Accounting Standardization System (SNC).

The income tax rate reconciliation in the fiscal years ending 31 December 2021 and 2020 is as follows:

	2021	2020
Net income/(loss) before income tax	(1,915,123,174)	(1,180,197,306)
Nominal tax rate	21.0%	21.0%
Expected tax	(402,175,867)	(247,841,434)
Permanent differences	11,146,295	24,982,482
Temporary differences with no deferred tax	43,408,519	21,757,574
Income tax rate difference between 21% and 29,5%	(25,286,067)	336,968
Tax losses without deferred tax assets	-	250,726,276
Exit from "RETGS" (Note 9)	56,578,204	-
Autonomous taxation	113,886	146,212
Differences from tax estimates for the previous year	202,745	(49,608)
	(316,012,285)	**50,058,470**
Effective tax rate	17%	(4%)

For the year ending 31 December 2021, the permanent differences essentially result from the limitation to the deductibility of net financing costs.

Additionally, considering as of this date there are no prospects of future realization, in 2021 no deferred taxes were recorded on some temporary differences (Note 9), namely: (i) the provision to cover the corporate reorganization of the TAP SGPS Group in the amount of EUR 140.3 million, (ii) the net reversal recorded in 2021 of the provision for restructuring in the amount of EUR 11.8 million (provisiom created in 2020 in the amount of EUR 93.2 million), (iii) the increase (net of reversals) of the provision related to indemnities to passengers in the amount of EUR 2.7 million (EUR 10.4 million in 2020). Additionally, for the same reason, the deferred tax asset recorded in 2021 concerning the EUR 884.7 million impairment loss on accounts receivable from TAP SGPS, amounts only to EUR 169.9 million.

It should be added that considering the year expected for the realization of the temporary differences for which deferred taxes were recorded, with the exception of deferred taxes referring to reportable tax losses and the impairment on accounts receivable from TAP ME Brasil, a tax rate of 29 .5% was used.

35 Earnings per share

There are no convertible financial instruments on the shares of TAP S.A., therefore, there is no dilution of earnings. The detail of earnings per share for the fiscal years ending 31 December 2021 and 2020 is as follows:

	2021	2020
Net income/(loss) for the year	(1,599,110,889)	(1,230,255,776)
Weighted average number of shares	62,200,000	8,300,000
Basic and diluted earnings per share	(25.7)	(148.2)

36 Commitments

✈ Purchase commitments

The aircraft purchase agreement with Airbus S.A.S. ("Airbus") for the purchase of 53 aircraft (39 A320 NEO Family and 14 A330 NEO), initially planned to be received between 2018 and 2025, was renegotiated with a view to delaying delivery of some of the aircraft given the impacts of the COVID-19 pandemic on the commercial aviation sector. The 2 A330NEO aircraft not delivered up to this date have been rescheduled from 2022 to 2024. For the A320NEO Family aircraft, 13 aircraft initially planned for delivery in 2021-2022 were rescheduled for 2025-2027. This purchase agreement results from the novation to TAP S.A. of the previously negotiated acquisition agreement signed between Airbus and DGN Corporation.

In 2021, 6 lease agreements without purchase option (3 aircraft and 3 reactors) and 2 lease agreements with purchase option were signed.

As a result of the commitments assumed in the contract with Airbus regarding the future entry of aircraft, USD 53.3 million were paid in 2021 as pre-delivery payments. A phased payment of USD 105.5 million is planned for 2022.

A contract was signed with Rolls-Royce that includes maintenance support for all TRENT 7000 reactors that equip A330 NEO aircraft.

✈ Other commitments

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. It should be noted that these engines will be purchased directly by Airbus, with the exception of standby engines. As regards the reserve engine, 3 of the 5 planned have already been purchased.

37 Contingencies

As at 31 December 2021 and 2020, the Group had no contingent assets. The contingent liabilities were as follows:

	2021	2020
Tax contingencies	494,207	864,894
Civil contingencies	11,030,695	8,985,071
Regulatory contingencies	2,334,446	7,636,358
Total	**13,859,348**	**17,486,323**

Regulatory contingencies include essentially cases brought by customers regarding operational irregularities. The Group, supported by the opinion of its legal advisors, considers that an unfavourable outcome in these cases is unlikely.

Guarantees provided

As of 31 December 2021 and 2020, the Group's guarantees are broken down as follows:

	2021	2020
Bank guarantees provided by Head Office		
Aircrafts	38,221,763	42,683,205
Fuel	882,924	814,930
Portuguese State - Operation of the Azores routes	-	1,653,985
Airports	1,019,875	942,643
Labour Court	450,962	540,622
Other	4,641,556	6,228,452
Bank guarantees provided by Representations	2,261,785	2,107,124
	47,478,865	**54,970,960**

38 Related parties

During the year of 2020, as disclosed in the Introductory Note, the shareholder structure of TAP S.A. suffer changes, with an impact on the identification of related parties.

During the year ended 31 December 2021, the related parties identified are were the following:

Aeropar	SPdH - Serviços Portugueses de Handling, S.A.
Cateringpor	TAP ME Brasil
Estado Português	TAP SGPS
Grupo Barraqueiro	TAPGER
Portugália	UCS

Within the scope of the identification of related parties, for the purposes of financial reporting, the members of the Board of Directors and other Governing Bodies were also assessed as related parties. See Management Report.

The balances and transactions with related entities as of 31 December 2021 and 2020 are as follows:

✈ Balances

2021 - Assets

	Customers (Note 10)	Advances to suppliers (Note 10)	Accrued income (Note 10)	Deferred expenses (Note 13)	Right-of-use assets	Other receivables current (Note 10)	Impairment on accounts receivable (Note 10)	Total
TAP SGPS	17	-	885	-	-	921,540,227	(884,671,817)	**36,869,312**
PGA	274,994	-	850,961	-	187,329,516	229,080	-	**188,684,551**
SPdH	791,075	-	-	-	-	15,415,106	(10,773,100)	**5,433,081**
TAP ME Brasil	15,603,355	515,432	-	1,023,737	-	9,257,851	(25,669,547)	**730,828**
Cateringpor	341,128	-	1,047,335	-	-	1,667,512	-	**3,055,975**
UCS	45,329	1,000	-	-	-	71,249	-	**117,578**
	17,055,898	**516,432**	**1,899,181**	**1,023,737**	**187,329,516**	**948,181,025**	**(921,114,464)**	**234,891,325**

2020 - Assets

	Customers (Note 10)	Advances to suppliers (Note 10)	Accrued income (Note 10)	Deferred expenses (Note 13)	Income tax receivable (Note 12)	Right-of-use assets	Other receivables current (Note 10)	Impairment on accounts receivable (Note 10)	Total
TAP SGPS	70,812	-	810,885	-	291,037	-	874,123,772	-	**875,296,506**
TAPGER	-	-	-	-	-	-	-	-	**-**
PGA	1,194,164	-	850,961	1,092,006	-	116,796,416	91,282	-	**120,024,829**
SPdH	563,580	3,300,000	-	1,471,775	-	-	391,006	-	**5,726,361**
TAP ME Brasil	14,034,564	39,117	-	6,047,685	-	-	6,686,434	(18,877,760)	**7,930,040**
Cateringpor	617,784	-	-	-	-	-	1,326,501	-	**1,944,285**
UCS	732,394	1,000	-	-	-	-	47,371	-	**780,765**
Barraqueiro Group	3,233	-	-	-	-	-	-	-	**3,233**
	17,216,531	**3,340,117**	**1,661,846**	**8,611,466**	**291,037**	**116,796,416**	**882,666,366**	**(18,877,760)**	**1,011,706,019**

2021 - Liabilities

	Suppliers (Note 20)	Accrued expenses (Note 20)	Deferred income (Note 21)	Lease liabilities without purchase option non-current (Note 19)	Lease liabilities without purchase option current (Note 19)	Other payables current (Note 20)	Total
TAP SGPS	(59,635)	-	-	-	-	(412)	**(60,047)**
PGA	(9,715,176)	(56,084)	(20,144)	(100,306,207)	(110,739,906)	344	**(220,837,173)**
SPdH	(4,430,291)	(1,760,080)	(81,794)	-	-	4,065	**(6,268,100)**
TAP ME Brasil	305,588	(12,678)	-	-	-	-	**292,910**
Cateringpor	(4,069,068)	(2,135,080)	(206,504)	-	-	-	**(6,410,652)**
UCS	(159,954)	(142,359)	(28,983)	-	-	(32,374)	**(363,670)**
	(18,128,536)	**(4,106,281)**	**(337,425)**	**(100,306,207)**	**(110,739,906)**	**(28,377)**	**(233,646,732)**

2020 - Liabilities

	Suppliers (Note 20)	Accrued expenses (Note 20)	Deferred income (Note 21)	Lease liabilities without purchase option non-current (Note 19)	Lease liabilities without purchase option current (Note 19)	Other payables current (Note 20)	Total
Estado Português	-	-	-	-	(1,210,825,439)	-	**(1,210,825,439)**
TAP SGPS	(164,851)	-	-	-	-	-	**(164,851)**
PGA	(3,726,749)	(285,272)	-	(60,475,742)	(70,240,234)	-	**(134,727,997)**
SPdH	545,840	(1,358,392)	(82,636)	-	-	(82)	**(895,270)**
TAP ME Brasil	(1,869,803)	(12,552)	-	-	-	-	**(1,882,355)**
Cateringpor	(876,421)	(5,183,568)	(205,447)	-	-	-	**(6,265,436)**
UCS	(457,472)	-	(28,983)	-	-	(13,469)	**(499,924)**
Barraqueiro Group	(2,397)	-	-	-	-	-	**(2,397)**
	(6,551,853)	**(6,839,784)**	**(317,066)**	**(60,475,742)**	**(1,281,065,673)**	**(13,551)**	**(1,355,263,669)**

✈ Transactions

	2021						
	Operating income	Operating expenses	Depreciation right-of-use	Interest income	Interest expenses	Income tax	Total
Estado Português	-	-	-	-	(47,718,792)	-	(47,718,792)
TAP SGPS	-	(601,194)	-	33,712,447	-	-	33,111,253
PGA	3,739,151	(12,473,119)	(71,899,280)	-	(12,098,409)	-	(92,731,657)
SPdH	6,919,275	(54,836,212)	-	-	-	-	(47,916,937)
TAP ME Brasil	61,166	(2,051,761)	-	-	-	-	(1,990,595)
Cateringpor	1,678,831	(25,121,272)	-	-	-	-	(23,442,441)
UCS	830,875	(4,776,419)	-	-	-	-	(3,945,544)
Barraqueiro Group	2,523	(479)	-	-	-	-	2,044
	13,231,821	**(99,860,456)**	**(71,899,280)**	**33,712,447**	**(59,817,201)**	**-**	**(184,632,669)**

	2020						
	Operating income	Operating expenses	Depreciation right-of-use	Interest income	Interest expenses	Income tax	Total
TAP SGPS	-	(1,689,519)	-	32,354,967	-	49,606	30,715,054
Azul S.A.	202,044	(24,437)	-	-	-	-	177,607
TAPGER	-	(133,425)	-	-	-	-	(133,425)
PGA	2,888,762	1,931,163	(78,986,913)	-	(10,725,788)	-	(84,892,776)
SPdH	5,502,691	(43,027,968)	-	-	-	-	(37,525,277)
TAP ME Brasil	576,426	(605,328)	-	-	-	-	(28,902)
Cateringpor	1,420,334	(20,314,928)	-	-	-	-	(18,894,594)
UCS	976,408	(3,978,266)	-	-	-	-	(3,001,858)
Barraqueiro Group	1,896	(13,863)	-	-	-	-	(11,967)
	11,568,561	**(67,856,571)**	**(78,986,913)**	**32,354,967**	**(21,551,227)**	**49,606**	**(124,421,577)**

The transactions with SPdH refers to ground handling services provided by SPdH to support aircraft, passengers, baggage, cargo and mail.

In addition to the aforementioned operations, the Group, within the scope of the normal development of its air transport activity, maintains commercial relations, essentially code-share, with Azul and Aigle Azur. These transactions are carried out on terms and conditions similar to those practiced in commercial agreements usually concluded with other airlines. Due to the aforementioned change in the shareholding structure of the Group's parent company, the transactions disclosed with these entities are only for the period from January to August 2020. As of 31 December 2021, said Companies are not considered related parties.

These transactions are carried out under terms and conditions similar to those practiced in commercial agreements usually concluded with other airlines. As of 31 December 2021, said companies are not considered related parties.

39 Financial assets and liabilities

The accounting policy described in Note 2.11 was applied according to the categories shown below:

	2021			
	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 financial assets	488,725	-	-	488,725
Other receivables	445,637,020	233,046	13,889,002	459,759,068
Cash and cash equivalents	812,578,316	-	-	812,578,316
Total Assets	**1,258,704,061**	**233,046**	**13,889,002**	**1,272,826,109**
Liabilities				
Borrowings and Lease liabilities with purchase option	(937,194,148)	-	(543,676,406)	(1,480,870,554)
Lease liabilities without purchase option	-	-	(2,118,538,327)	(2,118,538,327)
Other payables	(405,595,477)	-	(558,381)	(406,153,858)
Total Liabilities	**(1,342,789,625)**	**-**	**(2,662,773,114)**	**(4,005,562,739)**

	2020			
	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 financial assets	488,730	-	-	488,730
Other receivables	1,198,129,068	-	9,603,494	1,207,732,562
Cash and cash equivalents	518,756,607	-	-	518,756,607
Total Assets	**1,717,374,405**	**-**	**9,603,494**	**1,726,977,899**
Liabillities				
Borrowings and Lease liabilities with purchase option	(2,151,809,254)	-	(438,578,991)	(2,590,388,245)
Lease liabilities without purchase option	-	-	(2,038,640,352)	(2,038,640,352)
Other payables	(414,981,926)	29,014,165	(548,038)	(386,515,799)
Total Liabilities	**(2,566,791,180)**	**29,014,165**	**(2,477,767,381)**	**(5,015,544,396)**

The following tables present the assets and liabilities measured at fair value as at 31 December 2021 and 2020, according to the following fair value hierarchical levels established in IFRS 13:

	2021		
	Level 1	Level 2	Level 3
Non-financial assets			
Investment Properties	-	1,615,899	-
Financial liability			
Derivate financial instruments	-	-	-

	2020		
	Level 1	Level 2	Level 3
Non-financial assets			
Investment Properties	-	1,543,825	-
Financial liability			
Derivate financial instruments	-	(29,014,165)	-

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 derivative financial instruments is recorded under Other payables when negative and under Other receivables when positive.

During 2021 and 2020, the variation in the fair value of derivative financial instruments was recognized in equity or results, taking into account the over hedge situation verified in 2020 resulting from the reduction in activity caused by the pandemic COVID-19 (Note 1.1.3).

The breakdown of the derivative financial instruments fair value is detailed in Note 15.

40 Statutory audit of accounts

During the years ended 31 December 2021 and 2020, the fees for the services provided by the Statutory Auditor and by other entities belonging to the same network, are detailed as follows:

	2021	2020
Audit and statutory audit	90,450	105,750
Limited Review Services	45,000	75,000
Reliability assurance services and agreed upon procedures	194,500	135,500
	329,950	**316,250**

The Limited Review services were performed with reference to the months of March and June 2020 and June 2021.

The reliability assurance services and agreed procedures relate to expenditure / payment validation work in the scope of State aid and application for subsidies from the European Union, as well as validation of financial ratios under financing contracts.

41 Subsequent events

War in Ukraine

In February 2022 the Russian Federation initiated a military action in the Ukrainian territory that originated a war in the European territory. This event has been originating relevant macroeconomic impacts in particular in the international financing markets, namely interest rates increase as well as a price increase in fuel costs, including jet fuel, that recorded a growth of more than 30% since the beginning of the war, and in a set of goods and services which generated an increasing inflation.

Additionally, the conflict has originated mobility restrictions in that region and proximities, being those restrictions in place on the date of these financial statement’s approval, as well as economic, financial and other sanctions to the Russian Federation and to individuals associated with the Russian government by Europe, USA and other countries, as well as impacts in people, goods and financial flows.

The conflict and the referred sanctions have high uncertainty in its duration, extension and impact, not being possible to predict its eventual effects and their duration including impacts in inflation and fuel prices in the coming months and years.

Closure of TAP ME Brasil operations with the purpose of its liquidation

Considering the Approved Restructuring Plan and following the decision of the Board of Directors of TAP SGPS on 29 December 2021 to shut-down the operations of its subsidiary TAP ME Brasil (Note 1.1.3), a company with which TAP S.A. maintains transactions as a customer and supplier (Note 38), in January 2022, the procedure for the liquidation of TAP ME Brasil was communicated to its main stakeholders, including employees. At an operational level, the conclusion of maintenance services is expected relating to aircraft already contracted and/or in progress.

42 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.

CERTIFIED ACCOUNTANT

Ana Maria Fragueiro Navarro

BOARD OF DIRECTORS

Manuel Amaral Beja
Chairman

Christine Ourmières-Widener
Director

Silvia Mosquera González
Director

Patrício Ramos Castro
Director

Ana Teresa C. P. Tavares Lehmann
Director

Gonçalo Neves Costa Monteiro Pires
Director

João Pedro Conceição Duarte
Director

Ramiro José Oliveira Sequeira
Director

Statutory Audit Report and Auditors' Report

(Free translation from the original in Portuguese)

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Transportes Aéreos Portugueses, S.A. (the Group), which comprise the consolidated statement of financial position as at December 31, 2021 (which shows total assets of Euros 4,718,062 thousand and total negative shareholders' equity of Euros 468,074 including a net loss of Euros 1,599,111), the consolidated statement of income by nature, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Transportes Aéreos Portugueses, S.A. as at December 31, 2021, 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 disclosure in note 1 of the accompanying notes to the consolidated financial statements, namely regarding (i) the approval of the TAP Group's Restructuring Plan by the European Commission, on December 21, 2021, within the scope of the State aid to the Group ("Approved Restructuring Plan"), and the consequent future monitoring by the European Commission as to its compliance and (ii) the impacts of the evolution of the COVID-19 pandemic and the conflict in Ukraine in the air transport sector and, consequently, in the future operational activity of TAP SA Group.

Therefore, it should be noted that the future economic and financial performance of the Group may be significantly affected, among others, by the above mentioned factors.

Our opinion is not modified in respect of this matter.

PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda.
Sede: Palácio Sottomayor, Rua Sousa Martins, 1 - 3º, 1069-316 Lisboa, Portugal
Receção: Palácio Sottomayor, Avenida Fontes Pereira de Melo, nº16, 1050-121 Lisboa, Portugal
Tel: +351 213 599 000, Fax: +351 213 599 999, www.pwc.pt
Matriculada na CRC sob o NIPC 506 628 752, Capital Social Euros 314.000
Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20161485

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	***Summary of the Audit Approach***
Revenue recognition, including liabilities from unused flight documents and customer loyalty program *Disclosures related to revenue are presented in notes 1.1.3, 2.26, 2.32, 21, 22 and 24 of the consolidated financial statements.* As of December 31, 2021, the operating income amounts to Euros 1,389 million, which mainly corresponds, to passenger transportation. As disclosed in note 2.26 of the consolidated financial statements, when the sale is made, the amount is recorded as a liability in the caption Liabilities from unused flight documents, which, as at December 31, 2021, amounts to Euros 644 million, being the respective revenue recognized when the transport is carried out or the ticket expires, which in this case are considered the commercial conditions and respective estimate regarding the likelihood of the passenger to request the reimbursement or claim the issuance of a new ticket. As disclosed in notes 2.26 and 2.32 of the consolidated financial statements, the caption Liabilities from unused flight documents, refers to the balance of flights not carried out until that date, corresponding to an obligation to provide the service in the future or an obligation to refund the ticket value, as defined in the contractual terms. Following the impacts of the COVID-19 pandemic on the air transport sector, the Group suffered a significant reduction in its activity in 2020 and 2021, as a result of a drop in demand	Our audit procedures included, among others, the understanding and evaluation of the several information technology systems related to the revenue recognition of passenger transportation, the identification and evaluation of the operational effectiveness of the Group's internal control framework related to the IT systems management process, having for this purpose used our specialists in audit of IT systems, as well as the evaluation of the respective key controls that insure the correct, complete and timely revenue recognition of passenger transportation. We performed specific substantive tests on revenue recognition of passenger transportation and on the balance of Liabilities from unused flight documents, namely the reconciliation of information extracted from several support systems to the accounting records, validation, on a sample basis, of the several inputs considered in the unused flight documents listing and analysis of bank reconciliations. We also carried out analytical review procedures for the various categories of passenger transport revenue, namely fares, taxes and commissions. Regarding "TAP Miles&Go" program, the audit procedures performed included, among others, the assessment of the model, internally developed, for the measurement of the liabilities with unused miles, as well as the reasonableness of the assumptions embodied in it, and the validation of the respective calculations considered in the determination of the stand-alone price.

Key Audit Matter	Summary of the Audit Approach
and the imposition of government restrictions on air traffic, which led to the cancellation of several flights. In this context, the Board of Directors has reviewed the policy for the use of unused flight documents, namely regarding the possibility of rebooking tickets with no additional cost and reimbursing passengers in cash or with vouchers with mark-up and extended validity periods. Regarding “TAP Miles&Go” program, as disclosed in notes 2.26 and 2.32 of the consolidated financial statements, the Group recognizes a performance obligation based on the historical miles awarded and not claimed or expired, adjusted by the estimate of miles that will expire without being used. The miles are valued based on the stand-alone price considering the historical redemption of the miles. The liability related to the customer loyalty program, as of December 31, 2021, amounts to Euros 41 million. Considering the impacts of the COVID-19 pandemic on the air transport activity, during 2020 the Group decided to extend by 12 months the validity of the miles attributed to customers, having been updated the assumptions associated with this estimate. The Board of Directors carries out a periodic analysis, either of the caption Liabilities from unused flight documents, in order to evaluate if the tickets were already used or have expired, either of the caption Customer loyalty program, in order to assess the use and validity of the miles. Given the amounts involved and the degree of judgment inherent to the revenue recognition, this matter was considered a key matter for the purposes of our audit.	We inquired Management on the reasonableness of the assumptions considered and performed sensitivity analyses to assess the potential impacts on the liabilities with customer loyalty program arising from variations on the unit value of the mile and estimated rate of miles that will expire. We reviewed the adequacy of the disclosures presented in the consolidated financial statements, based on the applicable accounting standards and factors considered relevant.

Key Audit Matter	Summary of the Audit Approach
Estimates related to fleet maintenance and redelivery *Disclosures related to fleet maintenance and redelivery are presented in notes 1.1.3, 2.6, 2.20, 2.32, 4, 10 and 18 of the consolidated financial statements.* As disclosed in note 2.32 of the consolidated financial statements, the estimates for fleet maintenance and redelivery works require the Group to determine several significant assumptions based on forecasts with a significant level of judgement, namely, the use and condition of the aircraft, intervention costs, contractual conditions and possible renegotiations of the lease agreements. These estimates impact the accounting records of the maintenances performed immediately before the return of aircraft under lease without purchase option agreements, designated by redelivery works, which as of December 31, 2021 amounts to Euros 141 million, as well as the determination of the useful life of the structural maintenance and the recoverability of the maintenance reserves delivered to the lessors. The expenses for redelivery works are recognized as provisions, against the respective right-of-use asset, which is depreciated on a straight-line basis over the lease term. Regarding structural maintenances, which increase the useful life of the related assets, these are capitalized and recognized as a complement to the right-of-use assets and are subsequently depreciated until the new maintenance event. The estimated period until the next maintenance is defined based on the Group's best judgment and it is reassessed at each year end. The timeline for the structural maintenances for the aircrafts under lease without purchase option agreements, as well as the estimate for the respective expenses, also influence the recoverability of the maintenance reserves delivered to the lessors, which are	We performed several audit procedures to evaluate the reasonableness of the maintenance and redelivery works estimates for the fleet, namely the understanding and assessment of the internal control processes and procedures followed by the Group for the establishment of these estimates. We obtained the data supporting to the calculation of the maintenance and redelivery works estimates and evaluated the reasonableness of the assumptions considered, as well as its consistency with the estimates embedded in the Approved Restructuring Plan. We inquired the internal technicians of the maintenance department and the Board of Directors on the reasonableness of the assumptions and verified the adequacy of the calculations performed. We assessed the different intervention periods considered in the estimates, given the specific characteristics of each aircraft, as well as the estimated costs to be incurred in the future and the reasonability of the discount rate used, based on the conditions that are contractually defined, as well as the information provided by internal engineers with expertise in this matter. We also verified the historical consistency of the maintenance estimates compared to the events that have actually occurred and the reasonableness of the evolution of the maintenance and redelivery works estimates as of December 31, 2021 compared with December 31, 2020, considering the impacts of the COVID-19 pandemic on aircraft maintenance management and on the estimated evolution of the fleet, as defined in the Approved Restructuring Plan. We reviewed the adequacy of the disclosures presented in the consolidated financial statements, based on the applicable accounting standards and factors considered relevant.

Key Audit Matter	*Summary of the Audit Approach*
recovered by performing the referred maintenance. Given the amounts involved and the degree of judgment inherent to the assumptions considered in the estimate for maintenance and redelivery works, this matter was considered a key matter for the purposes of our audit.	
Recoverability of tangible and intangible assets related with air transport *Disclosures related to tangible and intangible assets related with air transport in notes 1.1.3, 2.9, 2.32, 4 and 32 of the consolidated financial statements.* As at December 31, 2021, tangible and intangible assets related with air transport presented in the consolidated financial statements amounts to Euros 2,840 million. In accordance with IAS 36 – Impairment of assets, and as disclosed in the notes of the consolidated financial statements, the Group performs impairment testes on tangible and intangible assets related with air transport whenever there are facts or circumstances that may indicate that the net book value may not be recoverable, which occurred in the current year considering the impacts of the COVID-19 pandemic on the air transport activity. The recoverable amount of the mentioned assets is determined based on discounted cash flow models, which require the use of estimates and assumptions defined by the Board of Directors, based on economic and market projections, namely cash flows associated with the Group's operating activity, exchange rates, perpetuity growth rates and discount rates. As disclosed in notes 1.1.3 and 4 of the consolidated financial statements, on December 31, 2021 the European Commission approved the Restructuring Plan of TAP Group for the	The audit procedures included, among others, the assessment of the adequacy of the impairment model used by the Board of Directors and the mathematical accuracy of the calculations. We assessed the reasonableness of the estimates and judgments made by the Board of Directors, underlying the relevant assumptions used in the impairment test model and respective sensitivity analyses. We performed a reconciliation between the future cash flow projections and the Approved Restructuring Plan. We also assessed the reasonableness of the cash-generating unit definition, on which the impairment test was performed. We inquired the Management about the adequacy of the assumptions that have greater sensitivity in determining the value in use, namely the revenues growth and EBITDA margin. An analysis of the adequacy of the discount rate and the perpetuity growth rate was also performed, using the peer's information and other information available in the market. Sensitivity analyses were also carried out on the main assumptions in order to determine the level of variations that, individually or collectively, could lead to impairment losses on the assets tested. The procedures described above, carried out to assess the reasonableness of the assumptions and methodology associated with the impairment model used by the Group, were

Key Audit Matter	Summary of the Audit Approach
years 2020-2025, which includes the projections of the Board of Directors of TAP SA presented on June 10, 2021 and updated on November 3, 2021, based on medium and long term assumptions related to the evolution of the fleet and level of activity and operational performance, considering the uncertainty associated with the future evolution of the COVID-19 pandemic and its impacts on the air transport activity. The assumptions embedded in the Approved Restructuring Plan were the basis of the analysis of the recoverability of tangible and intangible fixed assets of air transport carried out by the Board of Directors. As also disclosed in note 1.1.3 of the consolidated financial statements, it should be noted that any unfavourable future variations between the actual cash flows and those estimated in the Approved Restructuring Plan may lead to relevant impacts on the calculation of the recoverable value of those assets and consequently significantly affect the Group's financial and economic position. The extension of the conflict in Ukraine and the continuing rise in fuel prices and interest rates in international markets are being monitored by the Board of Directors, although not incorporated into the impairment tests performed as of December 31, 2021, since are a non-adjustable event. Given the amounts involved, the complexity of the valuation models, the assumptions used, the degree of judgment and subjectivity inherent, and considering the uncertainty of the future evolution of the COVID-19 pandemic and the respective impacts on the air transport activity, this matter was considered a key matter for the purposes of our audit.	performed with the support of our team of specialists. We reviewed the adequacy of the disclosures presented in the consolidated financial statements, in particular those related to the estimates and assumptions that present higher sensitivity in determining the recoverable amount based on value in use, based on the applicable accounting standards and factors considered relevant.
Recoverability of deferred tax assets *Disclosures related to the recoverability of deferred tax assets presented in notes 1.1.3,*	The audit procedures performed included, among others, the evaluation of the adequacy of the model of analysis of the recoverability of deferred tax assets, approved by the Board of

Key Audit Matter	*Summary of the Audit Approach*
2.13, 2.32, 9 and 34 of the consolidated financial statements. In the consolidated statement of financial position as of December 31, 2021, deferred tax assets amount to Euros 364 million, of which (i) Euros 134 million relates to tax losses generated in 2015 and 2021 and (ii) Euros 187 million relates to impairment losses on receivables, mainly arising from the balance with TAP SGPS. As disclosed in notes 1.1.3 and 9 of the consolidated financial statements, the recoverability of deferred tax assets was assessed based on projections of future taxable income and the value of deferred tax liabilities as of December 31, 2021. It should be noted that deferred tax assets, in the estimated amount of Euros 53 million, relating to temporary differences between the book and taxable amounts of impairments and provisions were not recognized, due to the uncertainty of their recovery. In accordance with IAS 12 - Income Taxes, deferred tax assets are recognized based on the Board of Directors expectation regarding their future recoverability, based on the ability to generate future taxable income, combined with the time horizon and annual limit of recovery of tax losses, as well as the estimated period for reversal of impairments and provisions not accepted for tax purposes, recognized at December 31, 2021. The estimate of recovery of the referred deferred tax assets was based on the projection of income before taxes embedded in the Approved Restructuring Plan, which includes the projections of the Board of Directors presented on June 10, 2021 and updated on November 3, 2021, adjusted for the respective tax effects, also considering that the separate financial statements of the Company are prepared in accordance with the generally accepted accounting principles in Portugal (SNC).	Directors, the reasonability of the methodology used and the mathematical re-execution of the calculations. We performed the reconciliation between the pre-tax results used in the respective model with (i) the Approved Restructuring Plan for the years 2022 to 2025, (ii) the projections updated by the Board of Directors on November 3, 2021 and submitted to the European Commission for the years 2026 and 2027, and (iii) with the linearization of these results for future years based on the reporting period for the use of tax losses in force on December 31, 2021 and the estimated period for reversal of impairments and provisions not accepted for tax purposes, recognized on December 31, 2021. We have evaluated the estimates and judgments made by the Board of Directors underlying the relevant assumptions used in the model, namely periods used, pre-tax results in the projection periods, and tax adjustments that contribute to the determination of the estimated future taxable income. We reviewed the adequacy of the disclosures presented in the consolidated financial statements, based on the applicable accounting standards and factors considered relevant.

Key Audit Matter	Summary of the Audit Approach
As also disclosed in note 1.1.3 of the consolidated financial statements, it should be noted that any unfavourable future variations between the actual cash flows and those estimated in the Approved Restructuring Plan may lead to relevant impacts on the calculation of the recoverable value of those assets and consequently significantly affect the Group's financial and economic position. The extension of the conflict in Ukraine and the continuing rise in fuel prices and interest rates in international markets are being monitored by the Board of Directors, although not incorporated into the impairment tests performed as of December 31, 2021, since are non-adjustable event. Given the amounts involved, the assumptions used and the degree of judgment and subjectivity inherent and considering the uncertainty of the future evolution of the COVID-19 pandemic and the respective impacts on the air transport activity, this matter was considered a key matter for the purposes of our audit.	
Non-recurring expenses arising from the approval of the Restructuring Plan and respective corporate reorganization of the TAP Group Disclosures related to non-recurring expenses arising from the approval of the Restructuring Plan and respective corporate reorganization of the TAP Group presented in notes 1.1.3, 2.10, 2.29, 2.32, 10, 18, 31, 38 and 41 of the consolidated financial statements. As disclosed in note 31 of the consolidated financial statements, as of December 31, 2021, it were recorded non-recurring items in the amount of Euros 1,025 million, as a result of impairment losses on the account receivable from TAP SGPS, in the amount of Euros 885 million, and the recording of a provision in the	The audit procedures performed included, among others, the verification of compliance with the requirements for the recognition of expenses as non-recurring on December 31, 2021. We examined the documentation inherent to the Restructuring Plan, which was initiated on June 10, 2020 with subsequent updates occurred during 2021 and final approval by the European Commission on December 21, 2021, and the respective ongoing corporate reorganization of TAP Group, as well as the minutes of the Board of Directors of TAP SA and TAP SGPS. We inquired the Board of Directors about the recoverability of the account receivable from TAP SGPS and the recognition of the referred provision in accordance with the referred documentation.

Key Audit Matter	Summary of the Audit Approach
amount of Euros 140 million, regarding the estimate of additional charges that TAP SA will support related to the mentioned corporate reorganization of the TAP Group, including those arising from the liquidation process of TAP ME Brazil, under the terms of the Approved Restructuring Plan. As disclosed in notes 1.1.3 and 10 of the consolidated financial statements, the recoverability of the accounts receivable from TAP SGPS as of December 31, 2021, was assessed by the Group's Board of Directors based on the approval of the Restructuring Plan, which foresees the corporate reorganization of the TAP Group in progress. As also disclosed in notes 1.1.3 and 18 of the consolidated financial statements, the recognition of the above mentioned provision in the amount of Euros 140 million, supported by the Group's legal advisor's opinions, requires judgment by the Group's Board of Directors, both in terms of evaluating the probability of occurrence of outflows of resources, and in terms of measuring the liability related to the estimated responsibilities resulting from the ongoing liquidation process of TAP ME Brazil, namely those resulting from lawsuits, restructuring and taxes. Given the amounts involved, the complexity of estimate made and the level of judgment and subjectivity inherent, this matter was considered a key matter for the purposes of our audit.	The audit procedures developed for the purpose of assessing the reasonability of the impairment recorded on the receivable included, among others, the analysis of the estimated impacts on the account receivable from TAP SGPS, resulting from the corporate reorganization in progress in TAP SGPS and TAP SA. The audit procedures performed for purposes of assessing the reasonableness of the provision included, among others, updating our understanding of the procedures implemented by the Group for purposes of identifying and assessing the associated contingencies, understanding their nature and analyzing the information reported in the external confirmations and opinions of the Group's legal advisors. On a sample basis, we performed a reconciliation of the information considered relevant for purposes of provision valuation, approved by the Board of Directors, with the supporting documentation. We also proceeded to mathematically re-execute of the calculations. We also inquired the Board of Directors, the legal and tax department heads and the Group's legal advisors about the estimates, judgments and decisions made in order to assess the adequacy, under IAS 37, of the probabilities of outcome of the different processes related to the ongoing liquidation of TAP ME Brazil. We reviewed the adequacy of the disclosures presented in the consolidated financial statements, based on the applicable accounting standards and factors considered relevant.
Impact of the approval of the Restructuring Plan on the going concern assumption Disclosures related to the impact of the approval of the Restructuring Plan on the going concern assumption in notes 1.1.5 and 2.1 of the	The audit procedures developed included, among others, the assessment of the adequacy of the use of the going concern assumption, used by the Board of Directors, in the preparation of the consolidated financial statements based on the reasonableness

Key Audit Matter	Summary of the Audit Approach
consolidated financial statements. The COVID-19 pandemic has significantly impacted the air transport industry. The outbreak of the pandemic COVID-19, in Portugal, in March 2020 and new variants generated national and international travel restrictions with a strong impact on the significant reduction in operational activity and liquidity of the TAP Group. At the date of approval of the 2020 financial statements, the continuity of operations was dependent on the approval of a Restructuring Plan by the European Commission, as well as the evolution of the COVID-19 pandemic. Considering the potential impacts on the air transport sector and on the Group's future operational and financial activity, the factors described above represented a material uncertainty that could raise doubts on the Group's ability to maintain the continuity of its operations. On December 31, 2021, as disclosed in note 1.1.5 of the consolidated financial statements, the European Commission had already approved the Restructuring Plan. Under the State aid measures, the shareholder financial support already provided by the Portuguese State to TAP SA amounts to Euros 2,198 million, and an additional amount of Euros 990 million is expected to be provided in 2022, with the fundamental purpose of ensuring the financial sustainability and economic viability that allows the continuity of the operations of the TAP SA Group. Therefore, on December 31, 2021, the TAP SA Group has cash and cash equivalents of Euros 813 million, to which will be added the contribution of Euros 990 million to be paid by the shareholder during the year 2022, as forseen in the Approved Restructuring Plan. Therefore, the Board of Directors is convinced that the continuity of the Group's operations and liquidity are assured, based on the estimated	analysis performed to the assumptions and methodology associated to the cash flow model for 2022 included in the Approved Restructuring Plan. We also analyzed the sensitivity scenarios to the main risk factors identified by TAP, namely (i) the evolution of the COVID-19 pandemic and its impact on demand, (ii) the impact of the increase in the inflation rate and (iii) the increase in fuel prices, on liquidity and operational performance of the TAP SA Group, in order to determine whether the existing cash on December 31, 2021, plus the estimated capital inflows approved by the European Commission for the year 2022, will be sufficient to meet the Group's cash requirements within twelve months. In the scope of our analysis, we inquired the Board of Directors about the rationale and assumptions used in assessing the potential effects of the evolution of the COVID-19 pandemic, as well as the current developments in the Ukraine conflict and the global sanctions imposed, the overall development of the economy and the evolution of fuel prices and its impact on the Group's operational performance and liquidity. We reviewed the adequacy of the disclosures presented in the consolidated financial statements, based on the applicable accounting standards and factors considered relevant.

Key Audit Matter	Summary of the Audit Approach
cash requirements, as of this date, for the period of twelve months, regardless of the risks inherent to the uncertainty resulting from the evolution of the COVID-19 pandemic and the conflict in Ukraine and its impact on the Group's operating activity and liquidity. As disclosed in note 1.1.5 of the consolidated financial statements, it should be noted that any unfavorable future variations between the actual results and those estimated in the Approved Restructuring Plan may change the going concern assessment at each future year end. Given the amounts involved, the level of judgment associated with the assumptions used in the Approved Restructuring Plan, and the impact these have on the analysis of liquidity and continuity of operations, this matter was considered a key matter for the purposes of our audit.	

Responsibilities of management and supervisory board for the consolidated financial statements

Management is responsible for:

a) the preparation of the consolidated financial statements, which present fairly the consolidated financial position, the consolidated financial performance and cash flows of the Group in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the consolidated Directors’ report and the non-financial statement 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 consolidated 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion;

g) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

h) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the consolidated financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

i) confirm to the supervisory board that we comply with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

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

Report on other legal and regulatory requirements

Consolidated Directors' report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our opinion that the consolidated Directors' report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the consolidated 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.

European Single Electronic Format (ESEF)

The Entity's consolidated financial statements for the year ended on December 31, 2021 must comply with the applicable requirements established in Commission Delegated Regulation (EU) 2019/815, of December 17, 2018 (ESEF Regulation).

The management is responsible for the preparation and disclosure of the annual report in accordance with the ESEF Regulation.

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements included in the annual report are presented in accordance with the requirements of the ESEF Regulation.

Our procedures took into account the OROC Technical Application Guide on ESEF reporting and included, among others:

a) obtaining an understanding of the financial reporting process, including the annual report presentation in valid XHTML format; and
b) the identification and assessment of the risks of material misstatement associated with the tagging of information in the consolidated financial statements, in XBRL format using iXBRL technology. This assessment was based on an understanding of the process implemented by the entity to tag the information.

In our opinion, the consolidated financial statements included in the annual report are presented, in all material respects, in accordance with the requirements of the ESEF Regulation.

Consolidated non-financial statement

In compliance with paragraph 6 of article No. 451 of the Portuguese Company Law, we hereby inform that the Group will prepare a separate report of the Directors' report that includes the consolidated non-financial statement set forth in article No. 508-G of the Portuguese Company Law, which should be published on its website until the legal deadline.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of Transportes Aéreos Portugueses, S.A. in the Shareholders' General Meeting of December 17, 2019 for the period from 2019 to 2020. Our last appointment was in the Shareholders' General Meeting of June 24, 2021 for the period from 2021 to 2024.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the consolidated financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Group's supervisory board as of April 11, 2022.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 1 of article No. 5 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014 and that we remain independent of the Group in conducting our audit.

April 11, 2022

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

Hugo Miguel Patrício Dias, ROC no. 1432
Registered with the Portuguese Securities Market Commission under no. 20161042