AIR PORTUGAL

# TRANSPORTES AÉREOS PORTUGUESES, S.A.

## TAP discloses Corporate Presentation

Lisbon, Portugal, November 18, 2019 — Transportes Aéreos Portugueses, S.A. ("**TAP**"), today discloses a Corporate Presentation to the public.

This information is also available in TAP's website https://www.tapairportugal.com/en/about-us/investors.

**DISCLAIMER**

*This press release constitutes a public disclosure of inside information by Transportes Aéreos Portugueses, S.A., under Regulation (EU) 596/2014 (16 April 2014). This notification was made by Raffael Quintas, Chief Financial Officer of Transportes Aéreos Portugueses, S.A. at 6 p.m. (Lisbon) on November 18, 2019.*

*Neither the content of the TAP's website nor any website accessible by hyperlinks on TAP's website is incorporated in, or forms part of, this announcement. The distribution of this announcement into certain jurisdictions may be restricted by law. Persons into whose possession this announcement comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.*

**NOTE REGARDING FORWARD-LOOKING STATEMENTS**

*This press release may include forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts and include statements regarding TAP's or its affiliates' intentions, beliefs or current expectations concerning, among other things, TAP's or its affiliates' results of operations, financial condition, liquidity, prospects, growth, strategies and the industries in which they operate. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Readers are cautioned that forward-looking statements are not guarantees of future performance and that TAP's or its affiliates' actual results of operations, financial condition and liquidity, and the development of the industries in which they operate may differ materially from those made in or suggested by the forward-looking statements contained in this press release. In addition, even if TAP's or its affiliates' results of operations, financial condition and liquidity, and the development of the industries in which they operate are consistent with the forward-looking statements contained in this press release, those* *results or developments may not be indicative of results or developments in subsequent periods.*

*This announcement contains forward-looking statements and information that is necessarily subject to risks, uncertainties, and assumptions. All forward-looking statements involve risks and uncertainties which could affect the Issuer's actual results and could cause its actual results to differ materially from those expressed in any forward looking statements made by, or on behalf of, the Issuer. No assurance can be given that the transactions described herein will be consummated or as to the terms of any such transactions. TAP assumes no obligation to update or correct the information contained in this announcement.*

Transportes Aéreos Portugueses, S.A.

## PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

### Presentation of Financial Information

In this presentation, the discussion of our business includes the business of Transportes Aéreos Portugueses, S.A. Unless otherwise indicated or the context otherwise requires, "TAP", "we," "us," "our" or the "Company" refers to Transportes Aéreos Portugueses, S.A. The Company is a wholly owned subsidiary of Transportes Aéreos Portugueses, SGPS, S.A. ("TAP SGPS" or the "Parent"). We do not present in this presentation any information of the Parent. The Parent's consolidated financial information includes also the results of TAPGER – Sociedade de Gestão e Serviços, S.A. ("TAPGER"), Portugália – Companhia Portuguesa de Transportes Aéreos, S.A. ("Portugália"), CateringPor – Catering de Portugal, S.A. ("CateringPor"), Megasis-Sociedade de Serviços e Engenharia Informática, S.A. ("Megasis", merged with the Company on May 2, 2019), UCS – Cuidados Integrados de Saúde ("UCS"), Aeropar, Participações, S.A. ("Aeropar") and TAP-Manutenção e Engenharia Brasil, S.A. ("TAP ME Brasil"), which are not included in the Company's financial statements.

Our financial statements as of and for the year ended December 31, 2018 and our unaudited interim financial statements as of and for the nine months ended September 30, 2019 are special purpose financial statements that were prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed by the European Union, as issued by the International Accounting Standards Board ("IASB"). Our audited financial statements as of and for each of the years ended December 31, 2017 and 2016 were prepared in accordance with IFRS, as endorsed by the European Union.

Our unaudited interim special purpose financial statements as of and for the nine months ended September 30, 2019, our audited special purpose financial statements as of and for the year ended December 31, 2018 and our audited financial statements as of and for each of the years ended December 31, 2017 and 2016 are included in this presentation. Our financial statements are presented in euro.

The restated financial information presented in this presentation as of and for the year ended December 31, 2017 has been derived from the audited special purpose financial statements as of and for the year ended December 31, 2018. We have included the December 31, 2017 non-restated, audited annual financial statements in the F-pages to this presentation and included a reconciliation of the restatement from our 2018 annual audited special purpose financial statements in the "Summary Financial and Other Operating Information" but this financial information has not been presented in the "Management's Discussion of Financial Condition and Results of Operations." See "—Restatement of the 2017 Year-End Financial Information" below.

Our financial information for the twelve months ended September 30, 2019 has been derived by adding the results of operations for the nine months ended September 30, 2019 to the results of operations for the year ended December 31, 2018 and then subtracting the results of operations for the nine months ended September 30, 2018. The financial information for the twelve months ended September 30, 2019 includes the final three months of the year ended December 31, 2018, wherein IFRS 16 was not yet adopted by us. For purposes of presenting the financial information for the twelve months ended September 30, 2019, we applied IFRS 16 on a consistent basis to the last three months of the year ended December 31, 2018, which required an adjustment to be made to the historical financial information for the three months ended December 31, 2018. The financial information for the twelve months ended September 30, 2019 has been prepared for illustrative purposes only and is not necessarily representative of our results of operations for any future period or our financial condition at any future date and is not prepared in the ordinary course of our financial reporting. The historical audited financial statements for the year ended December 31, 2017 are comparable with the historical audited financial statements for the year ended December 31, 2016.

The financial information presented in this presentation should be read in conjunction with our financial statements and the related notes included elsewhere in this presentation and the section of this presentation entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

References in the presentation to the financial information as of and for the year ended December 31, 2017 are to the restated financial information as of and for the year ended December 31, 2017 included in the audited special purpose financial statements as of and for the year ended December 31, 2018 unless otherwise specified.

References in the presentation to "U.S. dollar," "U.S. dollars" or "US$" refer to U.S. dollars, the official currency of the United States; references to "euro," "EUR" and "€" are to the single currency of the participating member states of the European Union participating in the third stage of economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended or supplemented from time to time; and references to "Brazilian real", "real," "reais" or "R$" refer to the Brazilian real, the official currency of Brazil.

**Restatement of the 2017 Year-End Financial Information**

In 2018, our Board of Directors revised the presentation of our income statement. This change, which mostly consists of the breakdown of operating expenses and income and the introduction of non-recurrent items, required a restatement of the 2017 financial year, to ensure proper comparability with the 2018 financial year. As a result, certain financial information presented in this presentation as of and for the year ended December 31, 2017 has been derived from the audited special purpose financial statements as of and for the year ended December 31, 2018, which restated the 2017 financial information. See note 1.2 of the audited special purpose financial statements for the year ended December 31, 2018. The audited financial statements for the year ended December 31, 2016 have not been restated and therefore the comparability of the 2016 financial information to the 2018 financial information and 2017 restated financial information included in this presentation is limited. For the convenience of the reader, we have included a reconciliation table illustrating the impact of the restatements in the "Summary Financial and Other Operating Information." However, for the purposes of providing an analysis of results for the years ended December 31, 2017 compared to the year ended December 31, 2016 we have limited the analysis to the comparable line items using the 2017 restated financial statements and the historical 2016 financial statements. The non-restated audited financial statements for the year ended December 31, 2017 are comparable with the audited financial statements for the year ended December 31 2016.

**Adoption of IFRS 16**

On January 1, 2019, TAP adopted IFRS 16, applying the modified retrospective method, which does not require the restatement of financial statements from previous years. Therefore, certain line items in relation to previous periods presented have not been restated in accordance with IFRS 16.

The main impacts in the statement of financial position as of the transition date resulting from the adoption of IFRS 16 are (1) the recognition of the assets corresponding to the rights of use (mainly associated with aircraft under operating leases), (2) the recognition of the liabilities corresponding to the contractual responsibilities assumed, (3) the reclassification of maintenance reserves to assets and, (4) an increase in equity by an amount corresponding to the impact of IFRS 16 on the treatment of maintenance costs of aircraft under operating leases. For additional information on the impact of IFRS 16, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Comparability—Adoption of IFRS 16–Leases" and Note 1.2. Operational and Economic-Financial Performance of our unaudited interim financial statements included in this presentation.

**Non-IFRS Financial Measures**

In addition to our financial information that has been prepared and presented in accordance with IFRS, as endorsed by the European Union, this presentation includes certain financial measures that are not within the scope of IFRS. These measures include EBITDAR, which we calculate as net income/(loss) for the year (or period, as applicable) minus interests and similar income, plus interests and similar expenses, net currency exchange, income tax for the year (or period, as applicable), aircraft rents, other non-recurrent items, restructuring and depreciation, amortization and impairment losses; and (ii) Adjusted EBITDAR, which we calculate as EBITDAR plus extraordinary fleet renewal expenses.

EBITDAR and Adjusted EBITDAR are not financial performance measures determined in accordance with IFRS and should not be considered in isolation or as alternatives to operating income or net income or loss, or as indications of operating performance, or as alternatives to operating cash flows, or as indicators of liquidity, or as the basis for the distribution of dividends. Accordingly, you are cautioned not to place undue reliance on this information. A non-IFRS performance measure is generally defined as one that purports to measure financial performance, financial position or cash flows, but excludes or includes amounts that would not so be adjusted for in the most comparable IFRS measure. EBITDAR and Adjusted EBITDAR are included as supplemental disclosures because we believe they are useful indicators of our operating performance before interest, taxes, depreciation and amortization and aircraft rent as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. EBITDAR is a well-recognized performance measurement in commercial aviation that is frequently used by investors, securities analysts and other interested parties in comparing the operating performance of companies in our industry.

The non-IFRS measures EBITDAR and Adjusted EBITDAR have limitations as analytical tools. Some of these limitations are: (i) EBITDAR and Adjusted EBITDAR do not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments; (ii) EBITDAR and Adjusted EBITDAR do not reflect changes in, or cash requirements for, our working capital needs; (iii) EBITDAR and Adjusted EBITDAR do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debts; (iv) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and EBITDAR and Adjusted EBITDAR do not reflect any cash requirements for such replacements; and (v) EBITDAR and Adjusted EBITDAR are susceptible to varying calculations and therefore may differ materially from similarly titled measures presented by other companies in our industry, limiting their usefulness as comparative measures. Because of these limitations EBITDAR and Adjusted EBITDAR should not be considered in isolation or as a substitute for financial measures calculated in accordance with IFRS. Other companies may calculate EBITDAR and Adjusted EBITDAR differently than us. For a calculation of EBITDAR and Adjusted EBITDAR and a reconciliation of each to operating income/(loss) for the year, see "Summary Financial and Other Operating Information."

The non-IFRS measure Adjusted EBITDAR as presented in this presentation may not be calculated in the same manner as, and therefore is not entirely comparable to, the corresponding term used in our debt documents.

Other non-IFRS financial measures that are used throughout this presentation are defined as follows:

"% of interest-bearing debt (principal, accruals, and deferrals) denominated in U.S. Dollars" means to the ratio between financial leases in USD and current and non-current borrowings as disclosed in the financial statements.

"ancillary revenue" means the revenue regarding expired tickets, upgrades, emission rates, credit card fees, baggage, miles, refunds, reserve charges and other charges.

*"Miles&Go* Income" means revenue regarding ground partners, aircraft companies and miles shops.

"operating margin" means the ratio between operating income and operating income/(loss) as disclosed in the financial statements.

"other income" relates to maintenance, cargo and mail and other operating income as disclosed in the financial statements.

"other items of non-current assets" means the account receivables amount regarding contractual operational lease.

## Key Operational Metrics

This presentation contains certain measures of operational data, including those listed below. Such measures of operational data are not measurements of financial performance under IFRS and should not be considered as alternatives to other indicators of operating performance, cash flows or any other measure of performance derived in accordance with IFRS. We believe that the presentation of these operating metrics may be helpful as indicators of operational performance. However, the methodology for determining such operational metrics may not be comparable to the methodology used by other companies in determining these measures.

As used in this presentation, the following terms have the following meanings:

- **ASK**: Available seat kilometers, which is calculated as the total number of seats available for sale multiplied by the number of kilometers flown.
- **Average fleet age**: Unless indicated otherwise, the average age of our fleet is calculated as the sum of the accumulated days since manufacture until the reference date, divided by the number of aircraft in service and then divided by 365 days. In this presentation, we present the average fleet age with respect to both (i) our Mainline Fleet and (ii) our TAP Express Fleet. See "—Our Fleet" below.
- **Block Hours**: Number of hours between departure and arrival of a flight, measured from the time the chocks are off or on.
- **CASK**: Operating cost per available seat kilometer. Throughout this document we may also present CASK as adjusted for stage length to allow for CASK comparisons across companies with different network profiles. For this purpose, we "normalize" for average stage length (flight distance) by multiplying by the square root of the average stage length divided by the normalization value divided by a benchmark of 2000 (for the purposes of presentation in this presentation).
- **CASK (excluding fuel)**: Operating cost excluding fuel expenses per available seat kilometer. Throughout this document we may also present CASK (excluding fuel) as adjusted for stage length to allow for CASK (excluding fuel) comparisons across companies with different network profiles. For this purpose, we "normalize" for average stage length (flight distance) by multiplying by the square root of the average stage length divided by the normalization value divided by a benchmark of 2000 (for the purposes of presentation in this presentation).
- **Load Factor**: Total amount of revenue passenger kilometers (RPK) divided by the total number of available seat-kilometers (ASK).
- **Net promoter score (NPS)**: A customer loyalty metric that we use to measure how willing a customer is to recommend our services.
- **Punctuality**: Measured by the percentage of the number of flights with departures up to 15 minutes after the time of departure published under schedule.
- **Regularity**: Flights that actually occur, as a percentage of total planned flights.
- **RPK**: Revenue passenger kilometer, which is calculated as the number of passengers multiplied by the number of kilometers flown.
- **Passenger Yield**: Passenger traffic revenue divided by total number of passenger-kilometers (RPK).

## Our Fleet

This presentation contains data related to our fleet. Measures of the size of our fleet include aircraft under lease from White Airways and Portugália. Certain definitions related to our fleet are set forth below:

- "Mainline Fleet" means aircraft in service and operated directly by us (including the Airbus A340/A330/A330neo, Airbus A320neo/A321neo and Airbus A319/A320/A321);

- "TAP Express Fleet" means the aircrafts operated by us under wet lease agreements with White Airways and Portugália (including the ATR72 aircraft operated by White Airways and Embraer E190/E195 aircraft operated by Portugália);

- "Total Fleet" means our total fleet, including aircraft under wet lease agreements and aircraft in phase-in or phase-out; and

- "Operating Fleet" means our fleet, including aircraft under wet lease agreements, that is in operation, excluding aircraft in phase-in or phase-out.

**Industry Data**

This presentation contains data related to economic conditions in the market in which we operate. The information contained in this presentation concerning economic conditions is based on publicly available information from third-party sources that we believe to be reasonable. Data and statistics regarding the Portuguese and international economy and tourism industry are based on publicly available data published by IMF (International Monetary Fund), INE (National Statistic Institute), the Bank of Portugal, WTO (World Trade Organization), WTTC (World Travel and Tourism Council), WEF (World Economic Forum), Fitch Solutions and the World Bank, among others. Data and statistics regarding international commercial aviation markets are based on publicly available data published by ICAO (including the Airline Monitor), IATA (including its Annual Reports and its Press Releases), the Airbus Global Market Forecast, the World Bank and the Boeing Commercial Outlook, among others. We also make statements in this presentation about our competitive position and market share in, and the market size of, the Portuguese and international commercial aviation industry. We have made these statements on the basis of statistics and other information from third-party sources that we believe to be reasonable, such as SRS Analyser and Direct Data Solutions (DDS). Although we have no reason to believe any of this information or these reports are inaccurate in any material respect and believe and act as if they are reliable, neither we, the initial purchasers, nor their respective agents have independently verified it. Governmental publications and other market sources, including those referred to above, generally state that their information was obtained from recognized and reliable sources, but the accuracy and completeness of that information is not guaranteed. Neither the Company nor its respective agents can guarantee the accuracy of such information. In addition, the data that we compile internally and our estimates have not been verified by an independent source.

When we refer to the main airports in the east coast of the U.S. and Mexico, we refer to the key airports in Atlanta, Chicago, Washington, D.C., New York, Miami, Toronto, Orlando, Mexico City, Boston and Detroit. When we refer to the main airports in South America, we refer to the key airports in Sao Paulo, Bogota, Rio de Janeiro, Buenos Aires, Lima, Santiago, Brasilia, Caracas, Belo Horizonte and Salvador. When we refer to the main airports in Europe we refer to Madrid, Paris, London and Frankfurt.

**General Obligation under Portuguese Law of Parent Companies**

According to Portuguese law, a company, whether privately owned or state owned, in total control of another company is liable for the obligations incurred by the controlled company during the period in which it is under control. Furthermore, the controlled company can claim reimbursement from the controlling company for the controlled company's annual loss incurred during the period in which it is under control.

From the time of its incorporation through November 12, 2015 (the ''TAP Control Period''), the Parent was a subsidiary in a total control relationship with Parpública— Participações Puúblicas (SGPS), S.A., the company through which the Portuguese government owned, and continues to own, its stake in TAP. In addition, the Company is currently a wholly-owned subsidiary of the Parent, and therefore the Parent is currently in a total control relationship with the Company. As a result, pursuant to Portuguese law, the Parent is liable for the obligations incurred by the Company and Parpu´blica is indirectly liable for such obligations incurred by the Company during the TAP Control

Period, but only to the extent such obligations remain outstanding and have not been refinanced, repaid or otherwise satisfied after the TAP Control Period. In addition, the Parent can make a claim with Parpu´blica for an amount up to the annual loss of the Parent incurred during the TAP Control Period.

While Portuguese law does have judicial precedent for the foregoing liability, this does not ensure a similar outcome in future proceedings, which are subject to the specific circumstances of the case and to the assessment of the competent court.

**Trademarks and trade names**

We own or have rights to certain trademarks, trade names or service marks that we use in conjunction with the operation of our businesses. We assert, to the fullest extent under applicable law, our rights to our trademarks, trade names and service marks. Each trademark, trade name or service mark of any other company appearing in this presentation is the property of its respective holder. Solely for convenience, the trademarks, trade names and copyrights referred to in this presentation are listed without the ™, ® and © symbols.

**Rounding**

Certain amounts and percentages included in this presentation, including in the section of this presentation entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" have been rounded for ease of presentation. Percentage figures included in this presentation have not been calculated in all cases on the basis of the rounded figures but on the basis of the original amounts prior to rounding. For this reason, certain percentage amounts in this presentation may vary from those obtained by performing the same calculations using the figures in our financial statements. Certain other amounts that appear in this presentation may not sum due to rounding.

## GLOSSARY

The following is a glossary of industry and other defined terms used in this presentation:

"Airbus" means Airbus S.A.S.

"aircraft utilization" represents the average number of block hours operated per day per aircraft for our Operating Fleet, excluding spare aircraft and aircraft in maintenance.

"ATR" means aircraft with turboprop propulsion manufactured by Avions de Transport Régional G.I.E.

"audited financial statements" means our audited special purpose financial statements as of and for the year ended December 31, 2018 and our audited financial statements as of and for the years ended December 31, 2017 and 2016.

"available seat kilometers," or "ASKs," represents aircraft seating capacity multiplied by the number of kilometers the aircraft is flown.

"average fare" means total passenger revenue divided by passenger flight segments.

"Azul" means Azul S.A. and its consolidated affiliates.

"block hours" means the number of hours during which the aircraft is in revenue service, measured from the time it closes the door at the departure of a revenue flight until the time it opens the door at the arrival on the gate at destination.

"code-share" means an agreement between two companies operating in partnership, whereby they offer services on the same aircraft, maintaining their respective IATA codes, flight numbers and brands.

"crewmembers" is a term we use to refer to all our employees, including aircraft crew, airport ground, call center, maintenance and administrative personnel.

"departure" means a revenue flight segment.

"E-Jets" refer to narrow-body jets manufactured by Embraer S.A.

"Embraer" means Embraer S.A.

"ERISA" means the United States Employee Retirement Income Security Act of 1974, as amended.

"financial statements" refers to both our unaudited interim financial statements and our audited financial statements.

"flight hours" means the number of hours during which the aircraft is in revenue service, measured from the time it takes off until the time it lands at the destination.

"FTEs" means full-time equivalent employees.

"FTEs per aircraft" means the number of FTEs divided by the number of total aircraft.

"GDS" means a global distribution system that enables automated transactions between airlines and travel agencies. Travel agencies traditionally rely on GDS for services, products and rates in order to provide travel-related services to end consumers. GDS can link services, rates and bookings consolidating products and services across different travel industries including airline reservations, hotel reservations and car rentals. GDS charges participant airlines a booking fee per passenger and segment sold, typically applying additional charges for ticketing, credit card authorizations, real time connectivity, information pages and other ancillary services.

"gross billings" means the result of the sale of points to commercial partners and the cash portion of points plus money transactions. It is not an accounting measurement. This revenue may affect the current period or may be recognized as revenue in future periods, depending on the time of redemption on the part of program participants.

"high-yield" means high profitability.

"hub" means the operational base of an airline in which arrivals and departures are coordinated in order to reduce transit time to the maximum extent.

"IATA" means the International Air Transport Association.

"IFRS" means International Financial Reporting Standards, as endorsed by the European Union (EU) and comprises accounting standards issued by the International Accounting Standards Board (IASB) as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and their predecessor bodies.

"load factor" means the percentage of aircraft seats occupied on a flight (RPKs divided by ASKs).

"Parent" means TAP - Transportes Aéreos Portugueses, SGPS, S.A.

"passenger flight segments" means the total number of revenue passengers flown on all passenger flight segments.

"phase-in/phase-out" means the transitioning of aircraft into flight service, while the aircraft awaits the relevant licenses and permits, or out of flight service, while the aircraft is being prepared to be returned to the lessor or is in maintenance and awaiting return.

"pitch" means the distance between a point on one seat and the same point on the seat in front of it.

"Portugália" means Portugália – Companhia Portuguesa de Transportes Aéreos, S.A.

"RASK" means total operating income divided by ASKs.

"revenue passenger kilometers" or "RPKs" means one-fare paying passenger transported per kilometer. RPK is calculated by multiplying the number of revenue passengers by the number of kilometers flown.

"route" means a segment between a pair of cities.

"shop visit" means the maintenance event of an engine in workshop.

"stage length" means the average number of kilometers flown per flight.

"TAP" means to Transportes Aéreos Portugueses, S.A.

"TAP Group" means the Parent and its consolidated affiliates.

"TCCA" means Transport Canada Civil Aviation.

"unaudited interim financial statements" means our unaudited interim special purpose financial statements as of September 30, 2019 and for the nine months ended September 30, 2019 and 2018.

"wet lease agreement" means a leasing arrangement whereby one airline (the lessee) provides an aircraft, complete crew, maintenance and insurance (ACMI) to another airline, which generally pay for the aircraft by hours operated.

"White Airways" means White – Airways S.A.

"yield" represents the average amount one passenger pays to fly one kilometer.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This presentation includes estimates and forward-looking statements principally under the captions "Overview of TAP," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business."

These estimates and forward-looking statements are based mainly on our current expectations and estimates of future events and trends that affect or may affect our business, financial condition, results of operations, cash flow, liquidity and prospects. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to many significant risks, uncertainties and assumptions and are made in light of information currently available to us.

These statements appear throughout this presentation and include statements regarding our intent, belief or current expectations in connection with:

- the commercial aviation industry's sensitivity to changes in economic and geo-political conditions;
- our exposition to risks associated with fluctuations in jet fuel prices, the unavailability of fuel and supplier concentration for fuel or the withdrawal or amendment of the existing tax exemptions for jet fuel in the EU, U.S., Canada, Brazil and other countries where we operate;
- the effects of seasonal fluctuations on our results of operations and revenues;
- the high fixed costs and relatively elastic revenues which characterize the commercial aviation industry;
- our vulnerability to fluctuations in the demand for flight tickets;
- the highly competitive industry we operate in and the actions of our competitors;
- further consolidation in the global commercial aviation industry;
- the failure to implement our strategy;
- our dependence on automated systems and cyber-attacks, breakdowns or changes in these systems;
- our reliance on partner airlines for code-share and loyalty marketing arrangements;
- events outside our control;
- our dependence on our Lisbon hub for a large portion of our business;
- the impact on our access to airports of slot allocations and restrictions imposed by legislators or regulatory authorities;
- expenses or stoppages associated with planned or unplanned maintenance on our aircraft, as well as any inability to obtain spare parts on time;
- our dependence upon Embraer, ATR and Airbus aircraft and Rolls Royce, CFM and GE aircraft parts and the timely delivery, availability, maintenance and perception of our aircraft and other aircraft parts;
- orders for new aircraft must be placed years in advance of scheduled deliveries and changes to our strategy may make the aircraft on order less economic for us;
- our reliance on agreements with third parties to provide our customers and us with facilities and services that are integral to our business;

- our dependence on third parties for the supplies, construction, delivery and performance of new aircraft;
- our dependence on strategic alliances or commercial relationships in many of the countries in which we operate;
- changes to the *Miles&Go* business partner policies or the exit of a significant *Miles&Go* business partner;
- the complex legal and regulatory framework to which we are subject;
- changes in the applicable safety and environmental laws and regulations;
- variations in interest rates;
- fluctuations in foreign exchange rates and restrictions on currency exchange;
- our ability to maintain sufficient liquidity;
- our ability to service our debt or meet our future financing requirements;
- the adoption of IFRS 16;
- changes in the applicable tax laws and regulations or their interpretations;
- our ability to protect our intellectual property rights, particularly our branding rights;
- the legal proceedings we are involved in;
- the insufficiency in the level of coverage for our benefit plan liabilities;
- increases in labor benefits, union disputes, strikes and other worker-related disturbances;
- our ability to maintain our workplace culture or retain and/or hire skilled personnel as our business grows, such as pilots;
- the failure to implement the Group's internal control policies;
- violations or alleged violations of anti-corruption, anti-bribery and anti-money laundering law;
- breaches by us or our commercial counterparties of data protection laws and regulations or increase in the costs of compliance with such laws and regulations; and
- other factors or trends affecting our financial condition or results of operations including those factors indentified or discussed as set forth under “Risk Factors.”

The words "believe," "understand," "may," "will," "aim," "estimate," "continue," "anticipate," "seek," "intend," "expect," "should," "could," "forecast" and similar words are intended to identify forward-looking statements. You should not place undue reliance on such statements, which speak only as of the date they were made. Neither we nor the initial purchasers undertake any obligation to update publicly or to revise any forward-looking statements after we distribute this presentation because of new information, future events or other factors. Our independent public auditors have neither examined nor compiled the forward-looking statements and, accordingly, do not provide any assurance with respect to such statements. In light of the risks and uncertainties described above, the future events and circumstances discussed in this presentation might not occur and are not guarantees of future performance. Because of these uncertainties, you should not make any investment decision based upon these estimates and forward-looking statements.

## OVERVIEW OF TAP

*This summary highlights selected information about us. It does not contain all of the information that may be important to you. You should read this presentation carefully for a more complete understanding of our business, including the information presented under "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" and the financial statements, together with the related notes thereto, included in this presentation.*

### Our Company

We have been the Portuguese flagship airline since our founding in 1945, mainly operating in passenger air transport, with complementary activities in loyalty programs, cargo air transport and maintenance. We are the leading airline in Portugal, serving 93 airports in 36 countries as of September 30, 2019, creating a strong network of routes. In the year ended December 31, 2018, we had a 55% market share (by capacity measured in available seat kilometers ("ASK")) in the Lisbon airport, a key airport that is well-positioned to connect the Americas to Europe and Africa (Source: SRS Analyser), with approximately 55% of our passengers from the Americas to Europe connecting beyond our Lisbon hub. As of September 30, 2019, we also were the leader in flights among Europe-Brazil routes and the only European carrier serving five of the top ten destinations in Brazil.

We were privatized in 2015, with the Portuguese State continuing to hold an ownership interest in us. Since then, our new management team has implemented a strategy designed to lead a major cultural, operational, financial and process transformation. Our new strategic direction is focused on increasing connectivity to the Americas and on network optimization. We have also focused on implementing numerous cost reduction initiatives leading to significant savings in 2018 and 2019. Our other transformative initiatives include operational and process restructurings, improving labor relations by signing new long-term agreements with 14 unions, improving our customers' experience through fleet modernization and product enhancements and driving a performance-based culture in the company. As a result of this transformation between 2015 and September 2019, we increased our Total Fleet by 31 aircraft to 108 aircraft, flew 47% more annual passengers (with respect to the last twelve months ended September 30, 2019), increased flights per day by 25% and more than tripled our weekly flights to North America. We believe this operational, cultural and process transformation has firmly set us on the path to long-term success.

One important element of the transformation following privatization is our substantial fleet transformation, modernization and upgauging program. We believe this program will enable us to materially reduce our already low cost and improve our EBITDA margins without relying on macro or external factors.

We have a Total Fleet of 108 aircraft (including eight ATR aircraft operated by White Airways and 13 Embraer E190/E195 operated by Portugália for our TAP Express Fleet that are under wet lease agreements) as of September 30, 2019, with an average age of 12 years for our Mainline Fleet and eight years for our TAP Express Fleet. We are currently implementing our fleet transformation and renewal plan, and expect to have 115 aircraft operating by 2024. In 2019, we began operating the narrow body, fuel-efficient, next-generation (neo) A321-LR aircraft on longer, low demand transatlantic flights, which is only possible because of our Lisbon hub's strategic location. This enables us to offer superior connectivity as well as more convenient and frequent non-stop service to more airports than our main competitors, which exclusively operate larger aircraft. We have nearly completed the renewal of our wide-body/long-haul fleet. We expect that in the month of December 2019, over 70% of the block hours of our wide-body fleet will be accounted for by neo wide-body aircraft, up from 0% in 2018.

We carried approximately 16.6 million passengers in the twelve months ended September 30, 2019, which compares to 11.3 million in 2015. Our extensive domestic network, which currently includes three Portuguese mainland cities and four islands in the Azores and Madeira, is complemented by flights to various international destinations, including 49 airports in Europe (outside Portugal), 10 destinations in Brazil, 17 in Africa and 8 in North America as of September 30, 2019. We are the market leader in Europe to Brazil flights with 26% of Europe to Brazil seat capacity in 2018. Of the ten airports we currently fly to in Brazil, we are the only European airline to fly to five of them. We have continued our strategy of geographic diversification, with 77% of our passenger sales derived outside of Portugal, including 12% and 21% of our passenger sales generated in North America and Brazil, respectively, for the nine months ended September 30, 2019. We believe further diversification into the U.S. will be an important part of our strategy going forward.

We have built a strong brand by offering what we believe is a superior travel experience, based on a culture of customer service provided by a highly-motivated and well-trained team of crewmembers. We are a full-service carrier and, as such, our service features include passenger seat selection and extensive legroom with a pitch of 28 inches or more. In 2019, we were named "Europe's Leading Company Airline for South America" and "Europe's Leading Company Airline for Africa" by the World Travel Awards, "Favorite Airline in Europe" by the Trazee Travel Awards and, in 2018, "Best Airline" in the tenth edition of the Marketeer.

We are a member of Star Alliance, established in 1997 as the first truly global airline alliance to offer worldwide reach, recognition and seamless service to the international traveller. We believe that the broad reach of our network, together with our partner airlines, code-share alliances and Star Alliance membership, provide our customers with a wide range of destination options and provide us with a geographically diversified source of revenues that affords us flexibility and adaptability with respect to demand cycles in our industry. Furthermore, our partnerships with Azul and GOL give us access to more than 50 cities in Brazil.

We fully own our loyalty program *Miles&Go*, a strategic revenue-generating asset, which had 102 program partners and approximately 4.1 million members as of September 30, 2019, compared to 2.2 million members as of December 31, 2016. In 2019, *Miles&Go* was awarded (i) "International Program of the Year" in Brazil by Melhores Destinos, the largest web portal of airline fare promotions and loyalty programs in Brazil, (ii) "Program of the Year", "Best Overall Promotion" and "Best Loyalty Customer Service" for Europe and Africa by FTA (Frequent Traveler Awards) in London, and (iii) "The 210 Award" at the 29th Annual Freddie Awards, which recognizes up and coming programs delivering value to members. Given our network strength, the expected growth of passenger air travel, credit card penetration and usage and customer loyalty, not only in Portugal but also in the markets in which we operate, we believe that *Miles&Go* is a key strategic asset for us.

We are a key contributor to the Portuguese economy and tourism sector. As of September 30, 2019, we employed approximately 9,000 employees in Portugal, making us one of Portugal's largest employers. In the year ended December 30, 2018, we estimate that we contributed €3.5 billion, or 2%, of Portugal's GDP and €5.5 billion of direct revenues for tourism in Portugal. During 2018, our passengers represented approximately 1.5x Portugal's total population as compared to 1.0x for other EMEA legacy carriers. Our expansion into the U.S., the market that contributed the most to tourism growth in 2018, resulted in an estimated additional €1.0 billion of tourist spending in Portugal.

Following our privatization and the sale of a portion of our stake by the Portuguese State in 2015, the Parent became owned by a group of strategic shareholders, namely Atlantic Gateway, SGPS, Lda. (a consortium led by David Neeleman and Humberto Pedrosa), which owns 45% of the Parent's voting share capital, and Parpública-Participações Públicas, SGPS, S.A., a Portuguese state-owned company which owns 50% of the Parent's voting share capital. The remaining 5% stake is held by a number of minority shareholders (including employees of the TAP Group). See "Principal Shareholders."

Following our privatization, we increased our ASK by 28% while growing RASK by 10% and we increased our EBITDAR by 31% between December 31, 2016 and December 31, 2018. We grew ancillary revenue by approximately 63% through unbundling of fares, improved product offerings and the introduction of new sales channels. For the twelve months ended September 30, 2019, we generated EBITDAR of €434.5 million.

**Our Competitive Strengths**

We believe the following business strengths allow us to compete successfully:

***Lisbon hub geographically well-positioned to boost Atlantic-Europe connectivity***

We believe that our geographically well positioned hub in Lisbon, which connects the Americas with Europe and Africa, is a key competitive advantage for us and is the foundation for our strong network of interconnected flights. It enables us to offer lower fares and shorter flight times to our customers.

Lisbon is approximately 430 kilometers closer to the North American East Coast (measured by the distance between Lisbon and the top ten airports in the North American East Coast by passenger volume) and approximately 1,250 kilometers closer to South America (measured by the distance between Lisbon and the top ten airports in South America by passenger volume) than competing European hubs in Madrid, Paris, London and Frankfurt. This proximity is reflected in reduced flight times, which are nearly 30 minutes shorter to North America and 86 minutes shorter to South America, allowing us to offer our passengers a better connecting product while achieving fuel cost savings. We estimate that our Lisbon hub results in savings of approximately $2,000 and $5,000 in fuel costs per flight to the North American East Coast and South America, respectively (assuming utilization of an A330-200 aircraft and based on an average actual fuel consumption as of September 30, 2019 and a jet fuel price of $600 per ton).

Furthermore, our closer proximity to both North and South America makes us one of the best positioned airlines to fly transatlantic flights with the new A321-LR, a narrow-body aircraft (single aisle) with much lower flight costs when compared to wide-body aircraft (double aisle) that typically fly across the Atlantic. Using our Porto-Newark route as an example, we expect fuel consumption, and thus fuel costs, to decrease by 51% on A321-LR flights, when compared to A330ceo flights. With a significantly lower operating cost per flight, the A321-LR allows us to (i) increase flights to already served markets, thus increasing schedule options, connectivity and product quality, with a much lower demand risk given that we are marketing to existing routes; (ii) launch new destinations with lower risk while routes consolidate; and (iii) reduce capacity to already served cities with lower demands or higher seasonality, thus reducing our exposure to such markets. These factors are key competitive strengths that our competitors operating from other hubs cannot replicate as the range of the A321-LR does not allow it to reach these cities from competing European hubs such as Madrid, Paris or London.

Examples of cities reachable with the A321-LR from Lisbon, but not from other major European airports, are New York, Newark, Washington, D.C., Boston, Toronto, Philadelphia and Montreal in the North Atlantic, and Fortaleza, Recife, Maceió, Belém and Natal in the South Atlantic.

***Leadership position in our Lisbon hub***

We are the leading commercial airline in our Lisbon hub with a 55% market share by capacity (measured in ASK) in 2018 (Source: SRS Analyser). Our market share in Lisbon is one of the strongest of European airline carriers in their respective hubs (compared to KLM at 56% in Amsterdam, Lufthansa at 51% in Frankfurt and 50% in Munich and Swiss Airlines at 50% in Zurich) (Source: SRS Analyser).

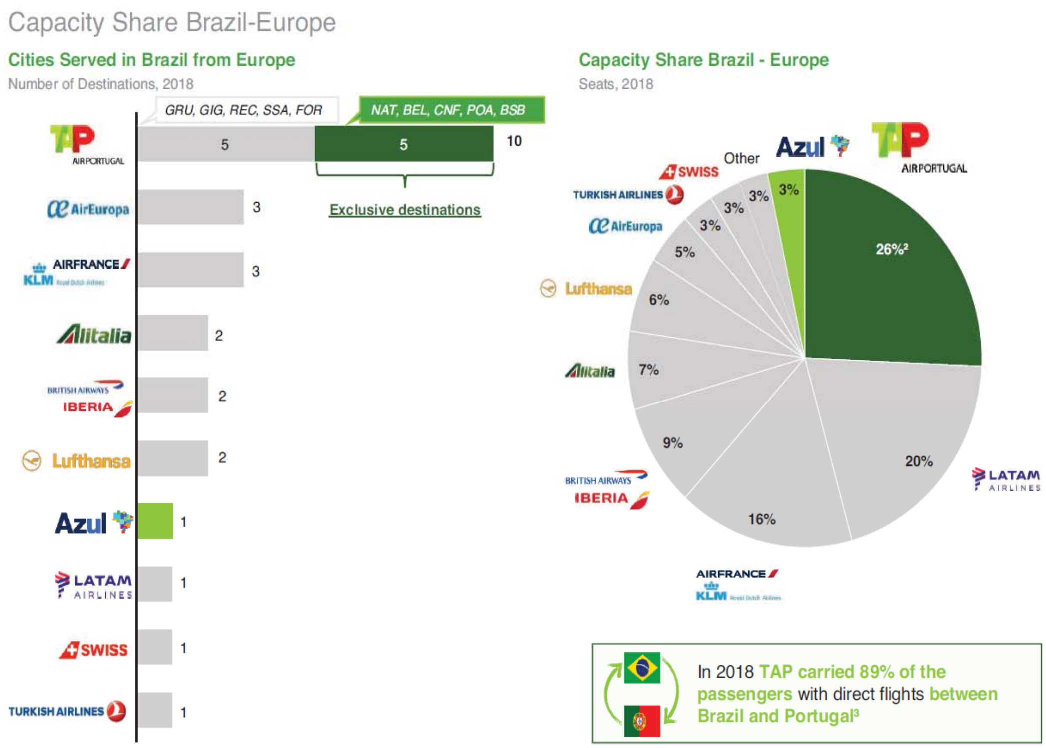
Our leading position in the Lisbon hub is strengthened by slot and capacity constraints in the Lisbon airport that limit competitors from increasing their presence in the strategically geographically located hub. These constraints not only limit our competitors' ability to compete in or enter our markets and routes but also limit their ability to deploy the A321-LR for transatlantic flights given the geographic proximity of Lisbon to the Americas.

***Strong network connecting North and South America to Europe and Africa***

We are a transatlantic carrier, connecting both North and South America to Europe and Africa with strong flight networks in each region.

We are the clear market leader in capacity share between Brazil and Europe, with our flights accounting for 26% of all seat capacity between Brazil and Europe in 2018. Our market leadership is further supported by our direct flights between Brazil and Portugal, where in 2018 we transported 89% of all passengers on direct flights between the two countries (Source: DDS).

In the routes between Europe and Brazil, we have a significantly greater number of destinations in Brazil than any of our European competitors, serving ten Brazilian destinations, five of which are exclusive to us among European carriers (Natal, Belém, Belo Horizonte, Porto Alegre and Brasília). By comparison, the second player in terms of overall number of seats flies to only one destination in Brazil, based on 2018 data.




Source: SRS Analyser—Diio Mi

**Notes:**
(1) Frequencies in the peak of summer, departing from Lisbon and Oporto.
(2) In 2018, TAP transported 1.72 million passenger in Brazillian routes.
(3) Number of passengers of nonstop traffic between Brazil and Portugal, Source: DDS.
(4) Iberia and Air Europa might consolidate into one airline in the future.

We also developed diversified networks in Europe and North Africa. As of September 30, 2019, we fly to 56 airports in 20 countries in Europe (84% of the European Union countries), with an average of 18 weekly flights per route and four destinations in Morocco in North Africa, with an average of nine weekly flights per route. This network allows us to efficiently feed and route passengers from North and South America to multiple destinations in Europe and Africa. Approximately 55% of our passengers from the U.S. and Brazil traveling to Europe connect within our flights to other destinations, strengthening our value proposition, increasing our average price and increasing resilience against low cost carriers that typically have less network reach and therefore cannot compete on those routes.

Furthermore, our North Atlantic network has been growing substantially as part of our geographic diversification strategy. As of September 30, 2019, we fly to eight destinations in the U.S. and Canada, with a total of 56 weekly flights (a 60% increase from 2017). We believe that these passengers will also take advantage of our European and African networks for their connectivity to various other destinations, further increasing load factors and average yield on our routes. Our existing U.S. routes are highly profitable. In the first nine months of 2019, five out of our seven most profitable wide-body routes were to the United States.

We have a strong presence in the African continent, flying to 16 destinations in ten countries (Angola, Mozambique, São Tomé e Príncipe, Cabo Verde, Guinea–Bissau, Senegal, Guinea, Côte D'Ivoire, Ghana and

Morocco). TAP offers an average of six weekly flights per route, providing connections to multiple destinations in Europe, North America and South America. We started operating flights from Banjul in the Gambia on October 26, 2019, increasing our presence in the continent where we now fly to 17 destinations in eleven countries.

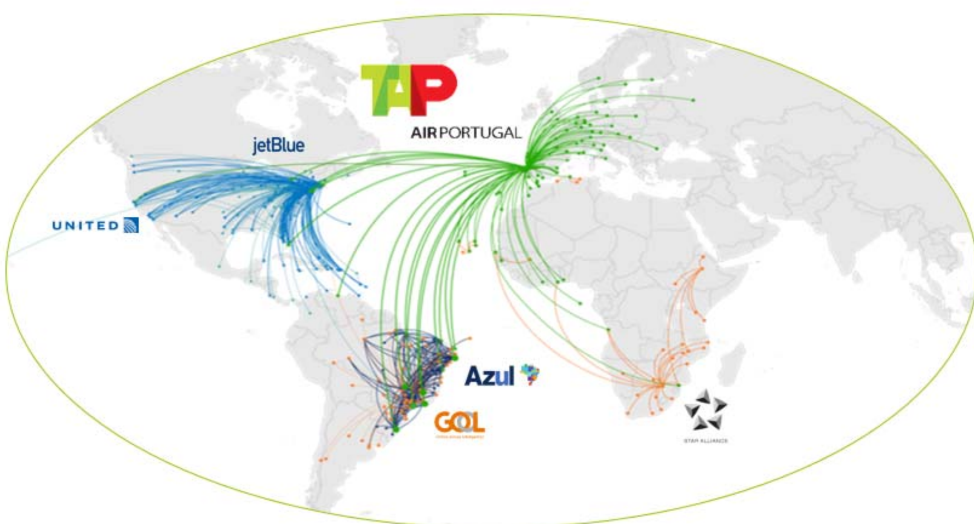
In March 2019, TAP launched its first destination in the Middle East, Israel, operating seven weekly flights to Tel Aviv, expanding the global presence of our airline and providing access to even more connectivity across the network.

***Strategic global partnerships that further leverage our strong network and geographic location***

We have developed global partnerships that allow us to further leverage our strong network and geographic location, to reach additional destinations and attract a wider range of passengers. As of September 30, 2019, we have strategic code-share agreements in place with both JetBlue and United Airlines which grant us access to 44 and 22 cities in the U.S., respectively. Furthermore, our partnerships with Azul and GOL give us access to more than 50 cities in Brazil.

Finally, we have been a member of Star Alliance since 2005, which has allowed us to expand our comprehensive network and product offerings even further. Through our strategic alliances and partnerships we are able to provide our passengers with more route choices and streamlined services in the Americas, Europe and Africa.

The map below shows the reach of our network as reinforced by our strategic partnerships and alliances as of September 30, 2019:




Source: Management information and public sources.

***Best in class CASK***

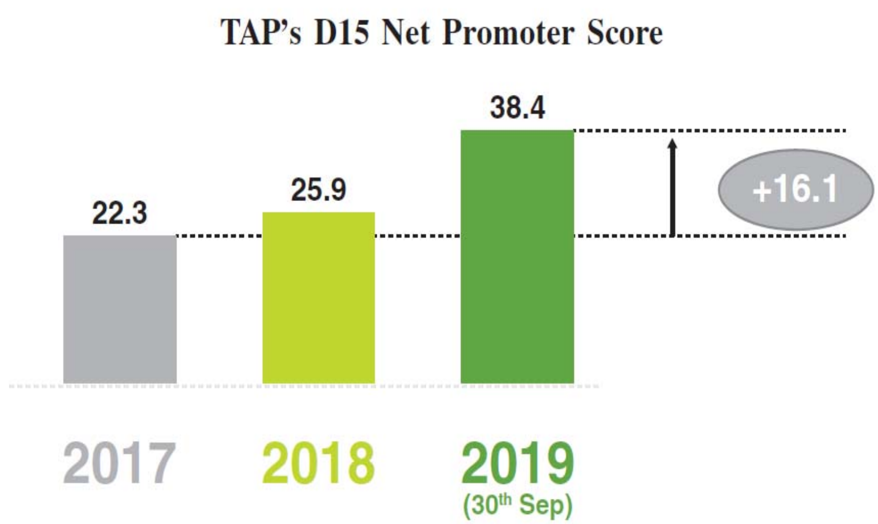
We have the lowest CASK among European legacy peers such as Lufthansa, Air France-KLM and IAG. In 2018, our CASK (excluding fuel, non-recurrent and restructuring items, adjusted for stage length) was €4.86, significantly lower than any of our competitors (€8.37, €7.77 and €5.27 for Lufthansa, Air France-KLM and IAG, respectively) and we expect to continue to decrease our CASK in the future.

Our best in class CASK is largely the result of our structural cost advantages, such as our strategically located geographic hub in Portugal that allows us to operate flights at lower costs (e.g., through smaller on-board crews) and to utilize a fleet of narrow bodied aircraft for transatlantic flights, each of which are difficult for our competitors to replicate. As of December 31, 2018, we have the lowest number of full-time employees per aircraft among our peer group at 85. This is significantly lower than 178 full-time employees for Lufthansa, 155 for Air France-KLM and

111 for IAG in 2018. We are also engaged in continuous cost reduction efforts and we promote a cost savings culture through various company-wide cost savings initiatives. For example, in 2018 we implemented approximately 100 initiatives, including the creation of a centralized procurement committee, a fuel savings committee, as well as the introduction of employee awards for new cost saving ideas. Between 2017 and 2018, despite increased costs from labor contract negotiations and prior to our fleet transformation, we were able to reduce our CASK (excluding fuel, non-recurrent and restructuring items, adjusted for stage length) from €4.92 in 2017 to €4.86 in 2018.

***Powerful established brand in Portugal and Brazil***

We believe we have been successful in building a strong brand, particularly in Portugal and Brazil by using innovative marketing and advertising techniques with low expenditures that focus on social networking tools to generate word-of-mouth recognition of our high quality service. As a result of our strong focus on customer service, our surveys indicate that as of September 30, 2019, our Net Promoter Score ("NPS") (a customer loyalty metric that we use to measure how willing a customer is to recommend our service) was 38.4% and grew by 72.0% since 2017.




Source: Management information.

The strength of our brand has been recognized in a number of awards that we have received:

- Universal McCann (UM) in 2018 internally awarded the campaign created for TAP for the Portugal Stopover program (bronze).
- "Best Airline" in the tenth edition of the Marketeer.
- 'Switch to Portugal mode' Campaign wins M&P Creativity Awards in the Autopromotions and Innovation in Media/International Markets categories in 2018.
- TAP Cargo won three T&N Cargo Awards, awarded by Transportes & Negócios magazine.
- "Largest and Best Exporter" in Portugal in 2019, a distinction awarded by Exame Magazine, within the scope of the 500 Largest and Best Companies annual ranking.
- *World Travel Awards*: "European Leading Company for Africa," "European Leading Company for South America" and "European Leading In-flight Magazine" for UP Magazine in 2018.

- Distinction by Reader's Digest for being among the best companies in the world in in-flight meal services in 2018.

- "*Favorite Airline in Europe*" from *Trazee Travel Awards* 2018.

***Strong, experienced and balanced shareholder, governance and management team***

Our shareholder structure aligns world-class private sector expertise with the Portuguese State to deliver results, providing the right incentives to increase profitability while promoting our brand and the Lisbon hub. Our main private (indirect) shareholders are:

- Our shareholder and Director David Neeleman, who has founded four successful airlines in three different countries (JetBlue Airways, Azul, WestJet and Morris Air). Mr. Neeleman also serves as a Board Member of the Parent, and as the Chairman of Azul.

- Our shareholder and Chairman Humberto Manuel dos Santos Pedrosa, who is the founder of HPGB SGPS, a road passenger transportation service company, which is the largest passenger transport operator in Portugal. Mr. dos Santos Pedrosa also serves as member of the Board of Directors of the Parent.

In addition, we believe we also benefit from our highly knowledgeable and experienced management team. Our senior management, which has extensive experience in aviation as well as other industries, includes:

- Our Chief Executive Officer and member of our Executive Committee Antonoaldo Neves, who joined us in 2017 and has more than 15 years of experience in the air transportation sector. Mr. Neves also currently serves as member of the Board of Directors of a leading publicly-traded university in Brazil. He also served as President of Azul and as member of the Board of Directors of Infraero. Mr. Neves was also a partner at McKinsey from 2000 to 2014, where he led the aviation, infrastructure and concession practices in Latin America.

- Our Chief Financial Officer and member of our Executive Committee Raffael Quintas Alves, who joined us in 2018 and has more than 12 years of experience in the aviation industry. Mr. Quintas was the Finance Director (Treasurer) of Azul from 2012 to 2017. He also has professional experience at the ECM and M&A Departments of Banco Santander.

- Our Chief Technical Officer Mário Lobato de Faria, who joined us in 2014 and has over 26 years of experience in the aviation industry. Prior to being appointed Chief Technical Officer in 2018, Mr. Lobato de Faria worked as EVP Maintenance & Engineering. He has also served as Vice President of MRO Services for OGMA (currently an affiliate of Embraer).

- Our Chief Operating Officer Ramiro Sequeira, who joined us in 2018 and has more than 16 years of experience in the aviation industry. Prior to joining us, Mr. Sequeira served as Director of the Operations Control Centre at Iberia and Senior Manager at Vueling Airlines.

- Our Chief Revenue Officer Arik De who joined us in 2019 and has over 12 years of experience in the air transportation sector. Mr. De has also served as Senior Vice President of Revenue Management, Distribution and Alliances for Aeromexico and as Chief Commercial Head for Air Asia X.

Our management team has focused on establishing a successful working environment and employee culture. We believe the experience and commitment of our senior management team have been a critical component in our growth, as well as in the continuing enhancement of our operating and financial performance.

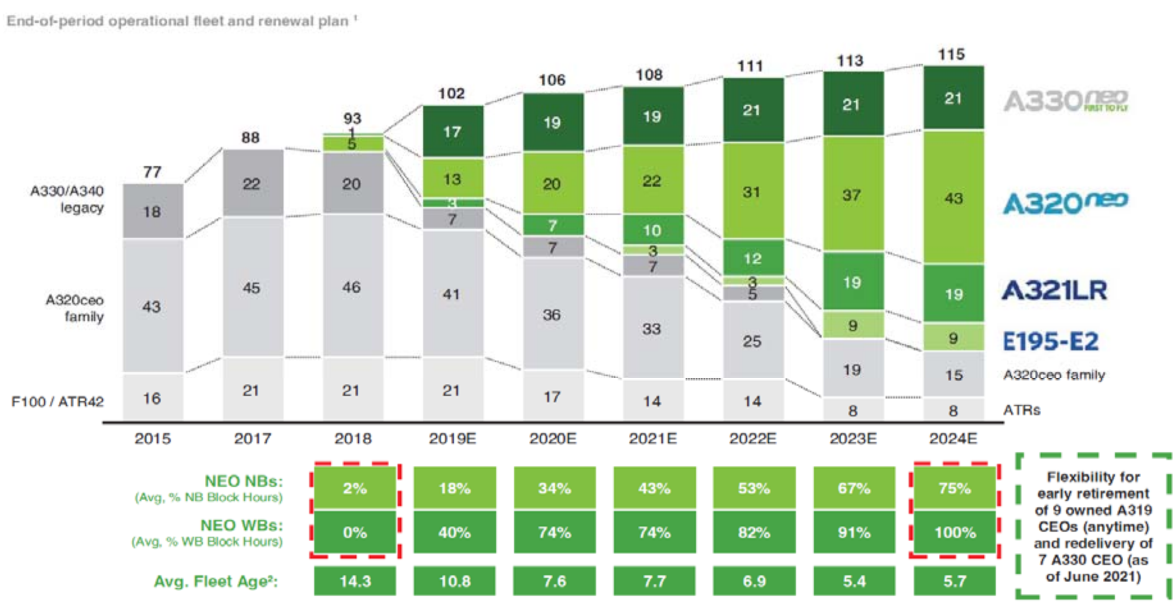
**Business Strategies**

Our goal is to continue to expand our operating margins through cost reduction, sustainable low-risk growth, while providing affordable and high-quality services to our customers, as we continue to improve our balance sheet through prudent financial policies. We intend to implement the following strategic initiatives to achieve this objective:

***Fleet transformation to drive unit economics***

We are pursuing an extensive transformation of our fleet in a relatively short period of time. Given the major fleet transformation in 2019, we expect that in the month of December 2019, over 70% of the block hours of our wide-body fleet will be accounted for by neo wide-body aircraft, up from 0% in 2018. In 2021, our new neo aircraft are expected to represent 74% of the block hours of our wide-body fleet and 43% of our narrow-body fleet, transitioning to one of the youngest long-haul fleets operating in the market. In 2022, 2023 and 2024, our new neo aircraft are expected to represent 82%, 91% and 100%, respectively, of the block hours of our wide-body fleet and 53%, 67% and 75%, respectively, of the block hours of our narrow-body fleet.

The chart below presents our operational aircraft as of 2015, 2017 and 2018 and our estimated fleet renewal plan for 2019 through 2024:




**Notes:**

(1) Includes committed and expected future commitments.

(2) Fleet age weighted by ASK.

As one of the cornerstones of our strategy, our fleet renewal and transformation plan is expected to allow us to:

- *Leverage the potential of the A321-LR in our fleet.* The A321-LR takes advantage of Lisbon's unique location by deploying additional capacity at lower cost and risk. Using our Porto-Newark route as an example, we expect fuel consumption, and thus fuel costs, to decrease by 51% on A321-LR flights, when compared to A330ceo flights. As a narrow-body aircraft, the A321-LR has a far superior range compared to the other A321neo due to the presence of additional fuel tanks. Given our strategic geographic location, we intend to utilize the A321-LR for transatlantic flights to Northeast Brazil, the U.S. East Coast and Canada, as well as other markets in Africa beyond those operated by our medium-haul fleet.

- *Reduce fuel and maintenance costs*. The transition of our fleet to newer aircraft is also expected to drive margin expansion with a decreased CASK through an increased number of seats per aircraft, which will grow our capacity per flight while maintaining similar fixed operating costs per aircraft. Our new fleet will have lower fuel consumption and maintenance demands, resulting in significant CASK reduction. Furthermore, lower $CO_2$ emissions also meet our goal to become a more sustainable company with less carbon emissions per aircraft.

- *Significantly improve our product offering across flights.* Our A330neo aircraft were the first to operate worldwide with the new Airspace cabin concept launched by Airbus. The new Airspace cabins have state-of-the-art seats in business and in economy classes, making it possible to significantly increase the comfort of all passengers. Transitioning from the A330ceo to A330neo has reduced our CASK for these flights by 19% (from 5.06 to 4.12) and improved our PRASK by 3% (from 4.9 to 5.1) while increasing seats by 29 per flight or 11%. Moreover, the availability of in-flight entertainment systems, as well as internet availability on board, and the distribution of digital content to the portable devices of passengers, present a significant enhancement of our on-board product offering and customer experience. Our A321-LR is able to provide customers with an experience equivalent to that of a wide-body aircraft due to its full-flat business class seats, economy-class seats similar to those of the A330neo, power outlets in all seats and an entertainment and internet system identical to that of the new A330neo.

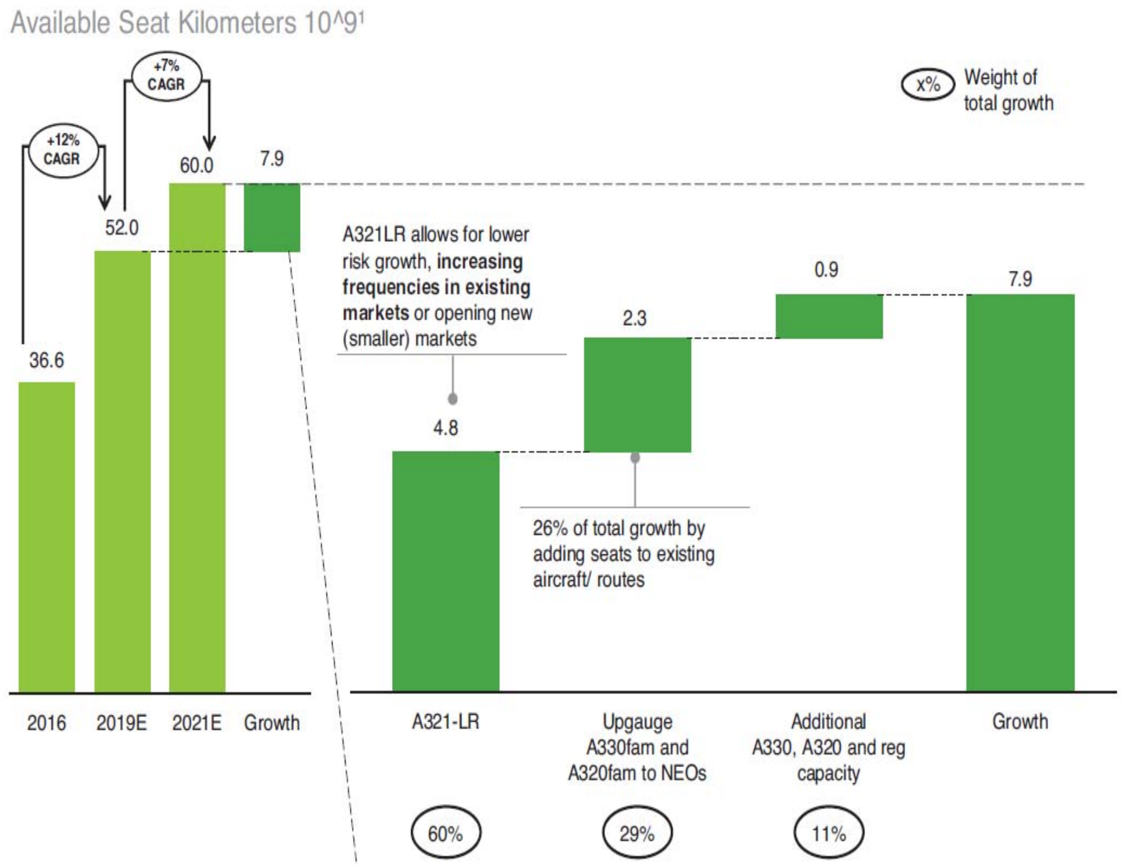
- *Further differentiate our product offering*. Our new aircraft not only have a fully modernized cabin, but also have three distinct areas: "normal" economy seats, economy extra seats (which are not included in many other aircraft), and business seats (in medium-haul flights). Economy extra seats will allow us to further differentiate our product offering, by selling extra leg room, luggage and a hot meal to economy extra seats rather than economy seats, which we expect to increase our profitability. A330neos also have a greater proportion of business class with a revamped, world-class product, further allowing us to sell more high-price seats per flight.

- *Serve markets our competitors cannot efficiently serve through the diversification of our fleet.* Our transformed fleet will have a combination of ATRs, E-Jets and Airbus aircraft, which will enable us to better route intercontinental passengers to Southern Europe and North Africa (through ATRs and E-jets) and Western, Northern and Central Europe, through the A320 family aircraft. We expect that the efficiency of our fleet will allow us to maintain lower costs and to reduce our CASK, both in absolute terms and relative to our main competitors.

Following the fleet transformation, our growth strategy over the coming years will be focused on upgauging (flying aircraft with additional seat capacity to existing routes) and increased weekly flights to existing destinations, with limited expected opening of new routes, which is expected to allow us to increase our revenue while maintaining a more stable cost structure. Considering existing commitments, we expect capital expenditures associated with our fleet transformation and renewal program of approximately €3.5 billion, of which €1.5 billion had been deployed through September 30, 2019.

***Low risk capacity growth, leveraging unique geographic location***

We intend to follow a capacity growth strategy, which we believe is lower risk. Most of our growth over the coming years is expected to come from the deployment of the A321-LR aircraft, which we will use to increase the frequency of flights to existing destinations. Furthermore, one of the key aspects of our fleet strategy is the replacement of A319ceos for A320neos and replacement of A320neos for A321neos, thus increasing the number of seats per aircraft and per medium-haul flight. The replacement of the A330ceos by A330neos also contributes to our ability to sell more seats per flight, as the neos have 29 additional seats. Through this upgauging, we will be able to add capacity at a much lower risk, as our next generation aircraft can often be operated at similar or lower costs than the earlier generation aircraft they are replacing for the same flight despite the additional capacity. We are also adding seats to destinations and weekly flights that we already fly to, thus requiring less investment to stimulate demand. The chart below presents our ASK for 2016 and expected available seat kilometers for 2019 and 2021E based on our fleet expansion plan:




Note:

(1) Based on estimated end-of-period operational fleet and renewal plan incl. committed and expected acquisition

***Network and revenue diversification***

We intend to continue to take advantage of the strategic geographic location of our Lisbon hub, connecting passenger traffic between Europe and North and South America and Africa. We also plan on maintaining our long-haul flight strategy, with a continued focus on the promotion and consolidation of our Lisbon hub, the center of the connections of European and intercontinental destinations, pursuing a strategy of network and revenue diversification.

- In North America, we intend to continue to pursue a low-risk growth strategy, taking advantage of Lisbon's unique geographic position and its structural CASK advantage, as well as making use of the superior range of the A321-LRs. Our goal is to generate approximately 17% of passenger sales (by point of sale) in the U.S. in 2020, which compares to just 5% in 2015 and 10% in 2018 and increase weekly flights to United States destinations from 16 in 2015 and 36 in 2018 to 71 in 2020. Our United States routes are expected to be highly profitable, and we have already seen a two digit margin on new routes in the first months of operation in the United States.

- In our Europe-Brazil routes, we intend to maintain our leading position as the only European carrier serving five of the top ten destinations in Brazil, taking advantage of our strong brand recognition in Brazil and leveraging on our partnership with Azul, as well as connecting traffic for GOL and Azul to over 50 cities. The A321-LR will also play an important role in connecting Lisbon to Brazilian destinations by allowing us to grow in smaller cities and counteract seasonality. Our weekly flights to Brazil are expected to increase by 14% from 77 in 2015 and 82 in 2018 to an estimated 88 for 2020.

- In Portugal, we will continue to take advantage of our leading market position in the slot-constrained Lisbon airport to defend the hub from low-cost carriers, while growing market share in flights to increasingly popular Portuguese destinations such as the Azores and Madeira islands.

- In Europe, we will continue our focus on Southern Europe, through a network designed to feed traffic from Southern European cities to North and South America since we believe that these routes will continue to generate strong margins.

- In Africa, we will continue to serve North Africa as well as Portuguese-speaking countries, maximizing aircraft utilization. We intend to continue using night-time flights to and from Africa, which allow us to maximize aircraft utilisation and therefore reduce unit ownership cost.

For the nine months ended September 30, 2019, over 77% of our total passenger sales are outside of Portugal, with a growing presence in the United States. We intend to continue to monitor our profitability, with active route management so we can adapt swiftly to changing market conditions, cancelling unprofitable routes and allocating capacity to more profitable routes.

***Continued focus on CASK reduction***

We have implemented several company-wide cost saving initiatives to create a cost saving culture. We intend to maintain our focus on cost savings in order to achieve further CASK reductions and continue to improve our profitability and margins. The two biggest levers for future cost reduction besides our fleet transformation will be implementation of our new distribution strategy and reduction in average employee compensation expenses through tenure reduction (mainly through new hires) and improved efficiency under our labor contracts.

We believe that we will achieve significant reductions in our salary cost / ASK over the next five years as a result of a planned tenure shift in our employee base and to the recently renegotiated long-term agreements with the labor unions. For example, our costs will decrease as a result of a decrease in the average tenure of our crew staff, due to new hires. The average tenure of the pilots has also been reduced due to new hires and the fact that pilot turnover remains low, with only three pilots having resigned during 2019. We intend to continue to renegotiate contracts throughout our entire list of vendors and significantly improve crew productivity by investing in new software that optimizes the staffing of our crew, among several other initiatives.

The change in our distribution strategy allowed us to renegotiate our GDS relationships and focus on increasing distribution through private channels and direct channels. We believe that our change in distribution strategy will help us generate additional cost savings.

***Grow ancillary and other revenue***

We intend to continue growing our ancillary revenue and other revenue, by both leveraging our existing products and introducing new ones. Ancillary revenue for the nine months period ended September 30, 2019 represented approximately 12% of our passenger revenue reaching €261 million. Ancillary revenue for the twelve months period ended September 2019 amounted to €338 million, increasing approximately 15% year on year.

Ancillary revenue and other revenue streams represented €20.2 per passenger in 2018 and included revenue from bag check-in fees, upgrades, itinerary changes and other air travel-related fees.

Our ancillary revenues are expected to continue to grow through the increase of direct channel sales (call centers, loyalty programs, SeatBoost and on-board sales) and of the expansion of our *Miles&Go* program, the offering of products such as EconomyXtra (an enhanced product for the economy class), an increase in sales of business class seats and revenue management for ancillary revenue. Other factors that will help our revenue expansion are more efficient ancillary revenue management and a better product offering, made possible in part through the transition to our neo aircraft, which will provide more on-board sales opportunities and grant us more seat availability for our *Miles&Go* program.

Additionally, we intend to continue focusing on customer access and experience, building up additional focus on the special cargo segment, with better yields and higher margins. Our cargo and mail transportation business aims at consistently driving efficiency and cost competitiveness, while developing new offerings and go-to-market strategies that are supportive of our end-to-end cargo express business, following general e-commerce trends, resulting also in better cargo utilization of our narrow-body fleet.

***Continue to consolidate our cultural, organizational, process and system transformation***

Following our privatization in 2015, our management has overseen a successful initiative that has resulted in financial, operational, cultural, organizational and systems transformations that have led to increased profitability, which we intend to continue to focus on. As part of our cultural transformation, we have focused on driving a performance-based culture centered on our customers. For example, our employees receive free travel based on their work place attendance and our top management receive variable compensation when they meet pre-determined goals for operational and financial KPIs.

In 2018, we signed long-term agreements on mutually agreeable terms with virtually all our industry labor unions. We believe that having these long-term agreements in place will provide us with a solid foundation to execute our business plan.

By rationalizing our network and modernizing our fleet while continuing to reduce costs, we significantly improved our EBITDAR. From 2016 to 2018, we increased our EBITDAR by 31%, from €184 million for the year ended December 31, 2016 to €241 million for the year ended December 31, 2018. Our EBITDAR was €435 million for the last twelve months ended September 30, 2019. We believe that the plans we have implemented to transform our fleet and our focus on improving our passengers' experience allow us to continue to grow our revenues and EBITDAR.

As part of our operational turnaround initiative, we intend to continue to implement measures aimed at increasing passenger satisfaction such as: (i) operational improvements to solve flight delays; (ii) monitoring of NPS and of the impact of improvement measures; (iii) reinforcement of the call center to answer phone calls and solve passengers' problems; and (iv) expansion of the *Miles&Go* frequent flyer program, making it more adapted to clients' needs.

The second quarter of 2019 was the period where our NPS was closer to Star Alliance's average NPS, demonstrating the strong results of the initiatives we implemented, and we aim to continue improving our NPS. During 2019, our punctuality and regularity indicators also registered an improvement when compared to the same period of the previous year and we expect to continue making improvements in the coming years.

Likewise, we believe that our strategy to maintain our focus on customer satisfaction will allow us to keep providing a better service to our growing customers. Since our privatization, we have expanded our operations from 82 airports and approximately 109 thousand flights (298 flights per day on average) in 2015 to 93 airports and 135 thousand flights (371 flights per day on average) in the twelve month period ended September 30, 2019. This translates in 11 additional airports and 25% more daily flights since our privatization. As of September 30, 2019 we serve eight destinations in the North American region compared to the two destinations we served in 2015 and our flight frequencies to North America have increased 3.5x during such period, from 16 weekly flights in 2015 to 56 as of September 30, 2019. Since our privatization, we have also had a 47% increase in number of customers, from 11.3 million in 2015 to 16.6 million in the twelve months period ended September 30, 2019.

In addition, as a result of our increased growth since our privatization, we currently have 23% more employees than in 2015 and we have increased the size of our Total Fleet by 40% since 2015 (from 77 aircraft in 2015 to 108 as of September 30, 2019).

**Corporate Information**

The Company is a Portuguese limited liability company with headquarters at Edifício 25 do Aeroporto de Lisboa, Parish of Olivais, 1700-008 Lisboa. Our investor relations office can be reached via e-mail at the contacts indicated on our website at www.flytap.com. Information provided on our website is not part of this presentation and is not incorporated by reference herein.

**Trading Update**

Based on current management estimates of preliminary results for the month of October 2019, several key performance indicators showed continued improvement compared to the same period in 2018. We believe multiple factors are supporting the improvement, including our fleet transformation resulting in lower CASK and higher revenue yield, improved profitability attributable to route rationalization, and more constructive general economic conditions in key markets such as Brazil. The increased proportion of next generation aircraft in the fleet with lower operating expenses is resulting in lower CASK and higher yields, given they offer a better product for the passenger, especially in Business class, coupled with a better mix of premium seats. During 2019, as part of a continued focus on route network optimization, we discontinued service on several unprofitable routes in Europe, which is improving the overall profitability of the airline. We believe that management's preliminary estimates of financial results for the month of October 2018, together with an analysis of booking trends in October and early November, suggest that the trend of year-over-year improvement in key performance indicators will continue throughout the remainder of the fourth quarter. See "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors" for a more complete discussion of certain of the factors that could affect our future performance and results of operation.

We estimate that our EBITDAR for October 2019 will be approximately €45.0 million higher compared to EBITDAR for October 2018. This estimate is preliminary based on information available as of the date of this presentation. Our actual results may differ from the preliminary estimate. In addition, operating results for the first month of a quarter are not necessarily indicative of operating results for the entire quarter or any other future period. Accordingly, you should not place undue reliance on this information. Management's estimates of preliminary results for the month of October 2019 have not been audited or reviewed by our independent auditors or any other accounting firm.

## Summary Financial and Other Operating Information

### Income Statement Data

| Amounts stated in millions of euros | For the years ended December 31, (Audited) | | | | | For the nine months ended September 30, (Unaudited) | | For the twelve months ended September 30, (Unaudited) |
|---|---|---|---|---|---|---|---|---|
| | **2016[1]** | **2017[2]** | **2017 Restatement** | **2017 Restated[3]** | **2018** | **2018** | **2019** | **2019** |
| Operating Income[4] | | | | | | | | |
| Sales and services rendered | 2,197.6 | 2,849.7 | (2,849.7) | | | | | |
| Passenger | - | - | 2,569.9 | 2,569.9 | 2,782.4 | 2,155.7 | 2,203.7 | 2,830.4 |
| Maintenance | - | - | 147.2 | 147.2 | 228.2 | 181.8 | 160.8 | 207.2 |
| Cargo and mail | - | - | 127.2 | 127.2 | 134.7 | 99.5 | 100.3 | 135.5 |
| Gains and losses in associates[5] | 0.0 | 0.0 | 0.0 | - | - | - | - | - |
| Other operating income[6] | 44.1 | 38.1 | 6.3 | 44.4 | 31.9 | 26.6 | 25.2 | 30.5 |
| | **2,241.7** | **2,887.8** | **0.9** | **2,888.7** | **3,177.2** | **2,463.6** | **2,490.0** | **3,203.7** |
| Operating costs[7] | | | | | | | | |
| Consumed and sold inventories | (98.2) | (136.8) | 136.8 | - | - | - | - | - |
| Variation in Production | 2.3 | 2.0 | (2.0) | - | - | - | - | - |
| External supplies and services[8] | (1,583.6) | - | - | - | - | - | - | - |
| Cost of goods sold and materials consumed | - | (2,030.7) | 2,030.7 | - | - | - | - | - |
| Aircraft fuel | - | - | (580.2) | (580.2) | (798.6) | (590.0) | (594.4) | (803.0) |
| Traffic operating costs | - | - | (840.0) | (840.3) | (939.6) | (708.6) | (602.0) | (785.1) |
| Aircraft rents | - | - | (140.5) | (140.5) | (152.0) | (109.6) | - | - |
| Aircraft maintenance costs | - | - | (176.5) | (176.5) | (89.9) | (95.7) | (42.4) | (36.7) |
| Cost of materials consumed | - | - | (102.2) | (102.2) | (166.0) | (133.9) | (116.0) | (148.2) |
| Commercial, communication and marketing costs | - | - | (185.3) | (185.3) | (186.5) | (138.8) | (125.9) | (173.6) |
| Employee costs | (468.2) | (504.6) | 10.3 | (494.3) | (607.8) | (451.0) | (511.7) | (668.5) |
| Post-employment benefit obligations expenses | (5.8) | (4.5) | 4.5 | - | - | - | - | - |
| Impairment losses in inventory and receivables | (2.1) | (1.5) | 1.5 | - | - | - | - | - |
| Provisions (increases/decreases) | 0.9 | 2.4 | (2.4) | - | - | - | - | - |
| Impairment in inventories, receivables and provisions | - | - | 0.9 | 0.9 | (7.0) | (0.1) | (2.0) | (8.9) |
| Fair value increases/decreases | 0.0 | (0.1) | 0.1 | - | - | - | - | - |
| Other operating expenses[9] | (11.8) | (12.8) | (141.4) | (154.2) | (141.2) | (102.9) | (106.9) | (145.2) |
| Restructuring | - | - | (9.9) | (9.9) | (24.7) | (5.8) | (4.3) | (23.2) |
| Other non-recurrent items | - | - | (5.0) | (5.0) | (20.1) | (16.8) | (1.5) | (4.9) |
| Depreciation, amortization and impairment losses[10] | (51.3) | (52.6) | - | (52.6) | (70.7) | (47.4) | (339.3) | (428.7) |
| **Operating income/(loss)[11]** | **24.0** | **148.6** | **-** | **148.6** | **(26.9)** | **63.0** | **43.6** | **(22.3)** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Finance Income/expenses(12)………... | 13.4 | (17.5) | 17.5 | - | - | - | - | - |
| Interests and similar income................ | - | - | 44.6 | 44.6 | 36.9 | 28.0 | 25.3 | 34.3 |
| Interests and similar expenses ............. | - | - | (34.4) | (34.4) | (43.2) | (27.7) | (126.3) | (154.7) |
| Net currency exchange……………….. | - | - | (27.8) | (27.8) | (49.1) | (54.3) | (94.6) | (89.4) |
| **Net income/(loss) before income tax** | **37.3** | **131.1** | **-** | **131.1** | **(82.3)** | **9.0** | **(152.0)** | **(232.1)** |
| Income tax for the year........................ | (3.8) | (30.7) | - | (30.7) | 24.2 | 1.3 | 41.1 | 62.1 |
| **Net income/(loss) for the year...........** | **33.5** | **100.4** | **-** | **100.4** | **(58.1)** | **10.3** | **(110.8)** | **(170.0)** |
| **Results per share** | | | | | | | | |
| Basic and diluted earnings per share.... | **4.0** | **12.1** | n/a | 12.1 | (7.0) | 1.2 | (13.4) | (20.5) |
| Other financial data (unaudited): | | | | | | | | |
| EBITDAR(13) ................................ | 183.8 | 356.7 | n/a | 356.4 | 240.6 | 242.6 | 388.7 | 434.5 |
| Capital expenditures ............................ | 171.5 | 234.3 | n/a | 234.3 | 180.1 | 112.2 | 181.3 | 249.2 |
| EBITDAR minus capital expenditures | 12.4 | 122.2 | n/a | 122.2 | 60.5 | 130.5 | 207.4 | 185.3 |
| Adjusted EBITDAR(13)........................ | 183.8 | 356.7 | n.d. | 356.4 | 240.6 | 242.6 | 406.0 | 451.8 |
| EBITDAR Margin(14)........................... | 8.2% | 12.5% | n/a | 12.3% | 7.6% | 9.8% | 15.6% | 13.6% |
| Adjusted EBITDAR Margin ............... | 8.2% | 12.5% | n.d. | 12.3% | 7.6% | 9.8% | 16.3% | 14.1% |
| Net debt(15) ................................ | (760.1) | (567.1) | n/a | (567.1) | (552.2) | (425.2) | (786.0) | (786.0) |
| Finance costs(16)……………………... | (33.7) | (34.4) | n/a | (34.4) | (43.2) | (27.7) | (126.3) | (154.7) |

(1) The financial information for the year ended December 31, 2016 is not directly comparable with the other financial periods presented in this presentation due to a change in the presentation of our accounts. As a result of differences in line items to the income statement, we have presented the 2016 income statement data separate from restated periods. See "Presentation of Financial Information—Restatement of the 2017 Year-End Financial Information" for additional information.

(2) The financial information presented in this table for the year ended December 31, 2017 has been derived from the audited financial statements as of and for the year ended December 31, 2018, which restated the 2017 financial information. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Comparability" and "Presentation of Financial Information—Restatement of the 2017 Year-End Financial Information" for additional information.

(3) The financial information for the twelve months ended September 30, 2019 includes the final three months of the year ended December 31, 2018, wherein IFRS 16 was not yet adopted by us. For purposes of presenting the twelve month financial information ended September 30, 2019, we applied IFRS 16 on a consistent basis to the last three months of the year ended December 31, 2018, which required an adjustment to be made to the historical financial information for the three months ended December 31, 2018.

(4) In our audited financial statements for the year ended December 31, 2016, this line item is referred to as "Operational income."

(5) In our audited financial statements for the year ended December 31, 2016, this line item is referred to as "Net gains/losses in associates."

(6) In our audited financial statements for the year ended December 31, 2016, this line item is referred to as "Other operational income."

(7) In our audited financial statements for the year ended December 31, 2016, this line item is referred to as "Operational costs."

(8) In our audited financial statements for the year ended December 31, 2016, this line item is referred to as "Materials and services consumed."

(9) In our audited financial statements for the year ended December 31, 2016, this line item is referred to as "Other operational costs."

(10) In our audited financial statements for the year ended December 31, 2016, this line item is referred to as "Depreciation and amortization costs."

(11) In our audited financial statements for the year ended December 31, 2016, this line item is referred to as "Operating income/(loss) (earnings before interests and taxes)."

(12) In our audited financial statements for the year ended December 31, 2016, this line item is referred to as "Finance income/costs."

(13) We calculate EBITDAR as net income/(loss) for the year (or period, as applicable) minus interests and similar income, plus interest and similar expenses, net currency exchanges, income tax for the year (or period, as applicable), aircraft rents, other non-recurrent items, restructuring and depreciation, amortization and impairment losses. We calculate Adjusted EBITDAR as EBITDAR plus extraordinary fleet renewal expenses. We believe EBITDAR and Adjusted EBITDAR are well-recognized performance measurements in the commercial aviation industry that are frequently used by investors, securities analysts and other interested parties in comparing the operating performance of companies in our industry. EBITDAR and Adjusted EBITDAR are not measure of financial performance in accordance with IFRS, and should not be considered in isolation or as an alternative to net income, an alternative to operating cash flows, a measure of liquidity, or the basis for dividend distribution. Other companies may calculate EBITDAR and Adjusted EBITDAR differently than us. EBITDAR and Adjusted EBITDAR serve as indicators of overall financial performance, which are not affected by changes in rates of income tax or levels of depreciation and amortization. Consequently, we believe that EBITDAR and Adjusted EBITDAR serve as important tool to periodically compare our operating performance, as well as to support certain administrative decision. Because EBITDAR and Adjusted EBITDAR do not include certain costs related to our business, such as interest expense, income taxes, depreciation, capital expenditures and other corresponding charges, which might significantly affect our net income, EBITDAR and Adjusted EBITDAR have limitations which affect its use as an indicator of our profitability.

(14) Represents EBITDAR or Adjusted EBITDAR divided by total operating income.

(15) Net debt represents our total borrowings (including non-current and current borrowings) less cash and cash equivalents in the statement of financial position (including cash, bank deposits available on demand, other deposits and term deposits).

(16) Finance costs, for periods prior to the adoption of IFRS 16 (prior to December 31, 2018), represent our interest expenses and other costs and losses. After the adoption of IFRS 16 (January 1, 2019) finance costs also includes operating lease expenses and interests from amortized cost application.

The following table presents the reconciliation of the non-IFRS performance measure EBITDAR and the valuation metric EBITDAR to net income (loss) for the periods indicated below:

| | For the years ended December 31, | | | | For the nine months ended September 30, | | twelve months ended September 30, |
|---|---|---|---|---|---|---|---|
| | **2015 Unaudited** | **2016[1] Unaudited** | **2017 Restated[2] Audited** | **2018 Audited** | **2018 Unaudited** | **2019 Unaudited** | **2019[3] Unaudited** |
| | (in millions of euros, except margins) | | | | | | |
| **Reconciliation**: | | | | | | | |
| Net income (loss) for the period. | (99.0) | 33.5 | 100.4 | (58.1) | 10.3 | (110.8) | (170.0) |
| *Plus* (*minus*): | | | | | | | |
| Interest and similar expenses[4] | (45.7) | (33.7) | (34.4) | (43.2) | (27.7) | (126.3) | (154.7) |
| Interests and similar income[5] | 51.2 | 49.8 | 44.6 | 36.9 | 28.0 | 25.3 | 34.3 |
| Income tax for the year | 20.9 | (3.8) | (30.7) | 24.2 | 1.3 | 41.2 | 62.1 |
| Depreciation, amortization and impairment losses | (57.9) | (51.4) | (52.6) | (70.7) | (47.5) | (339.3) | (428.7) |
| Net currency exchange[6] | (16.6) | (2.7) | (27.8) | (49.1) | (54.3) | (94.6) | (89.4) |
| Aircraft rents | (76.8) | (99.5) | (140.5) | (152.0) | (109.6) | - | - |
| Other non-recurrent items | (91.4) | (7.7) | (5.0) | (20.1) | (16.8) | (1.5) | (4.9) |
| Restructuring | (2.9) | (1.4) | (9.9) | (24.7) | (5.8) | (4.3) | (23.2) |
| **EBITDAR[7]** | **120.2** | **183.8** | **356.4** | **240.6** | **242.6** | **388.7** | **434.5** |
| **EBITDAR Margin[8]** | **5.1%** | **8.2%** | **12.3%** | **7.6%** | **9.8%** | **15.6%** | **13.6%** |
| Extraordinary fleet renewal expenses[9] | - | - | - | - | - | (17.3) | (17.3) |
| **Adjusted EBITDAR[7][9]** | **120.2** | **183.8** | **356.4** | **240.6** | **242.6** | **406.0** | **451.8** |
| **Adjusted EBITDAR Margin[8][9]** | **5.1%** | **8.2%** | **12.3%** | **7.6%** | **9.8%** | **16.3%** | **14.1%** |

(1) The financial information for the years ended December 31, 2015 and 2016 are not directly comparable with the other financial periods presented in this presentation due to a change in the presentation of our accounts. See "Presentation of Financial Information—Restatement of the 2017 Year-End Financial Information" for additional information.
(2) The financial information presented in this table for the year ended December 31, 2017 has been derived from the audited financial statements as of and for the year ended December 31, 2018, which restated the 2017 financial information. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Comparability" and "Presentation of Financial Information—Restatement of the 2017 Year-End Financial Information" for additional information.
(3) The financial information for the twelve months ended September 30, 2019 includes the final three months of the year ended December 31, 2018, wherein IFRS 16 was not yet adopted by us. For purposes of presenting the financial information for the twelve months ended September 30, 2019, we applied IFRS 16 on a consistent basis to the last three months of the year ended December 31, 2018, which required an adjustment to be made to the historical financial information for the three months ended December 31, 2018.
(4) Interest and similar expenses represents the interest and similar expenses related to bank debt and financial and operational leases.
(5) Interests and similar income represents the interest and similar income related to the financial assets.
(6) Represents the foreign exchange remeasurement on other currencies to Euros.
(7) We calculate EBITDAR as net income/(loss) for the year (or the period, as applicable) minus interests and similar income, plus interest and similar expenses, net currency exchanges, income tax for the year (or the period, as applicable), aircraft rents, other non-recurrent items, restructuring and depreciation, amortization and impairment losses. We calculate Adjusted EBITDAR as EBITDAR plus extraordinary fleet renewal expenses. We believe EBITDAR and Adjusted EBITDAR are well-recognized performance measurements in the commercial aviation industry that are frequently used by investors, securities analysts and other interested parties in comparing the operating performance of companies in our industry. EBITDAR and Adjusted EBITDAR are not measure of financial performance in accordance with IFRS, and should not be considered in isolation or as an alternative to net income, an alternative to operating cash flows, a measure of liquidity, or the basis for dividend distribution. Other companies may calculate EBITDAR and Adjusted EBITDAR differently than us. EBITDAR and Adjusted EBITDAR serve as indicators of overall financial performance, which are not affected by changes in rates of income tax or levels of depreciation and amortization. Consequently, we believe that EBITDAR and Adjusted EBITDAR serve as important tool to periodically compare our operating performance, as well as to support certain administrative decision. Because EBITDAR and Adjusted EBITDAR do not include certain costs related to our business, such as interest expense, income taxes, depreciation, capital expenditures and other corresponding charges, which might significantly affect our net income, EBITDAR and Adjusted EBITDAR have limitations which affect its use as an indicator of our profitability.
(8) Represents EBITDAR or Adjusted EBITDAR divided by total operating income.
(9) Represents operational expenses incurred with the starting of the new fleet.

**Statement of Financial Position**

The following tables present key line items from our historical statement of financial position data:

| | As of December 31, (audited) | | | As of September 30, (Unaudited) |
|---|---|---|---|---|
| | 2016 | 2017 Restated(1) | 2018 | 2019 |
| | (in millions of euros) | | | |
| ASSETS | | | | |
| **Non-current assets** | | | | |
| Tangible fixed assets........... | 675.3 | 578.4 | 521.0 | 2,764.6 |
| Investment properties.......... | 1.0 | 0.9 | 1.9 | 3.2 |
| Intangible assets................. | 1.3 | 2.9 | 11.2 | 22.9 |
| Investments in associates(2) . | 0.2 | 0.2 | 0.2 | 0.2 |
| Other financial assets.......... | 40.2 | 46.4 | 0.5 | 5.5 |
| Other non-current assets | 65.5 | - | - | 20.0 |
| Deferred tax assets............. | - | 52.9 | 91.0 | 84.4 |
| Other receivables ................ | 37.5 | 52.7 | 61.1 | 113.5 |
| | **821.0** | **734.4** | **687.0** | **3,014.3** |
| **Current assets** | | | | |
| Inventories .......................... | 44.2 | 50.3 | 63.9 | 98.8 |
| Other receivables ................ | 1,067.9 | 1,193.4 | 1,154.6 | 1,243.3 |
| Income tax receivable (3)...... | 16.6 | 1.4 | 8.3 | 19.5 |
| Other financial assets.......... | - | 34.9 | 13.2 | - |
| Other current assets............ | - | 23.3 | 52.1 | 42.5 |
| Restricted cash ................... | 0.5 | 0.1 | - | - |
| Cash and cash equivalents .. | 75.1 | 157.0 | 223.7 | 245.3 |
| | **1,204.3** | **1,460.3** | **1,515.9** | **1,649.4** |
| **Total assets** ........................... | **2,025.3** | **2,194.7** | **2,203.0** | **4,663.7** |
| EQUITY AND LIABILITIES | | | | |
| **Equity** | | | | |
| Share capital....................... | 41.5 | 41.5 | 41.5 | 41.5 |
| Supplementary capital contributions................... | 154.4 | 154.4 | 154.4 | 154.4 |
| Legal reserves .................... | 8.3 | 8.3 | 8.3 | 8.3 |
| Hedge reserves................... | (0.5) | - | (29.1) | (1.7) |
| Other reserves .................... | (0.2) | (0.2) | (0.2) | (0.2) |
| Retained earnings................ | (100.6) | (70.4) | (12.0) | 8.4 |
| Net income/(loss) for the year ............................................ | 33.5 | 100.4 | (58.1) | (110.8) |
| **Total equity** .......................... | **136.4** | **234.0** | **104.8** | **99.8** |
| **Non-current liabilities** | | | | |
| Deferred tax liabilities | 19.1 | 19.7 | 18.8 | 26.2 |
| Post-employment benefits obligations.......................... | 55.1 | 55.3 | 86.2 | 101.0 |
| Provisions.............................. | 11.6 | 9.2 | 12.2 | 54.3 |
| Borrowings............................ | 527.6 | 617.9 | 595.3 | 825.6 |
| Liabilities with contractual obligations.......................... | - | - | - | 1,775.4 |
| Other payables....................... | 105.5 | 112.4 | 49.7 | - |
| | **719.0** | **814.5** | **762.2** | **2,782.4** |
| **Current liabilities** | | | | |
| Borrowings............................ | 307.5 | 106.2 | 180.7 | 205.7 |

| | As of December 31, (audited) | | | As of September 30, (Unaudited) |
|---|---|---|---|---|
| | 2016 | 2017 Restated[(1)] | 2018 | 2019 |
| | (in millions of euros) | | | |
| Liabilities with contractual obligations | - | - | - | 411.1 |
| Other payables | 515.6 | 530.9 | 667.5 | 610.0 |
| Income tax payable | 29.0 | 13.0 | 0.0 | 0.0 |
| Other current liabilities | | 84.4 | 94.3 | 80.6 |
| Liabilities from unused flight documents | 317.9 | 411.7 | 393.5 | 474.1 |
| | **1,170.0** | **1,146.2** | **1,336.0** | **1,781.5** |
| **Total liabilities** | **1,888.9** | **1,960.7** | **2,098.2** | **4,563.9** |
| **Total equity and liabilities** | **2,025.3** | **2,194.7** | **2,203.0** | **4,663.7** |

(1) The financial information presented in this table for the year ended December 31, 2017 has been derived from the audited financial statements as of and for the year ended December 31, 2018, which restated the 2017 financial information. See " Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Comparability" and "Presentation of Financial Information—Restatement of the 2017 Year-End Financial Information" for additional information.
(2) In our audited financial statements for the year ended December 31, 2016, this line item is referred to as "Investments in subsidiaries and associates."
(3) In our audited financial statements for the year ended December 31, 2016, this line item is referred to as "State and other public entities."

**Statement of Cash Flow**

The following tables present key line items from our historical statement of cash flow:

| | As of December 31, (audited) | | | As of September 30, (Unaudited) | | For the twelve months ended September 30, (Unaudited) |
|---|---|---|---|---|---|---|
| | 2016 | 2017 Restated[(1)] | 2018 | 2018 | 2019 | 2019[(2)] |
| | (in millions of euros) | | | | | |
| **Operating activities:** | | | | | | |
| Receipts from customers | 2,076.0 | 3,002.0 | 3,364.4 | 2,536.1 | 2,695.9 | 3,524.1 |
| Payments to suppliers | (1,891.7) | (2,356.3) | (2,766.8) | (2,0136) | (1,892.1) | (2,645.4) |
| Payments to employees | (345.7) | (463.6) | (567.2) | (414.2) | (440.8) | (593.8) |
| Payments of low value and short-term leases | - | - | - | - | (8.1) | (8.1) |
| Cash generated from operations[(3)] | (161.4) | 182.1 | 30.4 | 108.4 | 354.9 | 227.0 |
| Income tax (payment) / receipt [(4)] | (5.6) | 6.0 | (14.9) | (4.2) | 0.4 | (10.4) |
| Other receipts/payments relating to operating activities | 239.0 | (31.2) | (8.0) | (71.5) | 15.9 | 79.4 |
| **Cash flow from operating activities** | **72.0** | **156.9** | **7.5** | **32.7** | **371.2** | **346.0** |
| **Investment activities:** | | | | | | |
| Receipts from: | | | | | | |
| Financial investments[(5)] | 0.1 | - | 66.5 | 58.2 | 14.9 | 23.3 |
| Tangible fixed assets | 64.7 | 217.3 | 44.6 | 17.5 | 18.1 | 45.2 |
| Investment government grants | - | - | 0.3 | - | - | 0.3 |
| Loans granted | 835.2 | 770.5 | 793.9 | 480.6 | 519.0 | 832.4 |

| | As of December 31, (audited) | | | As of September 30, (Unaudited) | | For the twelve months ended September 30, (Unaudited) |
|---|---|---|---|---|---|---|
| | 2016 | 2017 Restated[(1)] | 2018 | 2018 | 2019 | 2019[(2)] |
| | (in millions of euros) | | | | | |
| Interest and similar income | 41.6 | 53.7 | 35.7 | 22.9 | 22.2 | 35.0 |
| Dividends | - | - | - | - | - | - |
| Payments relating to: | | | | | | |
| Financial investments | (39,3) | (47.1) | (7.5) | (7.5) | (53.5) | (53.5) |
| Tangible fixed assets | (134,9) | (119.2) | (124.9) | (81.4) | (83.4) | (126.8) |
| Intangible assets | - | - | (7.3) | (3.9) | (14.9) | (18.4) |
| Loans granted | (804.7) | (792.6) | (793.8) | (522.7) | (524.1) | (795.2) |
| **Cash flow from investment activities** | **(37.2)** | **82.7** | **7.4** | **(36.4)** | **(101.6)** | **(57.8)** |
| **Financing activities** | | | | | | |
| Receipts from: | | | | | | |
| Borrowings | 100.0 | - | 70.0 | 70.0 | 327.0 | 327.0 |
| Financial leases | - | 55.4 | 96.4 | 71.5 | - | 24.9 |
| Payments relating to: | | | | | | |
| Borrowings | (71.5) | (55.6) | (7.5) | (7.5) | (116.7) | (116.7) |
| Payments of financial leases[(6)] | (70.0) | (104.8) | (45.4) | (33.4) | (31.4) | (43.5) |
| Principal elements of operating lease payments | - | - | - | - | (303.7) | (303.7) |
| Interests and similar costs | (41.5) | (39.7) | (30.2) | (23.8) | (25.6) | (32.0) |
| Interest elements of operating lease payments[(7)] | - | - | - | - | (90.2) | (90.3) |
| Dividends | | - | (30.0) | - | - | (30.0) |
| **Cash flow from financing activities** | **(83.0)** | **(144.6)** | **53.3** | **76.8** | **(240.6)** | **(264.2)** |
| **Net increase (decrease) in cash and cash equivalents** | **(48.2)** | **94.9** | **68.2** | **73.1** | **28.9** | **23.9** |
| Effects of currency exchange differences[(8)] | (11.3) | (13.1) | (11.9) | (12.6) | 3.0 | 3.7 |
| **Cash and cash equivalents at the beginning of the year** | 134.8 | 75.3 | 157.1 | 157.1 | 213.4 | 157.1 |
| **Megasis Merger** | **-** | **-** | **-** | **-** | **0.0** | |
| **Cash and cash equivalents at the end of the year** | **75.3** | **157.1** | **213.4** | **217.6** | **245.3** | **184.7** |

(1) The financial information presented in this table for the year ended December 31, 2017 has been derived from the audited financial statements as of and for the year ended December 31, 2018, which restated the 2017 financial information. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Comparability" and "Presentation of Financial Information—Restatement of the 2017 Year-End Financial Information" for additional information.

(2) The financial information for the twelve months ended September 30, 2019 includes the final three months of the year ended December 31, 2018, wherein IFRS 16 was not yet adopted by us. For purposes of presenting the financial information for the twelve months ended September 30, 2019, we applied IFRS 16, on a consistent basis, to the last three months of the year ended December 31, 2018, which required an adjustment to be made to the historical financial information for the three months ended December 31, 2018.

(3) In our audited financial statements for the year ended December 31, 2016, this line item is referred to as "Cash flow from operations."

(4) In our audited financial statements for the year ended December 31, 2016, this line item is referred to as "Income tax payment/receipt."

(5) In our unaudited interim financial statements as of and for the nine months ended September 30, 2019, this line item is referred to as "Other financial assets."

(6) In our unaudited interim financial statements as of and for the nine months ended September 30, 2019, this line item is referred to as "Financial leases."

(7) This amount includes, in the twelve months ended September 30, 2019, €236.3 million of rents related to operational lease contracts of aircraft and engines and €158.2 million of wet lease agreements.
(8) In our audited financial statements for the year ended December 31, 2016, this line item is referred to as "Effects of exchange rate effects."

**Operating Data**

| | As of and for the year ended December 31, | | | As of and for the nine months ended September 30, | |
|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2018 | 2019 |
| **Active Staff (December 31)**[(1)] | 7,200 | 7,470 | 8,145 | 7,970 | 8,937 |
| Passengers Carried ('000) | 11,754 | 14,274 | 15,763 | 12,092 | 12,960 |
| Revenue passenger kilometers (millions) | 28,783 | 34,711 | 38,048 | 29,145 | 31,754 |
| Available seat kilometers (millions) | 36,625 | 41,864 | 47,000 | 35,361 | 39,221 |
| TAP Fleet (total)[(2)] | 80 | 88 | 96 | 92 | 108 |
| Block hours | 318,962 | 351,288 | 390,544 | 293,924 | 307,602 |
| CASK[(3)] | 6.06 | 6.55 | 6.82 | 6.79 | 6.24 |
| CASK (excluding fuel)[(4)] | 4.87 | 5.16 | 5.12 | 5.12 | 4.72 |
| Punctuality[(5)] | 75.9% | 67.3% | 58.4% | 56.4% | 63.4% |
| Regularity | 99.5% | 99.3% | 98.2% | 98.0% | 99.3% |

(1) Excludes staff not placed and not active.
(2) Total fleet including aircraft in phase-in and phase-out. Includes aircraft operated under wet lease agreements with White Airways and Portugália.
(3) CASK as of and for the year ended December 31, 2017 was calculated based on the restated operating costs.
(4) CASK (excluding fuel) as of and for the year ended December 31, 2017 was calculated based on the restated operating costs.
(5) Measured by the percentage of the number of flights with departures up to 15 minutes after the time of departure published under schedule.

## RISK FACTORS

*This presentation contains "forward-looking" statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences are discussed below and elsewhere in this presentation. See "Cautionary Statement Regarding Forward-Looking Statements."*

### Risks Related to Our Business and Our Operations

***The commercial aviation industry is particularly sensitive to changes in economic and geo-political conditions.***

Our revenue is highly sensitive to economic conditions in the markets in which we operate. Fluctuations in the macroeconomic environment affect consumer behavior in the markets in which we operate. Our business is particularly concentrated in Europe, Brazil, Portuguese-speaking African countries and the U.S., most of which have experienced some form of economic hardship in the recent past. Any financial and economic or other instability in these countries could have a disproportionately large impact on our financial results and operating performance.

Unfavorable economic conditions, such as high unemployment rates, a tight credit market, low growth or negative GDP, unfavorable exchange rates or decreased consumer and business confidence may have an adverse impact on demand for air travel for leisure or business. In an economic downturn, leisure travelers often choose to reduce their transportation or reduce the amount they pay for such transportation. Businesses also usually reduce the volume of their business travel, either due to cost-saving measures or as a result of decreased business activity requiring travel. In addition, premium services could become less desirable during a significant downturn, which could disproportionately affect our revenues and our margins.

In addition, unfavorable economic conditions may also limit our ability to adjust fares in view of fuel price increases, worker expenses or other expenses. The impact of an economic downturn might also induce governments to unilaterally grant subsidies or other public aid to our competitors, which could distort the markets and harm our competitive position. In addition, unfavorable economic conditions may also impact our ability to obtain financing for the purchase and rental of aircraft on favorable terms or at all.

Brexit, the departure of the United Kingdom from the European Union, is an imminent risk to Europe's economic stability. Discussions regarding the terms of the United Kingdom's exit have been ongoing and, on October 19, 2019, a withdrawal deal agreed with the European authorities was presented by the United Kingdom government to the British Parliament for approval. Instead, the Parliament approved the granting of an additional period of time for it to review the terms and conditions of the withdrawal deal, obliging the government to request an extension to the European Union to avoid a no-deal Brexit on October 31, 2019. Such extension has officially been granted by the European Union until January 31, 2020. Discussions between the European Union and the United Kingdom government and between the latter and the British Parliament are ongoing and it is uncertain when and on what terms the United Kingdom will depart from the European Union.

The recent economic instability in Brazil has contributed to a decline in market confidence in the Brazilian economy as well as to a deteriorating political environment. Developments in Brazil's political landscape, such as the presidential elections held in October 2018, create uncertainty over whether the current Brazilian federal government will implement changes in policy or regulation affecting inflation, interest rates, changes in tax policies, price controls, foreign exchange controls, currency devaluations, among other factors. Some of our revenues are linked to the Brazilian real and a significant part of our operating expenses, such as fuel, certain aircraft operating lease agreements and certain flight hour maintenance contracts, are denominated in, or linked to it. In addition, the Brazilian currency has been historically volatile and has devalued frequently over the past three decades. The Brazilian currency has been historically volatile and has devalued frequently over the past three decades.

In addition, due to factors such as exchange controls, our cash may be trapped in certain of the jurisdictions in which we operate. For example, we had cash that was trapped in Angola in 2018, where our operations represent 2.74% of our passenger sales as of September 30, 2019. While we were able to extract this cash out of Angola, there is no guarantee that we will not encounter similar issues in the future in Angola or any other jurisdiction or that we will be able to recover any trapped cash amounts. Other geopolitical factors in countries in which we operate could also impact our business, including through political unrest, currency devaluations and exchange controls, among other factors.

Any materialization of these risks could have a material adverse effect on our business, financial condition and/or results of operations.

***We are exposed to risks associated with our reliance on jet fuel prices.***

Jet fuel prices have been and are expected to remain volatile, primarily as a result of market dynamics and geopolitical factors. Consequently, fuel availability is subject to periods of excesses and shortages. Adverse events in the Middle East or other oil-producing regions, including the suspension of production by any significant producer, may result in substantial increases in fuel prices and/or make it difficult to obtain adequate supply. Accordingly, the price and future availability of fuel cannot be predicted with any degree of certainty and may adversely affect our costs and, therefore, our financial performance. The occurrence of natural disasters or other unexpected and substantial fuel shortages in regions that usually consume significant amounts of other energy sources may have a similar effect. In particular, Lisbon airport is not connected to a pipeline and may be more severely affected by a fuel shortage.

Aircraft fuel less $CO_2$ emission licenses costs constitute a significant component of our operating costs structure, representing 24% of total costs in 2018 compared to 21% in 2017. Aircraft fuel less $CO_2$ emission licenses costs increased from €575 million in 2017 to €769 million in 2018 (33.8%), which was mainly a result of the increase in jet fuel prices in international markets. There was a sharp rise in the price of fuel in 2018: the Brent price per barrel rose by 31.5% in 2018, with a yearly average price of $71.2 per barrel as compared to $54.1 per barrel in 2017. The average price of a ton of jet fuel was $687 in 2018 compared to $527 in 2017, an increase of 30.5%. In 2019, jet fuel prices have been volatile, decreasing significantly from the highest levels in 2018 ($641/ton as of September 30, 2019).

At the end of 2018, we entered into hedging transactions for jet fuel price fluctuations and on December 31, 2018, approximately 50% of our estimated 2019 jet fuel consumption was hedged at a price below the current market price. In the future, our hedging transactions may not be sufficient to fully hedge against increases in fuel prices and it may not be possible to adjust our prices or services in a timely manner to offset such additional costs. Accordingly, any adverse change in the price or availability of fuel could have a material adverse consequence on our business, financial condition or operating results. For further information on our jet fuel hedging practices, see "Business—Fuel."

In addition, we are dependent on Petrogal, S.A. (a subsidiary of Galp Energia, SGPS, S. A.), which supplies the majority of our jet fuel in Portugal. As a result of this concentration in our jet fuel supply chain, our business and operations could be negatively affected if Petrogal, S.A. were to experience significant disruptions affecting quality, availability or timely delivery of their products. In such circumstances, it is possible that we would not be able to find sufficient alternative sources of supply in a timely manner or on commercially reasonable terms.

In addition, over the past few years there have been discussions both at the EU executive level and within EU Member States about whether the existing tax exemptions for jet fuel should be reviewed. There can be no assurance that the current tax exemptions for jet fuel will not be repealed or amended. The elimination or reduction of current tax exemptions for jet fuel in the EU would lead to a substantial increase in our jet fuel costs, which could have a material adverse effect on our business, financial condition and/or results of operations.

***Our results of operations and revenues are subject to seasonal fluctuations.***

The commercial aviation sector is seasonal, with weaker demand during winter, other than around the holiday season. As a result, operating results for the first and second half of the year are not directly comparable. This demand pattern is principally a result of the preference of a high number of leisure travelers to travel during the spring and summer months. The sale and collection of our air tickets is usually completed before the service is provided, other than in Brazil where tickets are paid for in instalments. As a result, we receive funds prior to the delivery of our services, at which time significant operating costs are incurred. The seasonal fluctuation of cash requires us to manage our funds throughout the year in order to meet our costs of operation. We also have substantial fixed operating costs that do not meaningfully fluctuate with passenger demand in the short term, which means that the occurrence of any flight cancellations or other factors that could adversely affect aircraft utilization, especially during peak seasons and periods, could have a materially adverse effect on our business, financial condition and/or results of operations.

***Because the commercial aviation industry is characterized by high fixed costs and relatively elastic revenues, we cannot quickly reduce our costs to respond to shortfalls in expected revenue.***

The commercial aviation industry is characterized by low gross profit margins; high fixed costs, such as aircraft ownership and leasing, headquarters facility and personnel, information technology system license costs, training and insurance expenses; and revenues that generally exhibit substantially greater elasticity than costs. The operating costs of each flight do not vary significantly with the number of passengers flown and, therefore, a relatively small change in the number of passengers, fare pricing or traffic mix could have a significant effect on our operating and financial results.

We expect to incur additional fixed costs, including contractual debt as we lease or acquire new aircraft and other equipment to implement our growth strategy or other purposes. As of September 30, 2019, we had orders consisting of five A330neo aircraft to be delivered by 2022, eleven A321neo-LR aircraft to be delivered by 2023 and 32 A320neo/A321neo aircraft to be delivered by 2025.

As a function of our fixed costs, we may (i) have limited ability to obtain additional financing; (ii) be required to dedicate a significant part of our cash flow to fixed costs resulting from operating leases and debt for aircraft; (iii) incur higher interest or leasing expenses for the event that interest rates increase; (iv) have a limited ability to plan for, or react to, changes in our businesses, the commercial aviation industry generally and overall macroeconomic conditions and/or (v) may be affected by adverse changes from foreign exchange rates. In addition, volatility in global financial markets may make it difficult for us to obtain financing to manage our fixed costs on favorable terms or at all.

As a result of the foregoing, we may be unable to quickly adjust our fixed costs in response to changes in our revenues. A shortfall from expected revenue levels could have a material adverse effect on us.

***We are vulnerable to fluctuations in the demand for flight tickets.***

We are subject to changes in demand for airline tickets for certain routes and destinations, resulting from a variety of reasons, including macroeconomic factors, geopolitical conditions or other issues that may affect consumers' willingness to travel to particular destinations or demand in general. For example, the United Kingdom's expected exit from the European Union could substantially affect demand for flights to and from the United Kingdom. Similarly, international conflicts or social unrest, especially in the markets in which we operate (such as the instability that has recently occurred in Venezuela), could have a significant impact on the demand for travel to those destinations and demand for our flights.

In addition, technological advances in the telecommunications sector may limit demand for air transport. For example, video conferencing, teleconferencing and other electronic communication methods may reduce the need for in-person communications as corporate customers may look for low-cost substitutes for air travel. Any material reduction in the demand for our services may have a material adverse effect on our business, financial condition or operating results.

***We operate in a highly competitive industry and actions by our competitors could adversely affect us.***

We operate in a highly competitive market. Competition in commercial aviation has intensified in recent years as a result of several factors, such as the growth of low-cost operators in the industry and the trend towards corporate consolidation, which has resulted in the formation of large airlines with high financial capacity and economies of scale. Our competitors include legacy airlines, other established commercial and charter airlines, travel conglomerates with integrated airlines, low-cost carriers and new airlines entering the market.

The commercial aviation industry is primarily characterized by price competition, with the adoption of aggressive discounts and market segmentation policies (leisure vs. business). However, competition is also affected by factors including routes and frequency of flights, the geographical location of hub airports used by other airlines, reputation, safety record, reliability and/or punctuality, the type and age of aircraft, the range and quality of onboard and ground passenger services and the attractiveness of loyalty programs, among others.

Our competitors may seek to protect or gain market share through fare-matching or price-discounting or by offering more attractive flight schedules or services. Certain competitors may also be able to offer lower fares, for example by providing passengers with fewer services or using financial resources which are unavailable to us.

The proliferation of websites that specialize in comparing airfares and the underlying ease of the process of comparison, selection and purchase of these airfares have enabled customers to rapidly analyze different offerings from different airlines, adapting them to their needs and increasing the relevance and effect of price competition.

In Europe, competition has been particularly high in most markets, with low-cost operators successfully gaining greater market share on short-haul flights. In the long-term, we expect competition to continue to increase among operators, with various alternative routes being made available to the same destination.

The continued increase in competition could have a material adverse effect on our business, financial condition and/or results of operation.

***Further consolidation in the global commercial aviation industry may adversely affect us.***

As a result of the competitive environment in which we operate, there may be further consolidation in the global commercial aviation industry, whether by means of acquisitions, joint ventures, partnerships or strategic alliances. We cannot predict the effects of further consolidation on the industry. Our competitors could increase their scale, diversity and financial strength and may have a competitive advantage over us, which would adversely affect us. Our competitors may also decide to acquire a stake in us, or we may decide to acquire a stake in one of them. Consolidations in the commercial aviation industry and changes in international alliances are likely to affect the competitive landscape in the industry and may result in the formation of airlines and alliances with increased financial resources, more extensive global networks and reduced cost structures than us.

We routinely engage in analysis and discussions regarding our own strategic position, including alliances, code-share arrangements, investments, acquisitions, interline arrangements and loyalty program enhancements and may have future discussions with other airlines regarding similar arrangements. To the extent we act as consolidators, we may not be able to successfully integrate the business and operations of companies acquired, governmental approvals may be delayed, costs of integration and fleet renovation may be greater than anticipated, synergies may not meet our expectations, our costs may increase and our operational efficiency may be reduced. To the extent we do not engage in such consolidations, our competitors may increase their scale, diversity and financial strength and may have a competitive advantage over us, which would negatively affect us, including our ability to realize expected benefits from our own strategic partnerships.

***A failure to implement our strategy may adversely affect us.***

Our future growth, profitability and cash flows depend on our ability to successfully implement our global business strategies, including our fleet transformation strategy and cost cutting initiatives. There can be no assurance that we can successfully achieve any or all of our strategic initiatives in the manner or time period that we expect. Further, achieving these objectives will require investments which may result in short-term costs without generating any current net revenues and, therefore, may be dilutive to our earnings, at least in the short term. Moreover, if our strategic initiatives do not generate the expected benefits in a timely manner, we may face significant liquidity pressures in the medium term and throughout the implementation period of the strategic initiatives as a result of the associated investments required. We cannot give any assurance that we will realize, in full or in part, the anticipated strategic benefits we expect our strategies will achieve. The failure to realize those benefits could have a material adverse effect on our business, financial condition and/or results of operations.

***We depend on automated systems and any cyber-attacks, breakdowns or changes in these systems may adversely affect us.***

We depend on automated systems to operate our businesses, including our sales system, automated seat reservation system, fleet and network management system, telecommunications system and website and maintenance and engineering business. Interruption or malfunction of flight planning systems may cause (i) flight delays and cancellations, which would negatively impact customer service quality, resulting in an increase in claims for damages, (ii) significant disruptions in flight scheduling of flight attendants, with high potential for increase in variable costs with personnel, (iii) inadequate planning of onboard catering and (iv) inability to meet our maintenance and engineering service obligations.

Significant or repeated breakdowns of our automated systems may impede our passengers and travel agencies' access to our products and services, which may cause them to purchase tickets from other airlines, adversely affecting our net revenues. Our website and ticket sales system must accommodate a high volume of traffic and deliver important flight information. Substantial or repeated website, ticket sales, scheduling or telecommunication systems failures could reduce the attractiveness of our services and could cause our customers to purchase tickets from another airline. Any interruption in these systems or their underlying infrastructure could result in the loss of important data, increase our expenses and generally harm us.

These interruptions may include but are not limited to computer hacking, computer viruses, worms or other disruptive software or other malicious activities. In particular, both unsuccessful and successful cyber-attacks on companies have increased in frequency, scope and potential harm in recent years. The costs associated with a major cyber-attack could include expensive incentives offered to existing customers to retain their business, increased expenditures on cyber security measures, lost revenues from business interruption, litigation and damage to our reputation. In addition, if we fail to prevent the theft of valuable information, protect the privacy of customer and employee confidential data against breaches of network or IT security, it could result in damage to our reputation, which could adversely impact customer and investor confidence. We may also implement certain changes to our systems that may result in breakdowns, reduced sales, fleet and network mismanagement or telecommunications interruptions, all of which would negatively affect us. Furthermore, the compromise of our technology systems resulting in the loss, disclosure, misappropriation of, or access to, customers', employees' or business partners' information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information or disruption to our operations. Any of these occurrences could result in a material adverse effect on our business, financial condition and/or results of operation.

***We rely on partner airlines for aircraft, code-share and loyalty marketing arrangements and the loss of a significant partner through bankruptcy, consolidation or otherwise, could adversely affect us.***

We rely on White Airways for eight ATR72 aircraft that are utilized in our TAP Express Fleet. The aircraft provided by White Airways are leased by us and operated and staffed by White Airways. We cannot control the quality of White Airways services or aircraft and we may be subject to reputational and financial damage from a failure by White Airways to meet our quality standards.

We are also a party to code-share agreements with several international air carriers (including Deutsche Lufthansa AG, Sata International, Austrian Airlines, Azul Linhas Aereas Brasileiras, Gol Linhas Aereas S/A, among others). Our code-share agreements allow us to place our own code on flights operated by other carriers and, reciprocally, such other carriers can also place their code on TAP operated flights. In addition, these agreements provide that our *Miles&Go* members can earn miles on or redeem miles on our code-share partners' flights, as the case may be and vice versa. We receive revenue from flights sold under these code-share agreements. In addition, we believe that these frequent flyer arrangements are an important part of our *Miles&Go* program. The loss of a significant partner through bankruptcy, consolidation or otherwise, could adversely affect us. We may also be adversely affected by the actions of one of our significant partners, for example, in the event of nonperformance of a partner's material obligations or misconduct by such partner, which could potentially result in us incurring liabilities, or poor delivery of services by one of our partners, which could damage our brand.

***Our reputation and our business could be adversely affected by events outside of our control.***

Accidents or incidents involving our aircraft could involve significant claims by injured passengers and others, as well as significant costs related to the repair or replacement of a damaged aircraft and its temporary or permanent loss from service. We are required by law and lessors of our aircraft under our operating lease agreements to carry liability insurance. The amount of liability insurance we maintain may not be adequate and we may be forced to bear substantial losses in the event of an accident and increases in future instance premiums. Substantial claims resulting from an accident in excess of our related insurance coverage would harm our business and financial results. Moreover, any aircraft accident or incident involving our aircraft, even if fully insured, or the aircraft of any major airline or the companies whose aircraft we operate under our brand (namely, Embraer, ATR and Airbus) could cause negative public perceptions about us, our aircraft or the air transport system, due to safety concerns or other problems, whether real or perceived, which would harm our reputation and financial results.

Any accident or incident involving aircraft, regardless of the operator or the geography, could result in negative public perceptions of the air transport business as a whole, including increased air safety concerns. Any future terrorist attacks or threats of attacks, whether or not involving commercial aircraft, any increase in hostilities relating to reprisals against terrorist organizations, including an escalation of military involvement in the Middle East, or otherwise and any related economic impact, could result in decreased passenger traffic and materially and adversely affect us.

Outbreaks or potential outbreaks of diseases, such as the Zika virus, Ebola, avian flu, foot-and-mouth disease, swine flu, Middle East Respiratory Syndrome (MERS) and Severe Acute Respiratory Syndrome (SARS), could have an adverse impact on global air travel. Outbreaks of disease could also result in quarantines of our personnel or an inability to access facilities or our aircraft, which would harm our reputation, business and financial results.

Natural disasters, severe weather conditions and other events beyond our control may affect or disrupt air traffic operations. Severe weather conditions may also cause flight cancellations or significant delays that may result in increased costs and reduced revenue. Any natural disaster or other event that affects air travel in the regions in which we operate could have a material adverse impact on us.

***We are highly dependent on our Lisbon hub for a large portion of our business and a material disruption at our hub could adversely affect us.***

Our strategic business model is dependent on the growth of the Lisbon hub. Many of our routes operate through this hub, which accounts for a significant part of our daily arrivals and departures. Like other airlines, we are subject to delays caused by factors beyond our control and that could affect one or more of our hubs or other airports in any of the regions served by us. Due to this geographical capacity concentration, we may not be able to react as quickly or efficiently as our competitors to any delays, interruption or disruption in service or fuel at any one or more of our hubs, which could have a material adverse impact on us.

As of the date of this presentation, the Lisbon airport is nearly at its operating capacity limit, with restrictions at various levels. The eventual expansion of the Lisbon airport and the construction of a new airport may not occur within the expected schedule or at all and we may consequently face even greater operational constraints, resulting from the continued growth of our business or increased competition from carriers accessing such expanded airports.

The total or partial loss or temporary closure of any terminal at Lisbon airport will not only increase its current capacity constraints, but given that it is our main hub, it may also result in the interruption of our operations and have material adverse effect on our business and financial performance. Our inability to mitigate the effects of limitations and risks associated with our Lisbon hub could have a material adverse consequence on our business, financial condition and operating results.

***Our access to airports could be limited by slot allocations and restrictions imposed by legislators or regulatory authorities.***

Air traffic is limited by the airport infrastructure and by the number of slots available for aircraft arrivals and departures at a particular airport. A slot represents the authorization to take off and land at a particular time during a specified scheduling period. Within the EU, slots are assigned to airlines in accordance with Council Regulation (EEC) No 95/93 of 18 January 1993, as amended by Regulation (EC) No 545/2009 of the European Parliament and of the Council of 18 June 2009. Established airlines have priority rights (known as "grandfather rights") to particular slots at certain airports. In addition, a number of major European airports and other major international airports are currently operating at close to their full capacity, meaning that there is limited capacity to operate at these airports. Should slot coordinators or other authorities in charge of allocating time slots at airports not offer sufficient slots to us at the times we need them or on acceptable terms, we may be unable to expand our activities or obtain more favorable slots and may be forced to restrict the use of our aircraft. In addition, the rules governing the use of slots provide that the right of use may expire if the slots are unused either temporarily or in the long term. Therefore, should we fail to use the slots it has been allocated, whether for technical or commercial reasons, we could potentially lose the right to use these slots.

Legislators or regulatory authorities may impose additional operating restrictions at airports, such as landing and take-off curfews, limits on aircraft noise and emission levels, mandatory flight paths, runway restrictions and limits on the number of average daily departures. Such restrictions may limit our ability to provide or increase services at such airports and may result in loss of revenue and/or additional costs.

Any of these risks could have a material adverse effect on our business, financial condition and/or results of operations.

***We could be adversely affected by expenses or stoppages associated with planned or unplanned maintenance on our aircraft, as well as any inability to obtain spare parts on time.***

As of September 30, 2019, the average age of our Mainline Fleet was 12 years and 8 years for our TAP Express Fleet. Our fleet requires more maintenance as it ages and our maintenance and repair expenses for each of our aircraft will be incurred at approximately the same intervals. Although we are currently expanding and renewing our fleet, there can be no assurance that we will be able to do so at an appropriate cost or according to our expected timeline, or that doing so will provide the benefits that we anticipate. In the event we cannot renew our fleet, our scheduled and unscheduled aircraft maintenance expenses will increase as a percentage of our revenue in future years. Any significant increase in maintenance and repair expenses would have a material adverse effect on us.

Our business would be significantly harmed by unplanned stoppages or suspensions of operations associated with planned or unplanned maintenance due to mechanical issues. For example, if a design defect or mechanical problem with E-Jets, ATRs or Airbus aircraft were to be discovered, this would cause our aircraft to be grounded while such defect or mechanical problem was being corrected. We cannot assure you that we would succeed in obtaining all aircraft and parts to solve such defect or mechanical problem, that we would obtain such parts on time, or that we would succeed in solving such defect or mechanical problem even if we obtained such parts. This could result in a suspension of the operations of certain of our aircraft, potentially for a prolonged period of time, while we attempted to obtain such parts and solve such defect or mechanical problem, which could have a materially adverse effect on us. For example, in 2018, we were forced to ground four of our aircraft for approximately six months to perform maintenance on them.

The commercial aviation industry is subject to strict rules and regulations with regard to planned maintenance of aircraft and failure to comply may result in an inability to operate aircraft. Aircraft maintenance requires a high level of knowledge and skill. Adverse and often unpredictable conditions may result in the need for unplanned maintenance of aircraft to comply with applicable rules. Unplanned maintenance has adverse operational impacts that may result in increased difficulties, such as higher costs, in the performance of our operations.

Additionally, General Electric is the sole manufacturer and supplier of the CF34 engines on our Embraer E-Jets and of the LEAP engines on our next-generation Airbus A320neos, Pratt & Whitney is the sole manufacturer and supplier of the PW 127M engines on our ATR 72 aircraft and Rolls Royce is the sole manufacturer of the Trent 700 engines for our A330 aircraft. We have also sourced part of our maintenance requirements to other members of the TAP Group, including Portugália and TAP ME Brasil for maintenance. If such parties are unable to perform their contractual obligations or if we are unable to acquire engines from alternative suppliers on acceptable terms, we could lose the benefits we derive from our current agreements, incur substantial transition costs or suffer from the suspension of the operations of certain of our aircraft due to the need for unscheduled or unplanned maintenance while these contractual obligations are not being performed.

***We fly and depend upon Embraer, ATR and Airbus aircraft and Rolls Royce, CFM and GE aircraft parts and we could suffer if we do not receive timely deliveries of aircraft or other aircraft parts, if aircraft or parts from these companies become unavailable or subject to significant maintenance or if the public negatively perceives our aircraft or other aircraft suppliers.***

As our fleet has grown, our reliance on Embraer, ATR, Airbus, Rolls Royce, CFM and GE has also grown. As of September 30, 2019, our Total Fleet comprised 108 aircraft, consisting of 87 Airbus aircraft, 8 ATR aircraft and 13 Embraer aircraft (the latter from the White Airways and Portugália fleet, respectively). We have a number of aircraft commitments expected from Airbus and we may in the future rely on ATR and Embraer, as well.

Risks relating to Embraer, ATR and Airbus include: (i) our failure or inability to obtain Embraer, ATR or Airbus aircraft, parts or related support services on a timely basis because of high demand or other factors, (ii) the issuance by the aviation authorities of directives restricting or prohibiting the use of Embraer, ATR or Airbus aircraft, (iii) the adverse public perception of a manufacturer as a result of an accident or other negative publicity or (iv) delays between the time we realize the need for new aircraft and the time it takes us to arrange for Embraer, ATR and Airbus or from a third-party provider to deliver this aircraft.

Our ability to obtain new aircraft from Embraer, ATR and Airbus and other aircraft parts from Rolls Royce, CFM and GE may be affected by several factors, including (i) Embraer, ATR, Airbus, Rolls Royce, CFM and GE may refuse to, or be financially limited in their ability to, fulfill the obligations they assumed under the relevant aircraft or aircraft supply delivery contracts, (ii) the occurrence of a fire, strike or other event affecting Embraer's, ATR's, Airbus's, Rolls Royce's, CFM's or GE's ability to fulfill their contractual obligations in a complete and timely fashion and (iii) any inability on our part to obtain aircraft or other financing or any refusal by Embraer, ATR, Airbus, Rolls Royce, CFM or GE to provide financial support. We may also be affected by any failure or inability of Embraer, ATR, Airbus, Rolls Royce, CFM, GE or other suppliers to supply sufficient replacement parts in a timely fashion, which may cause the suspension of operations of certain aircraft because of unscheduled or unplanned maintenance. Any such suspension of operations would decrease passenger revenue and adversely affect us and our growth strategy.

The occurrence of any one or more of these factors could restrict our ability to use aircraft to generate profits, respond to increased demand, or could limit our operations and adversely affect us.

***Orders for new aircraft typically must be placed years in advance of scheduled deliveries, and changes in the our network strategy over time may make aircraft on order less economic for us, result in costs related to modification or termination of aircraft orders or cause us to enter into orders for new aircraft on less favorable terms.***

Our orders for new aircraft are typically made years in advance of actual delivery of such aircraft, and the financial commitment required for purchases of new aircraft is substantial. Subsequent to our placing of an order for new aircraft, our network strategy may change. As a result, our preference for a particular aircraft that we have ordered, often years in advance, may be decreased or eliminated. If we were to modify or terminate any of our existing aircraft order commitments, we may be responsible for material liabilities to our counterparties arising from any such change. Additionally, we may have a need for additional aircraft that are not available under our existing orders. In such cases, we may seek to acquire aircraft from other sources, such as through lease arrangements, which may result in higher costs or less favorable terms, or through the purchase or lease of used aircraft. We may not be able to acquire such aircraft when needed on favorable terms or at all.

***We rely on agreements with third parties to provide our customers and us with facilities and services that are integral to our business and the termination or non-performance of these agreements could harm us.***

We use TAP Group companies and third-party contractors to provide certain of our services, including, among others, ground aircraft support, maintenance, engineering, engine and aircraft supplies, baggage handling, communication services and in-flight entertainment, catering, services for the boarding and arrival of passengers. We also rely on travel agencies and other third parties for the booking of flights. Many of these third-party agreements are subject to termination on short notice. The loss or expiration of these agreements or our inability to renew these agreements or to negotiate new agreements with other providers at comparable term and conditions or at all could harm our business and results of operations. For our customers, the quality of certain products or services are often associated with and taken into account when assessing the overall quality of our service. Usage of third parties limits our control over costs, efficiency, time and quality of these services.

A TAP Group company or a third party may fail to meet their service performance commitments, may suffer disruptions to their systems that could impact the fulfillment of their obligations, or the agreements with such third parties may be terminated. The failure of any TAP Group company or third-party contractor to adequately perform their services, or other interruptions of services, may adversely affect us, including reducing our revenues and increasing our expenses or preventing us from operating our flights or providing other services to our customers.

In addition, we, including our reputation, could be materially adversely affected if our customers believe that our services or facilities are unreliable or unsatisfactory.

***We depend on third parties for the supplies, construction, delivery and performance of new aircraft, which is central to our strategic plans and a failure to implement our strategic plans may adversely affect us.***

The execution of our fleet renewal and expansion plan is at the core of our strategy. We entered into an agreement with Airbus to acquire 53 new aircraft by 2025. We also entered into additional agreements with lessors to lease 26 new aircraft by 2020. Our fleet renewal and expansion will enable us to offer more destinations and significantly improve the operational efficiency and quality of service of our fleet.

The construction of the new aircraft depend on Airbus and a wide range of suppliers, including the suppliers of engines, aircraft interiors and entertainment systems, among others. The acquisition of these components is, in certain cases, performed directly by us, which requires a demanding level of operational coordination to meet deadlines.

As part of fleet renewal and transformation strategy, we anticipate the launch of new aircraft and the termination of operations for used aircraft. Aircraft phase-in and phase-out operations require a comprehensive set of technical checks, maintenance and certifications, which are not always performed by internally or under our management.

The financing for the construction of aircraft is contracted in advance, requiring the allocation of a significant portion of the aircraft's value prior to the start of its use. We make use of equity and debt and operating lease contracts in the fulfillment of our contractual obligations, usually performing financial or operational leasing at the time of receipt of the aircraft.

The poor performance of third parties in the construction of new aircraft, the existence of significant delays in the execution and delivery of aircraft, or even the aircraft's failure to enter into operation or exit from operation may have significant impacts on our business and consequently on our results, compromising compliance with our strategic plan.

Our current business plan contemplates the addition of Airbus and Embraer aircraft to replace older generation aircraft and serve high-density markets. Any disruption or change in the manufacturers' delivery schedules for our new Embraer and Airbus aircraft may affect our operations and might negatively affect us because we may not be able to accommodate increased passenger demand or develop our growth strategies.

We also depend on engine manufacturers and aircraft suppliers (particularly for engines) to maintain our aircraft. A failure to maintain our relationships with these suppliers may adversely affect our ability to service our new and existing aircraft and achieve the full results of our aircraft expansion strategy.

***We depend on strategic alliances or commercial relationships, such as our membership in Star Alliance, in many of the countries in which we operate and our business may suffer if any of our strategic alliances or commercial relationships terminate.***

In many of the jurisdictions in which we operate, we have found it in our interest to maintain a number of alliances and other commercial relationships. We depend on these alliances or commercial relationships to enhance our network and, in some cases, to offer our customers services that we could not otherwise offer. If any of our strategic alliances or commercial relationships, in particular with Star Alliance, deteriorates, or any of these agreements are terminated, our business, financial condition and results of operations could be negatively affected.

***Changes to the Miles&Go business partner policies or the exit of a significant Miles&Go business partner may adversely affect our business.***

A significant portion of our *Miles&Go* loyalty program's gross revenue depends on our business partners. We have no control or influence over *Miles&Go* business partners, who may discontinue their relationship with *Miles&Go*, or change their business policies regarding the accumulation, transfer or use of points and choose to develop or offer to their customers their own platforms for redeeming points for rewards, including airline tickets issued by other airlines. The loss of a significant *Miles&Go* business partner, or changes to *Miles&Go* business partner policies can make the *Miles&Go* loyalty program less attractive or less efficient for customers, thus reducing gross sales and search for points, factors that may have an adverse impact on our business, financial condition or operating results. We may also be adversely affected if costs related to the use of awards increase more than we anticipate. Our credit rights, intellectual property and software agreements under the *Miles&Go* program may also be pledged as a security interest under our Parent Convertible Bond, which could limit your ability if we default on our notes, and the pledge of securities could result in adverse tax consequences to us. See "Description of Certain Indebtedness—Parent Convertible Bonds."

Furthermore, new competitors may target *Miles&Go*'s business partners and members or enter the loyalty marketing industry, including with competitive frequent flyer programs. We cannot assure you that an increase in competition faced by *Miles&Go* will not have an adverse effect on the growth of our business with respect to *Miles&Go* or in general. If we are unable to adjust rapidly to the changing nature of competition in our markets or if the loyalty marketing industry does not grow sufficiently to accommodate new participants, it could have an adverse effect on us.

***We are subject to a complex legal and regulatory framework.***

We are subject to stringent regulatory requirements and various legal frameworks across the geographic area. We are subject not only to the laws in force in Portugal, but also to the laws and regulations of the European Union and each of the countries in which we operate, namely the U.S., Brazil and certain countries in Africa. We are also subject to the policies and regulations of international organizations, as well as bilateral and multilateral international treaties.

The scope of such standards includes, but is not limited to, infrastructure issues related to slot and flight route capacity, environmental and safety requirements, licensing (including for operations and routes), competition, consumer rights and taxes. Proposals for additional airport laws, regulations, taxes and charges have periodically arisen, which could significantly increase the cost of our operations and impact our financial performance.

In particular, the commercial aviation industry is facing increasingly stringent and more detailed consumer rights regulation, which is implemented, enforced and sanctioned by various authorities and courts. In particular, in the European Union, passenger rights are governed by Regulation (EC) No. 261/2004 of the European Parliament and of the Council of February 11, 2004, which sets forth common rules for compensation and assistance to passengers of air transport in the event of denied boarding, flight cancellation or significantly delayed flights.

Such legislation imposes, among other things, fixed levels of compensation to be paid to passengers in the event of cancellation, except when the airline can prove that such cancellation was caused by extraordinary circumstances and could not have been avoided even if all reasonable measures had been taken. The European Court of Justice has extended the right of passengers to receive monetary compensation to cases where passengers whose flights are delayed reach their final destination three hours or more after the originally scheduled arrival time. Passengers subject to long delays (ranging from two hours or more to four hours or more, depending on the flight distance) are also entitled to "assistance" free of charge, including meals, refreshments and telephone calls, as well as hotel accommodation if the delay extends overnight. For delays of at least five hours, the airline is also required to offer the option of a refund of the cost of the ticket and, if the passenger has already completed part of the journey, a return flight to the initial point of departure. Regulation (EC) No 261/2004 generally applies to all passengers departing from an airport located in the territory of an EU Member State, irrespective of whether the airline is licensed by a Member State of the EU and, if the airline is licensed by a Member State of the EU, also to all passengers departing from an airport outside the EU to a destination within the EU. As a result, cancellation and delay of flights may lead to a significant financial burden for airlines which are licensed by an EU Member State or which operate in the EU.

A proposal for revision of Regulation (EC) No 261/2004, which is currently in the legislative process, has been advanced which is aimed at strengthening and extending passenger rights to obtain compensation in case flights are delayed or passengers are stranded upon the bankruptcy of an airline, as well as passenger rights in connection with luggage. With respect to the additional passenger rights in case of delayed or rescheduled flights, the proposed revised rules provide, among others, that airlines may refuse to pay compensation only on the basis of an exhaustive list of defined extraordinary circumstances. Furthermore, passengers who have a return ticket may not be denied boarding at the return journey if they did not use their ticket for the outward journey.

Our capacity to expand TAP's operational capabilities and be able to accelerate our strategic growth plan will depend on the measures that will be adopted by the competent authorities (notably the airport operator ANA) to enhance the capacity and performance of the Lisbon airport infrastructure and also on the long-awaited construction of a second airport. The improvement of the existing airport infrastructures and the construction of a new hub is expected to mitigate TAP's exposure to the payment of compensations to passengers for delayed flights.

The Portuguese civil aviation authority and other authorities may also adopt regulations that influence our ability to generate revenue as it is responsible for approving the concession of landing rights slots, entry of new companies, launch of new routes, increases in route flights and lease or acquisition of new aircraft. Our ability to grow, increase our revenues and achieve our strategy is dependent on approvals for new routes, increased flights and additional aircraft by civil aviation authorities.

We also rely on our affiliate, SPdH (or Groundforce) to maintain and renew licenses and other authorities on which we depend for our business. Any failure by SPdH to maintain, renew or acquire licenses or other authorities could be materially affect our ability to conduct our business.

While we cannot fully anticipate any future legal or regulatory changes, nor the possible adverse impact of such changes, our ability to comply with such legal and regulatory frameworks is critical to maintaining our operating and financial performance. If we are unable to fully comply with future regulations, or if the cost of compliance with new regulations is significant and we are unable to pass such costs on to its passengers, there may be a material adverse effect on our financial and operating performance.

***Changes in the applicable safety and environmental laws and regulations would have an adverse effect on us.***

Our activities are subject to various safety and environmental protection laws and regulations applicable to air transport and ground support, aircraft, engine and component maintenance activities.

Environmental regulations on the commercial aviation industry have become increasingly stringent, particularly on carbon dioxide ("$CO_2$") emissions resulting from the use of jet fuel by aircraft, noise generated in the operation of aircraft, management of waste and liquid and gas emissions. Our maintenance and engineering activities require industrial and environmental licenses, whose requirements and renewals are highly demanding.

In 2008, the European Union published a Directive for the inclusion of aviation activities in the European Greenhouse Gas Emissions Trading System ("ETS"), which has since been implemented in the European Union. This law established that airlines operating routes to and from the European Union would be required to obtain $CO_2$ emissions licenses. In the meantime, the European Union has twice postponed the application of this mechanism to non-EU routes, keeping the scope restricted to emissions from flights between airports located in the European Economic Area (EEA). The most recent derogation from this ETS was passed in 2017, with the aim of allowing the entry into force of the global Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) mechanism as of 2021. As a result of the unpredictability of demand, the cost of allowances to emit under the ETS has been rising materially since 2017, with a unit cost of approximately €25 as of September 30, 2019 compared to approximately €25 as of December 31, 2018 and €8 as of December 31, 2017 (resulting in total costs of €29.7 million in 2018 and €5.6 million in 2017).

CORSIA was adopted by the International Civil Aviation Organization (ICAO) in 2016, providing a framework for a global market-based measure to stabilize CO2 emissions in international civil aviation. CORSIA will be implemented in phases, starting with the voluntary participation of ICAO Member States during a pilot phase (from 2021 to 2023), followed by a first phase (from 2024 to 2026) and a second phase (from 2027). Currently, CORSIA's main goal is to set standards for monitoring, reporting and checking emissions by air operators, as well as to define measures to offset $CO_2$ emissions after 2020. To the extent that most of the countries in which we operate remain ICAO Member States, we could be affected in the future by regulations adopted in accordance with the CORSIA framework. The ICAO recently issued a resolution that CORSIA is expected to be the exclusive market-based carbon offsetting measure applied to international flights, thereby creating confusion as to how the CORSIA and ETS requirements will overlap for regulated airlines such as ours.

The proliferation of national regulations and taxes on $CO_2$ emissions in countries where we have current or future operations, including the environmental regulations that the commercial aviation industry faces, may also affect our operating costs and margins. Any changes to regulations and legislation may increase our operating expenses, reduce our revenues, or increase the amount borne by our customers, notably through an increase in the tax burden that falls on traffic documents. In addition, $CO_2$ allowances to emit under the ETS have significantly increased in price which results in a risk of increased operating costs to our business. Any changes in any applicable environmental laws and regulations may have an adverse impact on our business, financial condition or operating results.

***Variations in interest rates may have adverse effects on us and we may not be able to secure financing on beneficial terms.***

A number of our financings are floating rate instruments subject to interest rate variations. In 2017 and 2018, there was a gradual rise in U.S. dollar reference interest rates. The future impacts of a rise in the general levels of interest rates, including those that reference both U.S. dollars and Euro, will be material to us, not only with respect to existing debt, but also any debt refinancing or future debt. We expect to continue to depend on floating rate interest financings. Certain of our finance leases and operating leases use a floating interest rate for payments, including for the use of the aircraft.

We do not currently hedge our interest rate risk. In addition, if interest rates increase at rate higher than anticipated, or if obtaining new sources of financing proves to be more expensive than in previous years, our business, financial condition and net income may be significantly and adversely affected. Accordingly, adverse variations in fixed and floating interest rates could have a negative impact on our results and financial condition.

***Fluctuations in foreign exchange rates and restrictions on currency exchange could negatively affect our financial performance.***

We are exposed to foreign exchange rate risk in various markets and areas of our operations, which may affect our financial performance, including our revenue, costs, assets and liabilities. In the markets where we operate, foreign exchange exposure is significant due to our operation of more than 90 routes in diversified geographic areas. A significant part of our sales are carried out in markets whose official currency is the Euro, or whose currency is in a fixed exchange regime with the Euro area and a significant portion of our maintenance and finance costs are paid for in U.S. dollars. In addition to the risks inherent to exchange rate fluctuations and the exchange policy decisions made by the monetary authorities of countries with control exchange regimes, certain sovereign risks exist, including economic and financial crises, such as in Venezuela. Financial and political instability are of particular concern to our business, especially in Brazil, North America, Angola and other Portuguese-speaking countries.

Brazil is the market that poses the highest exchange rate risk, as its share of our airline passenger sales accounted for 20% in 2016, 25% in 2017, 22% in 2018 and 21% as of September 30, 2019.

In the Brazilian market, customers pay for their airline tickets in instalments over several months with the payment amount fixed at a U.S. dollar price but payable in Brazilian reals. This results in foreign exchange exposure due to fluctuations in the Brazilian real against the U.S. dollar and Euro. The risk of non-payment is borne by credit card companies and other intermediaries, who we are exposed to if they are unable to pay us due to foreign exchange fluctuations or otherwise. We are at risk from the volatility that characterizes the Brazilian currency. This volatility has consequences for our ticket prices, which require rapid responses in network management and pricing in order for us to respond to compete and maintain satisfactory occupancy rates.

Our costs are primarily dependent on the Euro and the U.S. dollar and significantly dependent on the Brazilian real, with other currencies having a less significant role. U.S. dollars are the reference currency in the commercial aviation industry and used in many of our locations for payments of fuel, aircraft leasing, maintenance material and services, aviation insurance, shipping and airport charges. With respect to fuel, even in contracts invoiced and settled in Euros (as in the Portuguese market), the calculation of amounts to be charged is indexed and established by reference to the U.S. dollar/Euro exchange rate, with fuel expenditure (which is nearly entirely paid for in U.S. dollars) representing a material exposure to U.S. dollars.

As of September 30, 2019, 9% of our interest-bearing debt (principal, accruals and deferrals) was denominated in U.S. dollars (8% as of December 31, 2018 and 17% as of December 31, 2017). Our aircraft acquisition plans similarly expose us to U.S. dollar exchange rates: in the medium- and long-term, for the purchase of aircraft and in the short-term, for the effort of annual investment of large amounts as advances paid to the supplier, due to the manufacture of aircraft in progress. Note that under the adoption of IFRS 16, we record a financial liability corresponding to the contractual liabilities assumed with the use of aircraft, including operating leases. As of September 30, 2019, the value of these liabilities with contractual obligations (current and non-current) was €2.2 billion.

Exchange rate fluctuations may adversely affect our financial condition, our business and results of operations.

***Any deterioration of our ability to maintain sufficient liquidity could adversely affect our business.***

Our liquidity risk arises from several factors including existing financing and debt service, trading conditions for new operations, foreign exchange losses or gains and investment activities, as applicable. TAP has to provide an annual debt service that, although planned and distributed over time, has a weight in the treasury and must be regularly assessed against developments in the year. Any instability in the financial markets, such as those that occurred during the sovereign debt crisis, or any market shocks in terms of current expenditures or incomes, adversely affect, to a greater or lesser extent, the treasury, liquidity and economic-financial balance of our companies. Liquidity may also be affected by limitations on repatriation or the inability to expatriate capital from certain international markets where the Company operates.

The Parent, in turn, as a holding company, does not carry out any operational activity directly and the fulfillment of its obligations depends on the cash flows generated by its subsidiaries, in particular by us. The possible non-payment of its respective cash loans could have an adverse impact on TAP SGPS's equity and liquidity.

A liquidity problem may constrain our ability to fulfill our payment obligations, which may result in late payment charges or other costs. In the event that we default on a liquidity ratio, such default may accelerate debt payments to other creditors in our capital structure and, ultimately, may lead to defaults or cross-defaults. A liquidity problem may result in our inability to respond to rapid business changes, putting us at a disadvantage compared to its main competitors.

We have historically been responsible for most of the TAP Group's cash generation and we have loaned funds to other TAP Group subsidiaries through our Parent, mainly to TAP M&E Brasil. We are the largest customer of related parties such as Portugália or CateringPor, so a liquidity problem at TAP, could have an adverse impact on payments to the companies of the TAP Group.

Changes in our ability to maintain sufficient liquidity due to a variety of events could adversely affect our financial condition, business and results of operations.

***Our business may be adversely affected if we are unable to service our debt or meet our future financing requirements.***

Significant instability in access to credit, capital and financial markets may result in increased financing costs, adversely affecting our business. The financing of new and existing aircraft has increased in the past and may further increase, the total amount of our outstanding debt and the amount of our debt service obligations. Our ability to generate sufficient cash flow to service such debt in the long term will depend on our future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are beyond our control. Any future orders of additional aircraft could further increase our indebtedness and impact the terms on which we are able to secure financing.

Our ability to borrow, enter into sale and leaseback arrangements on commercially acceptable terms, refinance existing debt or raise additional debt, obtain payment and credit card services (including debt collection services) and enter into fuel, currency, interest rate and other hedging agreements with suitable counterparties depends on a number of factors, including prevailing interest rates, capital markets conditions and our credit profile. There can be no assurance that our access to the debt markets will not become more difficult, expensive or even impossible in the future (including due to new or additional collateral requirements). This could have a material adverse effect on our business, financial condition and/or results of operations.

We may also not be able to refinance these agreements, continue to obtain financing under attractive terms, or may not be able to obtain financing at all. To the extent that we are unable to negotiate or obtain such financing, we may be required to change new aircraft incorporation plans, or to incur higher than anticipated financing costs, which will adversely affect us and our growth strategy.

***Changes in the applicable tax laws and regulations or their interpretations could have an adverse effect on us.***

We may be adversely affected by changes in legislation and other applicable tax regulations in Portugal, the European Union and other countries where we operate, sell tickets or obtain financing. Significant changes in tax laws, or their application, in Portugal, the European Union or those other countries where we operate, sell tickets or obtain financing, or difficulties in implementing or complying with new tax laws and regulations could have a material adverse impact on our activity, financial condition and results.

***Our intellectual property rights, particularly our branding rights, are valuable and any inability to protect them may adversely affect our business and financial results.***

We consider our intellectual property rights, particularly our branding rights such as our trademarks applicable to our airline and the *Miles&Go* loyalty program, to be a significant and valuable aspect of our business. We protect our intellectual property rights through a combination of trademark, copyright and other forms of legal protection, contractual agreements and policing of third-party misuses of our intellectual property. Our failure to obtain or adequately protect our intellectual property or any change in law that lessens or removes the current legal protections of our intellectual property may diminish our competitiveness and adversely affect our business and financial results. Any litigation or disputes regarding intellectual property may be costly and time-consuming and may divert the attention of our management and key personnel from our business operations, either of which may adversely affect our business and financial results.

***We are subject to risks related to legal proceedings that could negatively affect our profitability and cash flow in the event of unfavorable rulings.***

In the normal course of business, we, the Parent and other TAP Group companies are, and may be in the future, parties to legal proceedings (including investigations, lawsuits, criminal, administrative or regulatory proceedings, arbitration and tax and customs proceedings) related to our businesses. These legal proceedings may relate to, among other things, passenger claims, environmental claims, labor or contractual disputes, personal injury or property damage and claims arising from or relating to products marketed by TAP. In the past, we have been threatened with aircraft seizures by courts, for claims made in legal proceedings, which could have disrupted our business and impacted our operations and financial performance. The TAP Group entities cannot guarantee that they will be successful in any of the legal proceedings to which they are party, that they have been provisioned for such liabilities or that they have taken out adequate insurance against any losses arising from such disputes.

Litigation and regulatory proceedings are subject to significant uncertainty and may be expensive, time-consuming and disruptive to our operations. In addition, an adverse resolution of a lawsuit, regulatory matter, investigation or other proceeding could have a material adverse effect on our financial condition and results of operations. We may be required to change or restrict our operations or be subject to injunctive relief, significant compensatory damages, punitive damages, penalties, fines or disgorgement of profits, none of which may be covered by insurance. We may have to pay out settlements that also may not be covered by insurance. There can be no assurance that any of these payments or actions will not be material. In addition, publicity of ongoing legal and regulatory matters may adversely affect our reputation.

***We are subject to risks related to any insufficiency in the level of coverage for our benefit plan liabilities.***

On September 30, 2019, TAP had liabilities from past services (including active employees, early retirement and retired) totaling €178.6 million, which included the following pension plans and health plan: (i) defined benefit pension plan (ii) pension plan for retired pilots (iii) health plan (for pre-retirees and retirees), and (iv) an employee pension plan of the United Kingdom representation. On September 30, 2019, to cover these liabilities, TAP incorporated pension funds, with a fair value of plan assets of negative €77.6 million as of September 30, 2019, managed by external entities, namely BPI, UNA Seguros (Plano Jubileu PNT), Futuro (Montepio Group) and Jardine Lloyd Thompson Benefit Solutions. The liabilities arising from the aforementioned plans are guaranteed directly by us and are estimated, on the date of closing of the annual accounts, by specialized entities.

The most critical risks related to retirement benefit plans are often associated with the return on plan assets (pension funds) and the discount rate used to assess the present value of liabilities to be paid to their beneficiaries in the future. As a result, liabilities related to retirement benefit plans may put adverse pressure on our cash flows. Should the level of coverage of benefit plan liabilities prove insufficient, we may need to make additional contributions in the future, which could adversely affect its business, financial condition and results.

***Increases in labor benefits, union disputes, strikes and other worker-related disturbances may adversely affect us, including our ability to carry out our normal business operations.***

Our business is labor intensive. Although collective bargaining agreements have been entered into in 2018 with labor unions representing the majority of TAP Group's workers (for a five year period), we are subject to the risk of conflicts and disputes with our workers or trade unions, labor instability, strikes and other worker-related problems. For example, our results for the year ended December 31, 2018 were greatly affected by labor instability that resulted in negotiations with worker unions where we agreed to (i) pay a non-recurring amount of €20.1 million (Other non-recurrent items) to our employees and (ii) commit to raise salaries over the next five years. Our expenses related to our workforce (salaries, wages and benefits – "Employee costs") represented 20.9%, 19.0%, 18.0% and 20.9% of our total operating costs for the nine months ended September 30, 2019 and for the years 2018, 2017 and 2016, respectively. For 2016, this figure was calculated using information that is not derived directly from our audited financial statements for the year ended December 31, 2016.

Work conditions and maximum work hours are regulated by government legislation and are not subject to labor negotiations. Future terms and conditions of collective agreements could become more costly for us as a result of an increase in threats of strikes and binding negotiations between the unions and us. Furthermore, certain employee groups such as pilots, mechanics and other airport personnel have highly specialized skills and cannot be easily replaced. Our labor costs could increase if the size of our business increases. Any labor proceeding or other workers' dispute involving unionized employees could adversely affect us or interfere with our ability to carry out our normal business operations.

Furthermore, strikes or other industrial action associated with our strategic alliances could negatively reflect on us to the extent that passengers booked on our code-share or partner's flights are affected by such strikes. For example, we rely on vehicle transport for our jet fuel and transport personnel have previously engaged in labor strikes that have affected our access to jet fuel. Moreover, we are subject to periodic and regular investigations by labor authorities with respect to our compliance with labor rules and regulations, including those relating to occupational health and safety. These investigations could result in fines and proceedings that may materially and adversely affect us.

***We may not be able to maintain our workplace culture or retain and/or hire skilled personnel as our business grows, such as pilots, which could have an adverse impact on us.***

We believe that our growth potential and the maintenance of our results and customer oriented company culture are directly linked to our capacity to attract and maintain the best professionals available in the commercial aviation industry. As we grow, we may be unable to identify, hire or retain enough people who meet the above criteria, or we may have trouble maintaining our company culture as we become a larger business. From time to time, the commercial aviation industry has experienced a shortage of skilled personnel, especially pilots. We compete against all other airlines for these highly-skilled personnel. We may have to increase wages and benefits to attract and retain qualified personnel or risk considerable employee turnover. Our culture is crucial to our business plan and failure to maintain that culture could have an adverse impact on us.

***A failure to implement the Group's internal control policies could adversely affect us.***

In the normal course of our activities and as a result of our organizational structure, we are subject to certain operational risks, including service interruptions or delays in providing services, internal fraud or fraud attributable to third parties, omissions, errors and delays in the implementation of risk management requirements. It is not always possible to guarantee that continuous monitoring and prevention of these risks will be sufficient, particularly in circumstances not under the our control, so failure to implement the Group's internal control policies could have an adverse effect on our activity, financial condition and operating results.

***Any violation or alleged violation of anti-corruption, anti-bribery and anti-money laundering laws could adversely affect us.***

There can be no assurance that our employees, agents and the companies to which we outsource certain of our business operations will not take actions in violation of anti-corruption, anti-bribery and anti-money laundering policies, for which we could be held responsible. If we are in breach of anti-corruption laws, anti-money laundering laws and other laws governing the conduct of business with government entities, including under the FCPA and other U.S. and local laws, we may be subject to criminal and civil penalties and other remedial measures. This could harm our brand and reputation and have a material adverse impact on our business, financial condition, results of operations and prospects. Any investigation of any actual or alleged violations of such laws could also adversely affect us, including our brand and reputation.

***Any breach by us or our commercial counterparties of data protection laws and regulations or increase in the costs of compliance with such laws and regulations may adversely affect us.***

Our business involves the processing and storage on a large scale of personal data relating to our customers, employees, business partners and others and is therefore subject to new and increasingly complex data protection laws and regulations our and our partners' use of personal data is regulated at both the European Union and national level. These legal and regulatory provisions may be construed and applied differently over time and between jurisdictions and may be construed and applied in a manner that adversely affect our business. We are subject to the EU General Data Protection Regulation (2016/679) ("GDPR") (which became fully applicable on 25 May 2018), which introduced a number of new significant obligations and requirements upon subject companies. The GDPR applies to companies established in the EEA, as well as to companies that are not established in the EEA and which collect and use personal data in relation to (i) offering goods or services to, or (ii) monitoring the behavior of, individuals located in the EEA. The GDPR puts in place stringent operational requirements for processors and controllers of personal data, including, for example, high standards for obtaining consent from individuals to process their personal data (or reliance on another appropriate legal basis), the provision of robust and detailed disclosures to individuals about how personal data is collected and processed (in a concise, intelligible and easily accessible form), a comprehensive individual data rights regime (including access, erasure, objection, restriction, rectification and portability), maintaining a record of data processing, data export restrictions governing transfers of data from the EEA, short timelines for data breach notifications to be given to data protection regulators or supervisory authorities (and in certain cases, affected individuals) of significant data breaches and limitations on retention of information.

A significant increase in the resources required to comply with these new regulations and any others that may be implemented in the future, could have an adverse effect on our activity. We are currently in the process of implementing personal data processing policies and procedures to comply with all GDPR rules and obligations. In the event that we breach any of the obligations described in the GDPR, we may be subject to fines of up to €20,000,000, or up to 4% of our annual worldwide turnover corresponding to the previous financial year, whichever amount is higher. Any changes to applicable legal provisions may impose more stringent compliance requirements and impose significant civil, criminal and administrative damages, penalties and fines, as well as reputational harm, which could have a negative effect on our activity, financial condition and operating results.

***The agreements governing our debt contain covenants and restrictions that limit our ability to engage in change of control transactions, terminate our relationship with certain suppliers and incur certain levels of indebtedness.***

Our financing agreements contain covenants and restrictions that restrict our and our subsidiaries' ability to engage in change of control transactions and terminate concession agreements associated with such financing leases, whether through failure to renew or otherwise. In addition, certain of our financing instruments require us and our subsidiaries to meet financial covenants that, among other restrictions, limit our permissible ratios related to equity, EBITDAR, net debt to EBITDAR and unsecured financial net debt. Our ability to comply with the covenants and restrictions contained in our financing agreements may be affected by economic, financial and industry conditions beyond our control. The breach of any of these covenants and restrictions could result in declaration of an event of default and acceleration of the maturity of indebtedness, which would require us to pay all amounts outstanding. As at December 31, 2018, the Company and TAP Group comply with all of our financial covenants. For more information on the covenants and restrictions under our financing agreements see "Description of Certain Indebtedness."

***In addition to other high fixed costs, we have significant financing costs for its outstanding indebtedness***

In addition to other high fixed costs (such as fuel costs and the costs for the use of the airport infrastructure), we have significant financing costs for our outstanding indebtedness under aircraft lease and financing contracts and interest payments under our outstanding bonds. If we are not able to generate sufficient revenues to meet our fixed costs obligations, this would have a material adverse effect on our financial conditions.

***Increases in insurance costs or a reduction in insurance coverage could have an adverse effect on our business.***

We insure our fleet in accordance with financing, contractual and legislative requirements. However, our ability to secure the desired policies or policies required under our various aircraft financings or leasing obligations is dependent on the availability of such insurance policies and insurance companies' willingness to pay. These policies must be renewed at regular intervals and may be subject to renewal on less favorable terms. In addition, these policies stipulate a number of exclusions and conditions under which the insurers may terminate policies or deny coverage.

The airline industry is exposed to the risk that, in the future, insurance coverage for aviation related risks will become too expensive or too difficult to obtain. For example, future terrorist attacks or acts of sabotage, especially if they were to be directed against air traffic, or the occurrence of other incidents such as a natural or man-made disaster, could result in insurance coverage for aviation risks becoming more expensive or certain risks becoming uninsurable or both.

There can be no assurance that the amount of insurance coverage, if any, available to us in the future, especially upon the occurrence of a man-made or natural disaster, including the loss of one or more of our aircraft for any reason, would be adequate to cover the resulting losses. Any shortfall may be material and could have an adverse effect on our ability to operate, financial condition and results of operation.

***Our shareholders may choose to reduce their ownership in our business or seek alternative investment opportunities.***

Our shareholders have been an important part of our privatization and the development of our business following our privatization in 2015 and have been involved in creating our strategy. Our shareholders may choose to decrease their ownership in our business or seek alternative investment opportunities, which could result in a change of our ownership structure or our strategy.

***The Parent's financial situation may affect us.***

The Parent's individual equity as of December 31, 2018 is negative at €629,497,293 (for a share capital of €15,000,000), reflecting losses of more than half the share capital. As a result, the Board of Directors was obliged to carry out the procedures provided for in articles 35 and 171 of the Portuguese Companies Code.

Pursuant to article 35 of the Portuguese Companies Code, "if as a result of the accrual or interim accounts, as prepared by the board of directors, half the share capital is lost, or in case, at any time, of reasonable grounds to accept that if such loss occurs, the members of the Board of Directors shall immediately call the general meeting, or the managers shall promptly request that the meeting be convened, in order to inform the shareholders of the situation and to take the measures deemed appropriate."

Additionally, according to article 171 of the Portuguese Companies Code, companies whose equity capital is less than half of share capital must indicate the share capital, the amount of paid-up capital and the amount of equity according to the latest approved balance sheet in all contracts, correspondence, publications, advertisements, websites and in general all external activity.

At the Annual General Meeting held on April 29, 2019, the Board of Directors of the Parent, considering the implementation of restructuring, transformation and upgrade measures for the TAP Group (which put the company in better financing conditions) and with the aim of facing long-term challenges, proposed not to implement any of the mentioned legal mechanisms (or others with the same purpose). This proposal was approved at the Parent's General Meeting.

As of September 30, 2019, we have granted short-term cash loans of approximately €800 million to the Parent.

As a result of these factors, the Parent has experienced net losses for the year from time to time in its end of year accounts. Failure to implement mechanisms to solve the Parent's financial situation may affect the fulfillment of its financial commitments, including the payment of treasury loans or future financial commitments contracted with us, which may cause material adverse effects on our business, financial condition and operating results.

***The adoption of IFRS 16 may affect the perception of our financial results.***

IFRS 16 defines the new accounting framework for the recognition of leases, both from the lessor's perspective and the lessee's perspective. In the case of the lessee, IFRS 16 requires companies to present leases in the balance sheet, by recording a right of use on the leased assets and a lease liability relating to the contractual obligations assumed when certain requirements are met.

For aircraft lease agreements in force as of December 31, 2018, which represent almost all agreements under the scope of IFRS 16, we have assumed contractual responsibilities for the payment of rents and maintenance costs to ensure the proper operation of the equipment during the period of use by us and compliance with the technical contractual conditions of return.

Our aircraft, engines and ACMI leases are expressed in U.S. dollars, which may result in increased volatility in financial results, due to the possible exchange variation of the U.S. dollar. On January 1, 2019, the value of the liabilities with contractual obligations (current and non-current), calculated in accordance with IFRS 16, was €1,167 million; however, any exchange rate variation in the Euro will affect the amount of this liability in our financial results.

The adoption of IFRS 16 may, therefore, create a risk in the perception of our financial statements relative to previous years, especially in the years of receipt of the largest number of aircraft and may have an adverse effect on our business and financial condition.

Certain calculations on financial metrics in our financial covenants were also affected by the implementation of IFRS 16. Although at present we are not in default under any such covenants, we have not amended any such contracts for IFRS 16 and we cannot assure you that we may not be required to replace, refinance or amend any of those agreements to comply with covenant calculations in the future.

## THE COMPANY

Transportes Aéreos Portugueses, S.A. ("TAP") is incorporated in Portugal as a limited liability company, with an initial registration date of March 18, 2014, with its head office in Edifício 25 do Aeroporto de Lisboa, Parish of Olivais, 1700-008 Lisboa, with a share capital (as of September 30, 2019) of EUR 41,500,000 and tax and corporate number 500 278 725. TAP is not a public or state-owned company for the purposes of Decree-Law 133/2013, of October 3 (the legal framework of the state-owned companies sector).

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion of our financial condition and results of operations in conjunction with the financial statements and the Notes thereto included elsewhere in this presentation, as well as the data set forth in "Summary Financial and Other Operating Information" and "Selected Financial Information." The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this presentation, particularly in "Risk Factors."*

### Principal Factors Affecting Our Financial Condition and Results of Operations

Our results of operations and financial condition have been influenced during the nine months ended September 30, 2019 and the financial years ended December 31, 2018, 2017 and 2016 by various factors, including those summarized below, and we expect that these factors may continue to have an impact on our results of operations and financial condition in the future. For further information on some of the risks that may affect our results of operations and financial condition, see "Risk Factors."

#### *Expansion and Renewal of Our Fleet*

Immediately after the privatization of the TAP Group in November 2015, we began an ambitious strategic plan for the renewal and transformation of our global fleet. In the nine-month period ended September 30, 2019, the investment related to the fleet renewal and expansion plan included €1,275.1 million of contractual obligations under operating leases (Acquisitions of "Right-of-use assets") and €46.9 million related for engines ("Other assets in progress - acquisitions" - equipment to the future neo fleet), spare parts and retrofits. The fleet renewal and expansion strategy has been one of the key pillars in the pursuit of our growth and margin expansion objectives. As of September 30, 2019, our Total Fleet was composed of 108 aircraft (including 21 aircraft operated under wet lease agreements with White Airways and Portugália). During the first nine months of 2019, 21 new last generation Airbus aircraft of the neo family (11 A330-900neo, 3 A321-LR, 2 A321neo and 5 A320neo) entered into operation and we transitioned out nine older aircraft, a net increase of 12 aircraft during the nine months ended September 30, 2019 compared to the end of 2018. Our fleet renewal and transformation program is expected to result in a more fuel efficient fleet with better on board offerings, which we expect to decrease our fuel costs while increasing our revenues from our on-board offerings and increasing our opportunities for additional ancillary revenue.

Our cycle of substantial investments and deep renewal will last for several years, though at a slower pace than in 2019. Simultaneously with the arrival of new aircraft, we prepared an interim renewal program for the existing fleet, which includes upgrading the cabin interior of the aircraft (retrofitting) in order to provide passengers with greater comfort.

Our growth plans contemplate an expansion of our Operating Fleet from 102 aircraft at the end of 2019 (including eight ATR72 operated by White Airways and 13 Embraer E190/E195 operated by Portugália from our TAP Express Fleet that are under wet lease agreements) to 115 aircraft by the end of 2024. As of September 30, 2019, we had orders consisting of 48 next-generation Airbus A320neo family aircraft to be delivered by 2025. We expect to meet our contractual commitments by using cash generated from our operations together with loans and/or capital markets financings. Considering existing commitments, we expect capital expenditures associated with our fleet transformation and renewal program of approximately €3.5 billion, of which €1.5 billion has been deployed as of September 30, 2019.

#### *Impact of Commercial Aviation Competition*

The commercial aviation industry is highly competitive. The principal competitive factors in the commercial aviation industry are fare pricing, flight schedules, flight times, aircraft type, passenger amenities, number of routes served from a city, customer service, safety record and reputation, brand recognition, code-sharing relationships, loyalty programs and redemption opportunities. Price competition occurs on a market-by-market, route-by-route and flight schedules basis through price discounts, changes in pricing structures, fare matching, target promotions and loyalty program initiatives.

Competition in commercial aviation has intensified in recent years due to several factors, including the increase of low cost players in the industry and industry consolidation. In Europe, the level of competition has been particularly high in most markets, with low-cost operators having successively achieved a leading market share.

Price competition in the commercial aviation industry depends on the route and type of customer (leisure or corporate) and competition on route networks. Competition for customers is based on factors such as reliability, regularity, punctuality, diversity of schedules, frequency of flights, comfort of equipment and quality of the flight experience. Many of these aspects are inevitably linked to the aircraft characteristics: comfort, modern and technologically advanced equipment, economically efficient, low consumption, low noise, low emissions and flexible in terms of flight autonomy. Thus, a modern fleet is a fundamental asset to compete in this market. With regard to our route network, we are the leading commercial airline in our Lisbon hub with a 55% market share by capacity (measured in ASK) in 2018 (Source: SRS Analyser). Our leading position in the Lisbon hub is strengthened by slot and capacity constraints in the Lisbon airport that limit competitors from increasing their presence in the hub.

***Cost Savings Measures***

We have implemented a number of cost savings measures to further drive CASK reduction. We have developed a culture of cost savings by incentivizing employees to submit cost cutting ideas, which has included developing a fuel savings committee, a procurement committee with centralized procurement, alteration of our approval process for purchases above €50,000 and establishment of monthly budget controls. We renegotiated contracts from our vendors, which we estimate to amount to €50 million in savings, significantly improved our crew productivity and shifted certain training costs to new pilots. In terms of commercial changes, we significantly increased direct sales to our consumers, where every one percentage point of share in such market represents approximately €1.2 million in recurring annual savings, restricted airport lounges to relevant airports and stopped paying airport parking for loyalty members. We also have obtained other airport incentives, such as discounts on landing slots and access to new landing slots, among others, which enable us to fly to new destinations. Furthermore, we have implemented catering initiatives, including frozen meals for Europe and North America, and fostered usage of vouchers for flight irregularities. We were also able to sign long-term agreements with our labor unions, which we expect to maintain labor peace. We have in place other initiatives for additional costs savings in the future.

***Economic Environment***

Our operations and the commercial aviation industry in general are sensitive to changes in economic conditions. Fluctuations in aviation fuel prices, customer discretionary spending, fare initiatives, labor actions, weather and other factors have resulted in significant fluctuations in revenues and results of operations in the past.

In the previous three years, the aviation industry has been characterized by a level of growth above the level of global GDP growth. According to IATA data, in 2018, like in previous years, the commercial aviation industry continued to grow, despite the slowdown in global economic growth compared to 2017. The below discussion provides context as to the economic environment in key geographies in which we operate for the periods under review, followed by an analysis of key performance indicators for the airline industry during such period. See "Risk Factors—Risks Related to Our Business and Our Operations—The commercial aviation industry is particularly sensitive to changes in economic and geo-political conditions."

*Portugal*

In 2018, Portugal's real GDP growth was 2.4%, compared to 3.5% in 2017 and 2.0% in 2016, according to Eurostat. This is in line with the European Union average GDP growth which in 2018 was 2.2%, according to the IMF. Portugal's growth has slowed down during 2019, and the real GDP growth for Portugal as of September 2019 was 1.9%, in line with the rest of the European Union. This real GDP growth was made possible mainly by an increase in domestic demand/private consumption, which partially resulted from two main factors: (i) growth in the services sector (mainly in transportation and tourism); and (ii) a reduction in the unemployment rate to around 6.3% (according to INE and as of August 2019), which is below the European Union average. Like the European Union, which is experiencing decelerating growth, it is expected that less favorable conditions will continue in Portugal throughout 2019. In Portugal, this trend towards deceleration is exacerbated by the fact that the Portuguese economy is predominantly based on the services sector, which is highly susceptible to rising interest rates.

Portugal's previous financial crises have resulted in lower prices and lower costs, particularly in terms of labor costs as a result of low or stagnant wages. The slow recovery in Portugal has largely kept our costs low relative to our peer commercial airlines in other European countries.

*European Union*

From 2016 to 2017, the European Union's real GDP growth increased from 2.0% to 2.6%. However, since 2017, growth decelerated with the European Union's real GDP growth estimated at 2.0% in 2018 and approximately 1.4% as of September 2019, according to Eurostat. This deceleration of the European economy is mainly due to three factors: (i) falling external demand, mainly of goods; (ii) rising oil prices during most of 2018 that offset the growth in purchasing power, with an estimated negative impact of 0.5% in 2018; and (iii) constraints on production capacity, which make the economic environment more adverse to growth.

*U.S.*

The U.S. economy continues to show strong growth, not only supported by a favorable economic cycle, but also fostered by the expansionary fiscal policies of the current U.S. administration. Real GDP growth remains positive (approximately 2.9% in 2018) with an increasing trend for the past several years (1.6% in 2016 and 2.4% in 2017), while inflation has remained within the U.S. Federal Reserve's target of 2%. However, signs of slowdown are beginning to emerge, with investment weakening, construction declining and a high-risk and unfavorable international environment for the U.S. from slower growth in Europe and China, partially as a result of U.S. tariffs on foreign trade. U.S. growth forecasts for 2019 fell from 2.5% to 2.3% and long-term growth from 1.9% to 1.8%. Private consumption has been steadily increasing due to a reduction in the U.S. unemployment rate, which is now below 4% and is expected to remain stable over the next few years, according to the U.S. Federal Reserve and to the Bureau of Labor Statistics.

*Brazil*

Brazil, our main market in the South and Central America region, had economic growth of 1.1% in 2018 (compared to 1.1% in 2017 and -3.3% in 2016). 2018 was characterized by significant political instability as a result of the recent presidential elections that in turn adversely affected the Brazilian reals, which devalued approximately 16% as compared to the average exchange rate during 2017. In 2018, Brazil was affected by several negative shocks to the economy such as the 'truck drivers' strike that resulted in an estimated loss of R$50 billion to the Brazilian economy. Passenger sales in Brazil decreased €15 million for the nine months ended September 30, 2019 compared to the same period in 2018, a drop partially related to the economic slowdown and political instability that has affected the traffic to and from the country since the second half of 2018, as well as the exchange rate devaluation. As of September 2019, real GDP growth for Brazil was 0.9%. Nonetheless, the Brazilian economy is expected to grow at around 0.9% in 2019 and at above 2.0% from 2020 onwards, according to IMF estimates.

One important risk that will determine Brazil's economic success is the sustainability of the national pension system. The current administration's economic policies and proposed pension system reforms, which are aimed at ensuring economic growth, debt sustainability and inflation control, could be beneficial to our business.

*Angola*

Angola is the most relevant African country to our business. In a year of change, and after the new government was sworn in September 2017, the Angolan economy, which has been in recession since 2016, was characterized by the end of the kwanza-dollar parity (January 2018), a measure that led to a depreciation of the local currency of around 36% on average from 2018 to 2017. Angolan real GDP growth was -0.3% as of September 2019.

Nonetheless, an economic recovery is expected for 2019 and for the upcoming years as real GDP growth is estimated at 1.2% for 2019 and at 3.2% in 2020, according to the African Development Bank. This growth is expected to be sustained by programs aimed at improving macroeconomic imbalances and the country's structural challenges. The country's annual inflation rate has decreased from over 40% in late 2016 to nearly 16% as of September 2019 and is estimated to decrease to 15% in 2020, according to the IMF. In December 2018, the IMF approved a new country assistance program in Angola in the amount of $3.7 billion with a three-year term.

***Impact of GDP Growth on the Commercial Aviation Industry***

According to the revised estimates from IATA, as of June 2019, the growth in available seat kilometers ("ASK") in Europe in 2019 is expected to be 5.6%, above the global level of growth at 4.7%. The estimated growth in passenger traffic for 2019 (measured by RPK) is 4.9% in Europe and 5.0% globally. Despite the significant growth in both indicators, there is an expectation of growth deceleration across all regions when compared to the previous year due to slowing GDP growth and weakening world trade.

| **Capacity (ASK) % Annual Variance** | **2017** | **2018** | **2019E** |
|---|---|---|---|
| **Global** | **6.7%** | **6.9%** | **4.7%** |
| North America | 3.8% | 4.9% | 4.1% |
| Europe | 6.7% | 6.6% | 5.6% |
| Asia Pacific | 9.1% | 8.8% | 5.7% |
| Middle East | 6.7% | 5.9% | 0.6% |
| Latin America | 5.5% | 7.3% | 5.1% |
| Africa | 3.5% | 4.4% | 3.7% |

Source: IATA

| **Passengers traffic (RPK) % Annual Variance** | **2017** | **2018** | **2019E** |
|---|---|---|---|
| **Global** | **8.1%** | **7.4%** | **5.0%** |
| North America | 3.9% | 5.3% | 4.3% |
| Europe | 9.1% | 7.5% | 4.9% |
| Asia Pacific | 10.9% | 9.5% | 6.3% |
| Middle East | 6.8% | 5.0% | 2.0% |
| Latin America | 7.4% | 7.0% | 6.2% |
| Africa | 7.0% | 6.1% | 4.3% |

Source: IATA

IATA revised downwards its estimates for global air transport revenues for 2019 from US$885 billion to US$865 billion. Despite the downward revision in its estimates, IATA still expects growth of 6.5% in RPK for 2019 when compared to 2018 and above the expected capacity increase (ASK) in the same period of 4.7%. We believe this increase should be sustained by the acceleration of growth in other revenues of 17.9%, since passenger revenues should grow below total revenues and cargo revenues should stagnate in 2019.

***Global revenue***

| **USD thousand million** | **2019E** | **2018** | **Variation** |
|---|---|---|---|
| **Total Revenues** | **865** | **812** | 6.5% |
| Passenger revenue | 589 | 561 | 5.0% |
| Cargo revenue | 111 | 111 | 0.0% |
| Other Revenues | 165 | 140 | 17.9% |

Source: IATA

***Effects of Aircraft Fuel Costs Volatility***

Aircraft fuel costs have been subject to wide fluctuations in recent years. Fuel availability and pricing are also subject to refining capacity, periods of market surplus and shortage and demand for heating oil, gasoline and other petroleum products, as well as meteorological, economic and political factors and events occurring throughout the world, which we can neither control nor accurately predict.

"Aircraft fuel less CO2 emission licenses" costs constitute a significant component of our operating costs, representing 24% of total operating costs in the year ended December 31, 2018 compared with 21% in 2017. "Aircraft fuel less CO2 emission licenses" costs increased from €575 million in 2017 to €769 million in 2018, or 33.8%, which was mainly a result of the increase in aircraft fuel prices in international markets. There was a sharp rise in the price of fuel in 2018: the Brent price per barrel rose by approximately 31.5% in 2018, with a yearly average price of $71.2 per barrel as compared to $54.1 per barrel in 2017. The average price of a ton of jet fuel was $687 in 2018 compared to $527 in 2017, an increase of 30.5%. In addition, the recent slowdown of GDP growth in China and the negative macro-economic outlook for Europe have generally impacted the demand for commodities, including fuel, with the consequent effect of reducing the average price of fuel worldwide. The average WTI price for the nine months ended September 30, 2019 was approximately -15% lower compared to the average price during the same period in 2018.

We attempt to mitigate fuel price volatility through commodity forward agreements with financial institutions or through locking-in the cost of the jet fuel we will consume with our jet fuel suppliers. See "—Principal Components of Our Results of Operations—Operating Expenses." In 2018, we entered into hedging transactions for jet fuel price fluctuations and on December 31, 2018, approximately 50% of the estimated 2019 jet fuel consumption was hedged. Likewise, the new aircraft that we have started operating as part of our fleet renewal strategy will result in significant fuel cost savings.

Our fuel hedging practices are dependent upon many factors, including our assessment of market conditions for fuel, the price of hedging and other derivative products in the market and applicable regulatory policies. We hedged nearly 50% of our forecasted fuel consumption for the next twelve months as of September 30, 2019. There are also regional differences based on logistical issues and different regional taxes. See "Risk Factors— Risks Related to Our Business and Our Operations—We are exposed to risks associated with fluctuations in jet fuel prices, the unavailability of fuel and supplier concentration for fuel. In addition, the existing tax exemption for jet fuel in the EU could be repealed or amended."

***Seasonality***

Our operating revenue and results of operations are substantially dependent on overall passenger traffic volume, which is subject to seasonal and other changes in traffic patterns. Therefore, our operating revenue and results of operations for any interim period are not necessarily indicative of those for the entire year. We generally expect demand to be greater in the third quarter of each calendar year compared to the second quarter of each year. This demand increase occurs due to an increase in leisure travel during the second half of the year, as well as the Christmas season, Easter and the Portuguese school and summer vacation period. Although business travel can be cyclical depending on the general state of the economy, it tends to be less seasonal than leisure travel, which peaks during vacation season and around certain holidays in Europe.

***Effects of Exchange Rates and Interest Rates***

Our results of operations are affected by currency fluctuations. Our exposure to exchange rate changes results from our presence in several geographic markets. Exchange rates and interest rates affect a number of areas of our business, including our costs, assets and liabilities. Despite the strong geographic diversification of our business, a significant part of our sales occur in markets whose official currency is the euro, or whose currency has a fixed exchange rate with the euro zone, as is the case of some African countries where we operate.

Generally, our costs are largely fixed in euro and U.S. dollars, with the remaining currencies, other than the Brazilian real, having a reduced impact. The U.S. dollar, however, is the aviation industry's reference currency for costs such as fuel, aircraft leasing, maintenance materials and services, aviation insurance, shipping fees and airport charges in many geographic areas. With respect to fuel, even in contracts subject to invoicing and settlement in euro, as is common in the Portuguese market, the calculation of the price is indexed and established by reference to the U.S. dollar against the euro. Therefore, fuel costs are almost entirely exposed to the stability of the U.S. dollar.

We have multiple other exposures to U.S. dollar exchange rate volatility. In the short-term, aircraft maintenance is source of U.S. dollar exposure that is not always passed on to the final customer. The various materials incorporated in our fleet are also normally purchased in U.S. dollars. In the medium- to long-term, for operating lease and wet lease agreements, the market operates predominantly in U.S. dollars from monthly rentals, maintenance reserves and security deposits. Our business has a medium- and long-term exposure to the U.S. dollar of a material amount from commitments with Airbus for delivery of 53 aircraft in the coming years. These commitments include high U.S. dollar payments in the form of pre-payments to Airbus for the ongoing manufacture of our aircraft.

We also have some assets denominated in foreign currency such as security deposits, maintenance reserves, cash and cash equivalents and derive revenues from our sales in USD partially providing us with a natural hedge against our U.S. dollar denominated liabilities. In terms of financings, some of our loans are denominated in U.S. dollars, therefore the respective interest and capital repayments result in an additional exposure to the U.S. dollar. At the end of 2018, 8% of our interest-bearing debt was denominated in U.S. dollars, compared to 17% at the end of 2017. We do not hedge against exchange rate exposure related to our aircraft lease and other rent payment obligations. However, we believe that our growing presence in the United States market will naturally hedge our business through greater income in U.S. dollars.

Given the proportion of our passenger sales generated by the Brazilian Market (representing 22% of passenger sales in 2018), we also have significant exposure to the Brazilian real, a currency that has experienced a high degree of volatility in recent years.

As of September 30, 2019 and December 31, 2018, we had €1,031.3 million and €775.9 million respectively, in current and non-current borrowings of which 58.5% and 88.8% was variable rate, mostly indexed to EURIBOR. We do not hedge against interest rate fluctuations.

**Factors Affecting Comparability**

***Adoption of IFRS 16 – Leases***

On 1st January 2019, we adopted IFRS 16 – Leases, choosing the modified retrospective method as of the transition date, which does not foresee the restatement of the financial statements from previous years.

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

The statement of financial position as of December 31, 2018 and January 1, 2019 is as follow:

| **EUR million** | **December 31, 2018** | **Impact of IFRS 16 adoption** | **January 1, 2019** |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | **687.0** | **1,222.2** | **1,909.3** |
| Tangible fixed assets(1) | 521.0 | 1,179.0 | 1,700.0 |
| Other receivables | 61.1 | 43.2 | 104.4 |
| Other items of non-current assets(2) | 104.9 | - | 104.9 |
| **Current Assets** | **1,515.9** | **-** | **1,515.9** |
| **Total Assets** | **2,203.0** | **1,222.2** | **3,425.2** |
| **EQUITY AND LIABILITIES** | | | |

| | | | |
|---|---|---|---|
| **Equity and Reserves** | | | |
| Retained earnings | (12.0) | 90.9 | 79.0 |
| Other items of Equity and Reserves(3) | 116.8 | - | 116.8 |
| **Total equity** | **104.8** | **90.9** | **195.7** |
| **Non-current liabilities** | **762.2** | **877.5** | **1,639.7** |
| Deferred tax liabilities | 18.8 | 38.1 | 56.8 |
| Provisions | 12.2 | 26.1 | 38.3 |
| Liabilities with contractual obligations | - | 863.1 | 863.1 |
| Other payables | 49.7 | (49.7) | - |
| Other items of non-current liabilities(4) | 681.5 | - | 681.5 |
| **Current liabilities** | **1,336.0** | **253.8** | **1,589.7** |
| Liabilities with contractual obligations | - | 303.6 | 303.6 |
| Other payables | 667.5 | (49.8) | 617.7 |
| Other items of current liabilities(5) | 668.5 | - | 668.5 |
| **Total liabilities** | **2,098.2** | **1,131.3** | **3,229.5** |
| **Total equity and liabilities** | **2,203.0** | **1,222.2** | **3,425.2** |

(1) Tangible fixed assets include basic equipment, buildings and constructions, advances to suppliers of tangible assets, and right of use assets (regarding operational leases).
(2) Other items of non-current assets include "Investment properties," "Intangible assets," "Investment in associates," "Other financial assets" and "Deferred tax assets."
(3) Other items of Equity and Reserves include Share capital, Supplementary capital contributions, Legal, Hedge and Other reserves and the Net income/(loss) for the period.
(4) Other items of non-current liabilities include Non-current borrowings and the Post-employment benefits obligations.
(5) Other items of current liabilities include Current borrowings, Income tax payable, Other current liabilities and Liabilities from unused flight documents.

For periods after the transition date, the main impacts of IFRS 16 adoption on our income statement are: (1) the decrease in costs with aircraft rents, other traffic operating costs and other operating expenses by the derecognition of costs associated with operating lease agreements or other similar contractual obligations; (2) increase in depreciation and amortization costs by the effect of amortization of the rights of use and of the capitalization of large maintenances expenses; (3) decrease in the costs of aircraft maintenance and employee costs by the capitalization of the costs with large maintenances of equipment under operating lease and (4) increase in interest expenses by the effect of calculating the present value of liabilities with contractual obligations and possible foreign exchange variation resulting from the effect of a change in the exchange rates used to recognize the liabilities with contractual obligations. For additional information relating to the impact of IFRS 16 on our income statement, see Note 1.3 to our audited financial statements and Note 1.3 to our unaudited interim financial statements.

***Restructuring and Labor Instability in 2018***

The year 2018 was particularly challenging due to the impact on our business and operations from external factors such as macroeconomic instability in Brazil, currency devaluation and the increase in jet fuel costs, the latter of which we did not have any hedging policy for, but have now implemented. The year 2018 was also characterized by extraordinary and non-recurrent events which costed €83.2 million (before fiscal effect) to the company. In the first half of 2018, pilots took part in a work-to-rule, which led to extraordinary cancellations of our flights with associated costs, including refunds to customers and charters hired amounting to €41 million. During this labor instability, management met with worker unions and an agreement was reached resulting in (i) a non-recurring payment of €20.1 million to employees (Other non-recurrent items), mostly related to previous years; and (ii) an increase in salaries over the next five years. Moreover, more than 300 additional pilots and 1,000 flight attendants were hired, allowing us to fill the shortages experienced in previous years. Regarding other non-recurring costs in 2018, we also paid for the pre-retirement and contract termination of employees in the amount of €24.7 million in restructuring costs.

As a result of these non-recurring and extraordinary events, our profitability in 2018 was greatly affected. However, due especially to their non-recurring nature, in 2019 we have benefited from measures implemented to remedy the above mentioned labor-related issues. See "Risk Factors—Risks Related to Our Business and Our

Operations—Increases in labor benefits, union disputes, strikes and other worker-related disturbances may adversely affect us, including our ability to carry out our normal business operations."

***Restatement of the 2017 Year-End Financial Information***

In 2018, our Board of Directors revised the presentation of our income statement. This change, which mostly resulted in the breakdown of operating expenses and income and the introduction of non-recurrent items, required a restatement of the 2017 financial year, to ensure proper comparability with the 2018 financial year. As a result, certain of the financial information presented in this presentation as of and for the year ended December 31, 2017 has been derived from the audited financial statements as of and for the year ended December 31, 2018, which restated the 2017 financial information. The audited financial statements for the year ended December 31, 2016 have not been restated and therefore the comparability of the 2016 financial information to the 2018 financial information and restated 2017 financial information included in this presentation is limited, particularly in relation to non-recurrent items. This Management's Discussion and Analysis of Financial Condition and Results of Operations includes a limited discussion of the results of operations for the years ended December 31, 2016 (un-restated) and 2017 (restated) using only certain items that we believe are comparable.

***New IFRS Standards That May Affect Our Future Results of Operations***

There are certain IFRS standards and interpretations currently issued but not yet in effect that could materially impact the presentation of our financial position or performance once such standard and interpretations become effective. See Note 1.3 to our audited financial statements and Note 1.2 to our unaudited interim financial statements.

**Operational performance in 2019**

| | As of and for the year ended December 31, | | | As of and for the nine months ended September 30, | |
|---|---|---|---|---|---|
| | **2016** | **2017** | **2018** | **2018** | **2019** |
| Passengers ('000) | 11,724 | 14,274 | 15,763 | 12,092 | 12,960 |
| RPK (millions) | 28,783 | 34,711 | 38,048 | 29,145 | 31,754 |
| ASK (millions) | 36,625 | 41,864 | 47,000 | 35,361 | 39,221 |
| TAP Fleet (total)(1) | 80 | 88 | 96 | 92 | 108 |
| Block hours | 318,962 | 351,288 | 390,544 | 293,924 | 307,602 |
| Punctuality(2) | 75.9% | 67.3% | 58.4% | 56.4% | 63.4% |
| Regularity | 99.5% | 99.3% | 98.2% | 98.0% | 99.3% |
| Active Staff (December 31)(3) | 7,200 | 7,470 | 8,145 | 7,970 | 8,937 |

(1) Total fleet including aircraft in phase-in and phase-out. Includes aircraft operated under wet lease agreements with White Airways and Portugália.
(2) Measured by the percentage of the number of flights with departures up to 15 minutes after the time of departure published under schedule.
(3) Excludes staff not placed and not active.

In the year ended December 31, 2018, we carried 15,763 thousand passengers, with a year-on-year increase of 1,489 thousand passengers, or 10.4%, since 2017. In the year ended December 31, 2017, we carried 14,274 thousand passengers, with a year-on-year increase of 2,550 thousand passengers, or 21.7%, since 2016.

We had an increase in the number of passengers across the majority of regions operated by our network, with the following evolution by geography in 2017 and 2018:

- North America, with an increase in passengers carried of 54.5% in 2017, or 257 thousand passengers and of 9.6% in 2018, or 70 thousand passengers, to a total of 800 thousand passengers as of December 31, 2018, as a result of the opening of new routes and increased weekly flights.

- Africa, where TAP grew 29.1% in 2017 and 11.2% in 2018 (in both cases with regards to the previous year), to a total of 1,149 thousand passengers as of December 31, 2018, also resulting from the launch of new routes.

- European routes–excluding Portugal–in which TAP experienced the largest growth in absolute terms: 21.7% in 2017 (or 1.6 million passengers) and 10.7% in 2018 (or 0.9 million passengers) reaching 9.6 million passengers as of December 31, 2018.

- The flights between airports in Mainland Portugal (Lisbon, Porto and Faro), in which TAP grew 15.8% in 2017 and 9.4% in 2018, in comparison with their respective previous years, and in the routes of Azores and Madeira, which increased 18.9% in 2017 and 13.5% in 2018, reaching 1.3 million passengers.

- Brazil, with an increase in passengers carried of 14.1% in 2017 (or 197 thousand passengers) and of 7.8% in 2018 (or 124 thousand passengers), reaching a total of 1.7 million passengers as of December 31, 2018.

In the nine months ended September 30, 2019, we carried approximately 12,960 thousand passengers, which reflects an increase of 868 thousand passengers (or 7.2%) over the first nine months of the previous year. This increase is a result of the second and third-quarter growth, as there was a slight decrease in the number of passengers carried in the first quarter of 2019 (or -0.3% year-on-year).

We had an increase in the number of passengers across majority of regions operated by our network, with the following evolution by geography:

- North America, with an increase of 24.8% in passengers carried, to a total of 765 thousand, as a result of the opening of new routes and increased flights.

- Africa, where TAP grew 11.2%, to a total of 971 thousand passengers, also resulting from the launch of new routes.

- European routes – excluding Portugal – reaching 7,849 thousand passengers, an increase of 6.2%, compared to the first nine months of the previous year due to increasing demand related to the increasing connectivity with transatlantic flights.

- The flights between airports in Mainland Portugal (Lisbon, Porto and Faro) and in the routes of Azores and Madeira, which increased 4.4%, reaching 1,943 thousand passengers due to increase in demand on all of our Portuguese routes.

- Brazil, which experienced an increase of 2.1% in the number of passengers carried during the nine months ended September 30, 2019, reaching a total of 1,345 thousand carried, mainly due to the growth in the third quarter of the year (or 9.5%) which more than offset the decrease observed during the first half as a result of the continuation of economic and political instability that began in the second half of 2018, but showing signs of improvement during the third quarter of 2019.

The increase in the number of passengers reflects our consistent growth in strategic markets, of connecting flights, as well as the opening of new routes. These factors, together with the implementation of fleet improvements, have been key to attract new customers.

Capacity in the nine months ended September 30, 2019, measured in ASK, increased 10.9% year-on-year, as a result of the introduction of more flights and new routes, namely to Tel Aviv and Dublin in March, Chicago, Washington D.C., San Francisco, Naples and Tenerife in June and Brussels from Porto and Conacri in July). Demand in RPK increased 9.0%. Capacity in the year ended December 31, 2018, measured in ASK, increased 12.3% year-on-year, mostly as a result of the introduction of more flights. Demand in terms of passenger traffic, expressed in RPK, increased 9.6% for 2018. Capacity in the year ended December 31, 2017, measured in ASK, increased 14.3% year-on-year, as a result of the introduction of more flights and new routes to North America (Toronto), Africa and Europe. Demand in terms of passenger traffic, expressed in RPK, increased 20.6% for 2017, above capacity growth.

## Principal Components of Our Results of Operations

### *Operating Income*

Our operating income is primarily derived from transporting customers in our aircraft. For the nine months ended September 30, 2019, 88.5% of our operating income was derived from passenger income and 11.5% was derived from other income. In January 2018, with the adoption of the IFRS 15, the classification and timing of recognition of certain ancillary items, such as bags, upgrades, itinerary changes and other air travel-related fees changed, which are now recognized under passenger revenue while non-passenger related items, including cargo, travel packages and revenue from aircraft subleases continue to be recognized under other revenue. Our ancillary revenue was €196 million for the year ended on December 31, 2016, €230 million for the year ended on December 31, 2017 and €318 million for the year ended on December 31, 2018.

We have opted not to present comparative information showing retroactively the results from the adoption of IFRS 15. The pro-forma impact of IFRS 15 on our revenue results for the years ended December 31, 2018 and 2017 is presented in Note 1.3. New standards, changes and interpretations of existing standards" to our audited financial statements. For the year ended December 31, 2018, 87.6% of our operating income was derived from passenger income and 11.4% was derived from maintenance and cargo and mail income.

Passenger income is recognized either upon departure of the scheduled flight or when a purchased ticket expires unused, including revenue related to the redemption of *Miles&Go* points for TAP flights. Cargo revenue is recognized when transportation is provided.

Passenger income depends on our capacity, load factor and yield. Capacity is measured in terms of ASKs, which represents the number of seats we make available on our aircraft multiplied by the number of kilometers these seats are flown. Load factor, or the percentage of our capacity that is used by paying customers, is calculated by dividing RPKs, which represents the number of kilometers flown by revenue passengers, by ASKs. Yield is the average amount that one passenger pays to fly one kilometer.

The Portuguese civil aviation authority and other authorities may also adopt regulations that influence our ability to generate revenue as it is responsible for approving the concession of landing rights slots, entry of new companies, launch of new routes, increases in route flights and lease or acquisition of new aircraft. Our ability to grow, increase our revenues and achieve our strategy is dependent on approvals for new routes, increased flights and additional aircraft by civil aviation authorities. Additionally, the Lisbon airport is our main hub and is currently operating in a slot-constrained environment, which may impact our ability to increase the number of slots used.

### *Operating Costs*

We have one of the lowest CASKs among European legacy carriers, are committed to reducing our operating cost structure and seek to keep our expenses low by operating a young and efficient fleet, maintaining high employee productivity, investing significantly in technology and utilizing our fleet efficiently.

Traffic operating costs are our main operating expense. These costs include airport charges for each landing and aircraft parking, handling fees, connecting fees as well as aeronautical and navigation fees. Traffic operating costs also include irregular costs and charters. Most of these fees vary based on our level of operations (and cancelations) and the rates are set by companies that deliver these services and airports. Likewise, traffic operating expenses include traffic and customer related servicing, such as the cost of airport facilities, ground handling expenses, customer bus service and inflight services and supplies, as well as navigation fees and air traffic control charges and baggage, cargo and mail charges and insurances.

Traffic operating costs represented 24.6% of our total operating costs in the nine months ended in September 30, 2019, 29.3% in 2018, 30.7% in 2017 and 30.8% in 2016. For 2016, this figure was calculated using information that is not derived directly from our audited financial statements for the year ended December 31, 2016.

Traffic operating costs decreased in €106.7 million (-15.1%) in the nine months ended in September 30, 2019 compared to the same period of the previous year, essentially as a result of the recognition since January 1, 2019 of wet lease agreements as rights of use under IFRS 16, as well as the improvement in operational efficiency with less cancellations that reduced the need for wet leases.

Our second largest operating cost is aircraft fuel, which represented 24.3% of our total operating costs in the nine months ended in September 30, 2019, 24.9% in 2018, 21.2% in 2017 and 19.5% in 2016. For 2016, this figure was calculated using information that is not derived directly from our audited financial statements for the year ended December 31, 2016. Jet fuel prices have been, and are expected to remain, subject to significant volatility, primarily based on supply and demand, as well as by geopolitical issues. As a result, fuel availability is subject to periods of excesses and shortages. Our aviation fuel expenses are variable and fluctuate based on global oil prices.

Salaries, wages and benefits paid to our crewmembers, include, among others, health care, dental care, child care reimbursement, life insurance, funeral assistance, psychosocial assistance, school aid (granted to expatriate executive officers only), housing allowance (granted to expatriate executive officers only), bonuses, pension plans, transportation tickets, food allowances and meal vouchers. We believe that we have a cost advantage compared to industry peers in salaries, wages and benefits expenses due to high employee productivity measured by the average number of employees per aircraft.

Our aircraft and other rent expenses consist of monthly operating lease rents for aircraft, spare engines, flight simulators and other equipment under the terms of the related short-term leases recognized on a straight-line basis. We do not hedge against exchange rate exposure related to our aircraft lease and other rent payment obligations.

Our sales and marketing expenses include commissions paid to travel and cargo agents, fees paid to credit card companies and advertising associated with the sale of our tickets and other products and services.

Our maintenance, materials and repair expenses consist of line and scheduled heavy maintenance of our aircraft and engines. See "Risk Factors—Risks Related to Our Business and Our Operations". We could be adversely affected by expenses or stoppages associated with planned or unplanned maintenance on our aircraft, as well as any inability to obtain spare parts on time."

Prior to the implementation of IFRS 16, heavy maintenance on aircraft under operating leases was expensed as incurred. Following the implementation of IFRS 16, we treat heavy maintenance on aircraft under operating leases in the same way we treat heavy maintenance of owned aircraft, we employ the deferral method which results in the capitalization of engine shop visits for heavy maintenance. Under this method, the cost of major maintenance is capitalized and amortized as a component of depreciation and amortization expense until the next major maintenance event. The next major maintenance event is estimated based on the average removal times suggested by the manufacturer, and may change based on changes in aircraft utilization and changes in suggested manufacturer maintenance intervals. In addition, these assumptions can be affected by unplanned incidents that could damage a major component to a level that would require a major maintenance event prior to a scheduled maintenance event.

Depreciation and amortization expenses include the depreciation of all fixed assets we own or which are under finance (or operating leases from 2019 onwards), including amortization of capitalized maintenance expenses.

Other operating expenses, net consist of general and administrative expenses, purchased services, equipment rentals, communication costs, professional fees, travel and training expenses for crews and ground personnel, provisions for legal proceedings, interrupted flights and all other overhead expenses.

***Financial Income***

Our financial income includes interest earned on our cash and cash equivalents and short-term investments. Our financial expenses include interest expense on our owned aircraft debt, operating leases, loans and financings and working capital facilities. The balances of derivative financial instruments include gains or losses on our derivatives not designated for hedge accounting. Additionally, this item also includes net exchange rate differences.

### *Taxes*

We account for income taxes using the liability method. We record deferred tax assets only when, based on the weight of the evidence, it is more likely than not that the deferred tax assets will be realized. We recognize and settle income tax based on the earnings of its operations, calculated in accordance with the local corporate legislation, considering the rules of the tax legislation, which are different from the values calculated in accordance with the IFRS. Pursuant to IAS 12, we recognize deferred tax assets and liabilities based on the existing difference between the book value and tax base of its assets and liabilities. The Company periodically analyzes the recoverability of the deferred tax assets based on historical information on taxable profit, the projection of future taxable profit and the estimated time of reversal of temporary differences. In assessing whether the deferred tax assets are realizable, our management considers whether it is more likely than not that some or all of the deferred tax assets will be utilized. We consider all available evidence, both positive and negative, in determining future taxable income on a jurisdiction by jurisdiction basis.

We had net operating loss carryforwards of €200 million as of September 30, 2019 represented by income tax losses and negative basis of social contribution. Under the terms of current tax legislation in Portugal, our tax losses generated in 2014 and 2015 can be carried forward for a period of 12 years after their occurrence and the tax losses of 2018 can be reported for a period of five years after their occurrence. Although these losses have not been applied to any of the financial periods under review, they may be used to deduct against tax profits generated up to 70% of taxable income in the future. See "—Principal Components of Our Results of Operations—Taxes" and "—Critical Accounting Policies and Estimates—Deferred Taxes."

## Critical Accounting Policies and Estimates

The preparation of our financial statements in accordance with IFRS requires our management to adopt accounting policies and make estimates and judgments to develop amounts reported in our financial statements and related notes. Critical accounting policies are those that reflect significant judgments or estimates about matters that could potentially result in materially different outcomes under different assumptions and conditions. We believe that our estimates and judgments are reasonable. However, actual results and the timing of recognition of such amounts could differ from our estimates. For a discussion of these and other accounting policies, see Note 1 to our audited financial statements.

***Impairment of Goodwill***. Goodwill represents the excess of the cost of an acquisition over the fair value of our share of the identifiable assets, liabilities and contingent liabilities of the acquired/associate at the date of the acquisition. Goodwill on acquisitions of subsidiaries and associates is not amortized and is tested, at least annually, for impairment. Impairment losses on goodwill cannot be reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to that entity. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to the operating segment. The recoverable amounts of the cash generating units are ascertained based on the calculation of their value-in-use and such calculations require the use of estimates. The estimated value-in-use involves a high degree of judgement by the Board of Directors, regarding the determination of estimated cash flows, applicable discount rates and residual values.

***Deferred Tax***. We recognize and settle income tax based on the earnings of our operations, calculated in accordance with the local corporate legislation, considering the rules of the tax legislation, which are different from the values calculated in accordance with IFRS. Pursuant to IAS 12, we recognize deferred tax assets and liabilities based on the difference between the book value of the assets and liabilities and their respective tax base. Deferred tax assets are recognized whenever there is a reasonable likelihood that future taxable profits will be generated or there are deferred tax liabilities against which they can be offset. Deferred tax assets are revised periodically and decreased whenever it is likely they will not be used. We periodically analyze the recoverability of deferred tax assets based on historical information on taxable profit, the projection of future taxable profit and the estimated time of reversal of temporary differences.

***Post-employment benefits***. We calculate liabilities relating to defined-benefit plans based on actuarial assumptions. Changes to those assumptions can have a material impact on the aforesaid liabilities which are based on complementary retirement pension plans, early retirement plans, healthcare and seniority bonuses for current and former employees. The key demographic and financial assumptions for pension obligations are detailed in Note 1.21 to our annual financial statements. We review the main demographic and financial assumptions when we consider their impact on the financial statements to be relevant.

***Recognition of provisions and impairments***. We are involved in several lawsuits, for which, based on the opinion of our lawyers, we have to make a judgment in order to decide whether we should record provisions for such contingencies. We calculate the impairment of accounts receivable based on the estimated credit risk for each customer profile and their financial condition. We estimate impairment losses in inventories based on criteria that considers the nature, purpose, age and the moving average stock levels.

***Customer loyalty programs.*** We recognize a contractual obligation under our *Miles&Go* customer loyalty program. Through our program, we grant air miles to customers who join the loyalty program and the unit value of those miles we estimate based on 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.

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

***Useful life and residual value of tangible fixed assets***. The determination of the useful life of tangible fixed assets and their residual value, as well as the method of depreciation/amortization, is essential to estimate the amount of depreciation/amortization to be recorded in the income statement for each financial year. These parameters are defined in accordance with the best judgement of the Board of Directors for the referred assets in question, also considering the practices adopted by peers.

***Structural maintenance of aircraft in operation lease***. We incur liabilities for maintenance costs in respect of aircraft we operate under operating leases. These liabilities arise from contractual obligations relating to the condition of the aircraft once it is returned to the lessor. To fulfill these obligations, we normally carry out structural maintenance interventions during the lease period. We recognize this liability based on the actual use of the aircraft, namely hours or cycles flown. In the measurement of this liability, several assumptions are considered, the most relevant of which are: (i) the use and condition of the aircraft; (ii) the expected costs of the structural maintenance interventions at the moment they are expected to occur; (iii) the discount rate used; and (iv) the length of the lease.

We review the main assumptions we make periodically, taking into account the information available and there sometimes may be circumstances that significantly alter our estimates and assumptions, such as the renegotiation of the conditions of redelivery of the aircraft, a significant change in the use of the aircraft and its navigability conditions, renegotiation of lease contracts, as well as changes in the cost of such structural maintenance. The estimates of the future cost of the structural maintenance of the aircraft requires judgement by the Board of Directors and therefore changes in our assumptions in calculating the estimates may have a significant impact on the financial statements.

## Results of Operations

### Nine months ended September 30, 2019 compared to the nine months ended September 30, 2018

| | For the nine months ended September 30, | | |
|---|---|---|---|
| | 2019[1] | 2018 | Percent Change |
| | (unaudited, in millions of euros, with the exception of percentages and per-share amounts) | | |
| **Operating income** | | | |
| Passenger | 2,203.7 | 2,155.7 | 2.2% |
| Maintenance | 160.9 | 181.8 | (11.5)% |
| Cargo and mail | 100.3 | 99.5 | 0.8% |
| Other operating income | 25.2 | 26.7 | (5.5)% |
| | **2,490.0** | **2,463.6** | 1.1% |
| **Operating costs** | | | |
| Aircraft fuel | (594.4) | (590.0) | 0.7% |
| Traffic operating costs | (602.0) | (708.6) | (15.1)% |
| Employee costs | (511.7) | (451.0) | 13.5% |
| Aircraft rents | - | (109.7) | (100.0)% |
| Aircraft maintenance costs | (42.4) | (95.7) | (55.6)% |
| Cost of materials consumed | (116.0) | (133.9) | (13.4)% |
| Commercial, communication and marketing costs | (125.9) | (138.8) | (9.3)% |
| Impairment losses in inventories, receivables and provisions | (2.0) | (0.1) | 3,650.9% |
| Other operating expense | (106.9) | (102.9) | 3.9% |
| Restructuring | (4.3) | (5.8) | (24.9)% |
| Other non-recurrent items | (1.5) | (16.8) | (91.2)% |
| Depreciation, amortization and impairment losses | (339.3) | (47.5) | 614.7% |
| **Operating income/(loss)** | **43.6** | **63.0** | (30.8)% |
| Interests and similar income | 25.4 | 28.0 | (9.5)% |
| Interests and similar expenses | (126.3) | (27.7) | 356.5% |
| Net currency exchange | (94.6) | (54.3) | (74.1)% |
| **Net income/(loss) before income tax** | **(152.0)** | **9.0** | (1,794.1)% |
| Income tax for the period | 41.2 | 1.3 | 3,008.5% |
| **Net Income (loss) for the period** | **(110.8)** | **10.3** | (1,176.6)% |

(1) On January 1, 2019, TAP adopted IFRS 16, adopting the modified retrospective method, which does not require the restatement of financial statements from previous years. Therefore, the values in relation to previous periods presented have not been restated in accordance with IFRS 16.

## Operating Income (Loss)

We reported an operating income of €2,490.0 million for the nine months ended September 30, 2019, a €26.4 million increase compared to operating income of €2,463.6 million for the same period in 2018. Our operating margin in the nine months ended September 30, 2019 decreased to 1.8% compared to 2.6% for the same period in 2018. This decrease was mostly driven by a weak performance of Brazil's passenger revenues as a result of the continuation of the political and economic instability that began in the second half of 2018, with positive signs observed in the third quarter of 2019. Passenger income (“Air Transport”) growth from other markets where we operate, namely the North American ("North Atlantic") market (which increased passenger revenues by €63.8 million compared to the first nine months of the previous year), more than offset the decrease in the Brazilian ("South Atlantic") market. Additionally, we also experienced an employee costs increase of €60.8 million (a 13.5% increase) during the same period, as a result of new hiring related to our growth, increased flights and the opening of new routes and the wage increases negotiated with unions in 2018.

After a challenging first quarter in 2019, we observed a sequential improvement in activity in the second, and, most notably, the third quarter of 2019, when compared to the same periods of the previous year. In the nine months ended September 30, 2019, we incurred extraordinary expenses of €56.6 million related to the expansion and renewal of our fleet. Excluding these extraordinary expenses, our operating income in the nine months ended September 30, 2019 would have been €100.2 million and our operating margin would have been 4%, which represents an increase of 59% and 1.4 percentage point, respectively, compared to the operating income and operating margin for the nine months ended September 30, 2018.

***Passenger***

Passenger income increased by 2.2%, or €48.0 million, from €2,155.7 million in the nine months ended September 30, 2018 to €2,203.7 million in the nine months ended September 30, 2019, mainly due to the increase in passenger income ("Air Transport") from North American ("North Atlantic") routes which increased by €63.8 million, reaching €296.2 million, an increase of 11.3% as compared to the previous year, as a result of the focus on the U.S. market with the opening of new routes in June (Chicago, Washington D.C. and San Francisco) and the increase in passenger income ("Air Transport") from routes in Portugal (Mainland and the Islands of Azores and Madeira) which increased by €17.8 million to €176.2 million, offsetting the decrease in passenger income from Brazilian routes ("South Atlantic") which decreased €54.8 million to €563.3 million.

***Maintenance***

Maintenance income decreased by 11.5%, or €20.9 million, from €181.8 million in the nine months ended September 30, 2018 to €160.9 million in the nine months ended September 30, 2019, reflecting the higher usage of hangar slots in the maintenance of TAP's equipment with the process of phase-in of new equipment and phase-out of older equipment in TAP's fleet, leading to a decrease in the availability of hangar slots for third parties. Additionally, in what concerns the engines activity and even though the number of shop visits did not experience a significant change, the average value of visits decreased, mostly due to the lack of need to replace engine parts with high profit margins.

***Cargo and mail***

Cargo and mail income increased by 0.8%, or €0.8 million, from €99.5 million in the nine months ended September 30, 2018 to €100.3 million in the nine months ended September 30, 2019, mainly due to the performance of the North-American ("North Atlantic") market, which increased €3.3 million to €17.4 million, offsetting decreases in other regions.

***Other operating income***

Other operating income decreased by 5.5%, or €1.5 million, from €26.7 million in the nine months ended September 30, 2018 to €25.2 million in the nine months ended September 30, 2019.

**Operating Costs**

Operating costs increased 1.9%, or €45.8 million, from €2,400.6 million in the nine months ended September 30, 2018 to €2,446.4 million in the nine months ended September 30, 2019 mainly impacted by the increase in Employee costs of €60.8 million and the increase in Depreciation, amortization and impairment losses by €291.9 million, reflecting the impact of IFRS 16 adoption.

***Aircraft fuel***

Aircraft fuel increased by 0.7%, or €4.4 million, from €590.0 million in the nine months ended September 30, 2018 to €594.4 million in the nine months ended September 30, 2019, below the growth in block hours (+4.7%) and representing a decrease in unit fuel costs per ASK of 9.2%, reflecting the lower jet fuel price and the higher fuel efficiency of new aircraft.

***Traffic Operating Costs***

Traffic operating costs decreased by 15.1%, or €106.7 million, from €708.6 million in the nine months ended September 30, 2018 to €602.0 million in the nine months ended September 30, 2019, mainly due to the impact of IFRS 16 related to the derecognition of costs associated with operating lease agreements or other similar contractual obligations.

***Employee costs***

Employee costs increased by 13.5%, or €60.8 million, from €451.0 million in the nine months ended September 30, 2018 to €511.7 million in the nine months ended September 30, 2019, mainly due to new hiring related to operational activity growth, increased flights and the opening of new routes and the wage increases negotiated with unions in 2018.

***Aircraft rents***

Aircraft rents decreased by 100%, from €109.6 million in the nine months ended September 30, 2018, mainly due to the impact of IFRS 16 related to the derecognition of costs associated with operational lease agreements contractual obligations.

***Aircraft maintenance costs***

Aircraft maintenance costs decreased by 55.6%, or €53.2 million, from €95.7 million in the nine months ended September 30, 2018 to €42.4 million in the nine months ended September 30, 2019, mainly due to the impact of the adoption of IFRS 16, which resulted in the decrease in the cost of aircraft maintenance from the change of designation of structural maintenance from an operating lease to a capital expenditure.

***Cost of materials consumed***

Cost of materials consumed decreased by 13.4%, or €17.9 million, from €133.9 million in the nine months ended September 30, 2018 to €116.0 million in the nine months ended September 30, 2019, mainly due to lower material consumption related to the lower activity of our maintenance & engineering business unit.

***Commercial, communication and marketing costs***

Commercial, communication and marketing costs decreased by 9.3%, or €12.9 million, from €138.8 million in the nine months ended September 30, 2018 to €125.9 million in the nine months ended September 30, 2019, mainly due to the decrease of €7.0 million in booking fees and of 8.2 million in sales charges.

***Impairment losses in inventories, receivables and provisions***

Impairment losses in inventories, receivables and provisions increased by €1.9 million, from €0.1 million in the nine months ended September 30, 2018 to €2.0 million in the nine months ended September 30, 2019, mainly due to higher Brazilian receivables impairment.

***Other operating expenses***

Other operating expenses increased by 3.9%, or €4.0 million, from €102.9 million in the nine months ended September 30, 2018 to €106.9 million in the nine months ended September 30, 2019, mainly due to higher Communication costs of € 5.6 million.

***Restructuring***

Restructuring decreased by 24.9%, or €1.4 million, from €5.8 million in the nine months ended September 30, 2018 to €4.3 million in the nine months ended September 30, 2019, mainly due to lower employee indemnities costs.

***Other non-recurrent items***

Other non-recurrent items decreased by 91.2%, or €15.3 million, from €16.8 million in the nine months ended September 30, 2018 to €1.5 million in the nine months ended September 30, 2019.

***Depreciation, amortization and impairment losses***

Depreciation, amortization and impairment losses increased by €291.9 million, from €47.5 million in the nine months ended September 30, 2018 to €339.3 million in the nine months ended September 30, 2019, mainly due to the impact of IFRS 16 adoption related to the increase in depreciation and amortization costs by the effect of amortization of the rights of use and of the capitalization of large maintenances expenses.

**Financial Result**

***Interests and similar income***

Interests and similar income decreased by 9.5%, or €2.7 million, from €28.0 million in the nine months ended September 30, 2018 to €25.4 million in the nine months ended September 30, 2019.

***Interests and similar expenses***

Interests and similar expenses increased by €98.7 million, from €27.7 million in the nine months ended September 30, 2018 to €126.3 million in the nine months ended September 30, 2019, mainly due to the impact of IFRS 16 adoption related to the increase in interest expenses by the effect of calculating the present value of liabilities with contractual obligations.

***Net currency exchange***

Net currency exchange decreased by 74.1%, or €40.3 million, from €54.3 million in the nine months ended September 30, 2018 to €94.6 million in the nine months ended September 30, 2019, mainly due to the impact of IFRS 16 in 2019, the effect of the change in the exchange rates used to recognize the liabilities with contractual obligations, and the 2018 unfavorable exchange rate differences that occurred in the first half of the year mainly due to the devaluation of the Brazilian real and the Angolan kwanza, as well as the appreciation of the U.S. dollar.

***Income tax for the period***

Income tax for the period increased by €39.8 million, from €1.3 million in the nine months ended September 30, 2018 to €41.1 million in the nine months ended September 30, 2019, mainly due to 2019 net loss before income taxes.

***Net Income / (loss) for the period***

We reported net loss of €110.8 million for the nine months ended September 30, 2019, compared to a net income of €10.3 million for the same period in 2018, resulting in a decrease of €121.1 million on net results, mostly explained by the above factors.

**Year Ended December 31, 2018 compared to the Year Ended December 31 2017**

| | For the year ended December 31, (Audited) | | |
|---|---|---|---|
| | 2018 (Audited) | 2017[(1)] (Restated) | Percent Change |
| | (in millions of euros, with the exception of percentages) | | |
| **Operating income** | | | |
| Passenger | 2,782.4 | 2,569.8 | 8.3% |
| Maintenance | 228.2 | 147.2 | 55.0% |
| Cargo and mail | 134.7 | 127.2 | 5.9% |
| Other operating income | 31.9 | 44.4 | (28.1)% |
| **Operating income** | **3,177.2** | **2,888.7** | **10.0%** |

| | For the year ended December 31, (Audited) | | |
|---|---|---|---|
| | 2018 (Audited) | 2017[(1)] (Restated) | Percent Change |
| | (in millions of euros, with the exception of percentages) | | |
| **Operating costs** | | | |
| Aircraft fuel | (798.6) | (580.2) | 37.6% |
| Traffic operating costs | (939.6) | (840.3) | 11.8% |
| Employee costs | (607.8) | (494.3) | 23.0% |
| Aircraft rents | (152.0) | (140.5) | 8.2% |
| Aircraft maintenance costs | (89.9) | (176.5) | (49.1)% |
| Cost of materials consumed | (166.0) | (102.3) | 62.4% |
| Commercial, communication and marketing costs | (186.5) | (185.3) | 0.7% |
| Impairment losses in inventories, receivables and provisions | (7.0) | 0.9 | (854.5)% |
| Other operating expense | (141.2) | (154.2) | (8.5)% |
| Restructuring | (24.7) | (9.9) | 150.1% |
| Other non-recurrent items | (20.1) | (5.0) | 303.3% |
| Depreciation, amortization and impairment losses | (70.7) | (52.6) | 34.4% |
| **Operating income/(loss)** | **(26.9)** | **148.6** | **(118.1)%** |
| Interests and similar income | 36.9 | 44.6 | (17.2)% |
| Interests and similar expenses | (43.2) | (34.4) | 25.8% |
| Net currency exchange | (49.1) | (27.8) | 76.8% |
| **Net income/(loss) before income tax** | **(82.3)** | **131.1** | **(162.8)%** |
| Income tax for the year | 24.2 | (30.7) | (178.9)% |
| **Net Income (loss) for the year** | **(58.1)** | **100.4** | **(157.8)%** |

(1) The financial information presented in this table for the year ended December 31, 2017 has been derived from the audited financial statements as of and for the year ended December 31, 2018, which restated the 2017 financial information. See "—Factors Affecting Comparability" and "Presentation of Financial and Certain Other Information—Restatement of the 2017 Year-End Financial Information" for additional information.

**Operating Income**

We reported an operating income of €3,177.2 million for the financial year ended December 31, 2018, a €288.5 million increase compared to operating income of €2,888.7 million for the same period in 2017. Our operating margin for the fiscal year ended December 30, 2018 decreased to (0.8)% compared to 5.1% for the same period in 2017. This decrease was mostly driven by an increase in total operating costs which were strongly impacted by significant increases in aircraft fuel costs of €218.4 million (or 37.6%), traffic operating costs of €939.3 million (or 11.8%) including the effects of increased activity and the irregularities that affected the activity of TAP in the first half of 2018, increase in employee costs of €113.5 million (or 23.0%), as well as nonrecurring events amounting to €44.8 million related to pre-retirement program and voluntary redundancy ("Restructuring": €24.7 million) and the effects of negotiations with employees and unions ("Other non-recurrent items": €20.1 million) mainly related to previous years and the extraordinary increase of operating irregularities due to cancellations of flights in the first half of 2018 (€41.0 million), all values before taxes.

We reported a net loss of €58.1 million for the fiscal year ended December 31, 2018, compared to a net income of €100.4 million for the same period in 2017, resulting in a decrease of €158.5 million on net results.

***Passenger***

Passenger income increased by 8.3%, or €212.6 million, from €2,569.8 million for the fiscal year ended December 31, 2017 to €2,782.4 million in the fiscal year ended December 31, 2018. The growth in passenger air transport reflects our consistent growth trajectory in strategic markets, connecting flights as well as the routes opening and cancellation, as an adjustment to the demand. These aspects, combined with the implementation of our fleet improvement, have been vital to attract new customers.

***Maintenance***

Maintenance income increased by 55.0%, or €80.9 million, from €147.2 million for the fiscal year ended December 31, 2017 to €228.2 million in the fiscal year ended December 31, 2018, mainly due to the increase in the engine maintenance revenues from international clients, some of them the largest European airlines.

***Cargo and mail***

Cargo and mail income increased by 5.9%, or €7.5 million, from €127.2 million for the fiscal year ended December 31, 2017 to €134.7 million for the fiscal year ended December 31, 2018, mainly due to increased revenues from Europe, Brazil and North America.

***Other operating income***

Other operating income decreased by 28.1%, or €12.5 million, from €44.4 million for the fiscal year ended December 31, 2017 to €31.9 million for the fiscal year ended December 31, 2018, mainly due to lower gains from tangible fixed assets.

**Operating Costs**

***Aircraft fuel***

Aircraft fuel increased by 37.6%, or €218.4 million, from €580.2 million for the fiscal year ended December 31, 2017 to €798.6 million in the fiscal year ended December 31, 2018, mainly due to the combined effect of the increase in the quantities consumed and the average price of jet fuel.

***Traffic operating costs***

Traffic operating costs increased by 11.8%, or €99.3 million, from €840.3 million for the fiscal year ended December 31, 2017 to €939.6 million for the fiscal year ended December 31, 2018, mainly due to the effects of increased ticket sales which resulted in higher operational costs and the irregularities that affected our business in the first half of 2018, which entailed irregular extraordinary costs of approximately €41 million. In addition, this segment has also suffered from an increase in airport fees, in particular the Lisbon hub, where we are the operator with a leading market share.

***Employee costs***

Employee costs increased by 23.0%, or €113.5 million, from €494.3 million for the fiscal year ended December 31, 2017 to €607.8 million for the fiscal year ended December 31, 2018, mainly due to the headcount variation and related training expenses, the average salary increase and the increase in variable remuneration, as a result of the strong growth of the operation and of the agreements established with the employees and their representatives in 2018.

*Aircraft rents*

Aircraft rents increased by 8.2%, or €11.5 million, from €140.5 million for the fiscal year ended December 31, 2017 to €152.0 million for the fiscal year ended December 31, 2018, mainly due to the increase in air transport activity, as well as the appreciation of the U.S. dollar.

*Aircraft maintenance costs*

Aircraft maintenance costs decreased by 49.1%, or €86.6 million, from €176.5 million for the fiscal year ended December 31, 2017 to €89.9 million for the fiscal year ended December 31, 2018, mainly due to the effect of fleet renewal and consequent reduction in the average age of aircraft fleet and from the reassessment of the main assumptions considered to estimate the structural maintenance costs of the aircraft in operating lease.

*Cost of materials consumed*

Cost of materials consumed increased by 62.4%, or €63.8 million, from €102.2 million for the fiscal year ended December 31, 2017 to €166.0 million for the fiscal year ended December 31, 2018, mainly due to the increase of maintenance and engineering services rendered to third parties.

*Commercial, communication and marketing costs*

Commercial, communication and marketing costs increased by 0.7%, or €1.2 million, from €185.3 million for the fiscal year ended December 31, 2017 to €186.5 million for the financial year ended December 31, 2018.

*Impairment losses in inventories, receivables and provisions*

Impairment losses in inventories, receivables and provisions increased by 854.5%, or €7.9 million, from a gain of €0.9 million for the fiscal year ended December 31, 2017 to a loss of €7.0 million for the fiscal year ended December 31, 2018, mainly due to increased provisions.

*Other operating expenses*

Other operating expenses decreased by 8.5%, or €13.1 million, from €154.2 million for the fiscal year ended December 31, 2017 to €141.2 million for the fiscal year ended December 31, 2018, mainly due to a decrease in several items such as specialized work and taxes.

*Restructuring*

Restructuring increased by 150.1%, or €14.8 million, from €9.9 million for the fiscal year ended December 31, 2017 to €24.7 million for the fiscal year ended December 31, 2018, mainly due to the early retirement program which was launched in July 2018 for cabin crew and ground employees and/or situations duly approved by the Executive Committee, as a result of our ongoing transformation process.

*Other non-recurrent items*

Other non-recurrent items increased by 303.3%, or €15.1 million, from €5.0 million for the fiscal year ended December 31, 2017 to €20.1 million for the fiscal year ended December 31, 2018, mainly due to the agreements with labor unions, as follows;

- Following the Regulation of Recourse to Outsourcing ("RRCE" – "Regulamento de Recurso à Contratação Externa") agreed on May 14, 2018 with the Civil Aviation Pilots Union ("SPAC" – "Sindicato dos Pilotos da Aviação Civil)", which replaced the Regulation of Internal Employees and Recourse to Outsourcing ("RERCE" – "Regulamento de Efetivos e de Recurso à Contratação Externa)" from July 30, 1998, that establishes new conditions for outsourcing, we agreed to the payment of extraordinary benefits for the years 2017 and 2018 in the total amount of €12,715,749.

- Likewise, in the memorandum of understanding to TAP pilots on the automatic annual salary increases which we agreed on May 17, 2016, it was defined that we would reinstate until 2019, without any retroactive effects, the seniorities for the years 2011 to 2016, included in the scope was the prohibition of salary increases imposed by the budgetary regimes in force at that date (this measure generated a total cost of €4,737,860 in 2018 and €4,993,512 in 2017).
- In addition, in the agreement signed on January 30, 2018 with the Civil Aviation Flight Personnel Union ("SNPVAC" – "Sindicato Nacional do Pessoal de Voo da Aviação Civil"), the payment of pregnancy supplement was agreed in situations previously not covered, referring to previous years, in the total amount of €2,686,765.

***Depreciation, amortization and impairment losses***

Depreciation, amortization and impairment losses increased by 34.4%, or €18.1 million, from €52.6 million for the fiscal year ended December 31, 2017 to €70.7 million for the fiscal year ended December 31, 2018, mainly due to spare parts and other equipment related with the aircraft phase-in and phase-out.

**Financial Results**

***Interests and similar income***

Interests and similar income decreased by 17.2%, or €7.7 million, from €44.6 million for the fiscal year ended December 31, 2017 to €36.9 million for the fiscal year ended December 31, 2018.

***Interests and similar expenses***

Interests and similar expenses increased by 25.8%, or €8.9 million, from €34.4 million for the fiscal year ended December 31, 2017 to €43.2 million for the fiscal year ended December 31, 2018, mainly due to the effect of the financial discount of maintenance reserves estimated to be recoverable in the future in the amount of €5 million, which was not recorded in 2017 because it was immaterial in the context of the net impact of the financial discount on the comparative financial statements.

***Net currency exchange***

Net currency exchange increased by 76.8%, or €21.3 million, from €27.8 million for the fiscal year ended December 31, 2017 to €49.1 million for the fiscal year ended December 31, 2018, mainly due to the devaluation of the Brazilian real and the Angolan kwanza, as well as the appreciation of the U.S. dollar, taking into account the amount of debt in this currency.

***Income tax for the year***

Income tax for the year corresponded to a gain of €24.2 million for the fiscal year ended December 31, 2018 compared to a loss of €30.7 million for the fiscal year ended December 31, 2017, mainly due to the negative net income before taxes in 2017.

**Year Ended December 31, 2017 compared to the Year Ended December 31, 2016**

| | **For the year ended December 31, (Audited)** | | |
|---|---|---|---|
| | **2017 Restated**[(1)] | **2016**[(2)] | **Percent Change** |
| | **(in millions of euros, with the exception of percentages)** | | |
| Operating income[(3)] ............................................... | 2,888.7 | 2,241.7 | 29% |
| Operating costs[(4)] .................................................. | (2,740.1) | (2,217.7) | 24% |

| | For the year ended December 31, (Audited) | | |
|---|---|---|---|
| | 2017 Restated[(1)] | 2016[(2)] | Percent Change |
| | (in millions of euros, with the exception of percentages) | | |
| **Operating income/(loss)** | 148.6 | 24.0 | 520% |
| Finance costs[(5)] | (34.4) | (33.7) | 2% |
| **Net income/(loss) before income tax** | 131.1 | 37.3 | 251% |
| Income tax for the year | (30.7) | (3.8) | 704% |
| **Net income/(loss) for the year** | 100.4 | 33.5 | 200% |

(1) The financial information presented in this table for the year ended December 31, 2017 has been derived from the audited financial statements as of and for the year ended December 31, 2018, which restated the 2017 financial information. See "—Factors Affecting Comparability" and "Presentation of Financial and Certain Other Information—Restatement of the 2017 Year-End Financial Information" for additional information.

(2) The financial information for the year ended December 31, 2016 is not directly comparable with the other financial periods presented in this presentation due to a change in the presentation of our accounts. As a result of differences in line items to the income statement, we have presented the 2016 income statement data separate from restated periods. See "Presentation of Financial and Certain Other Information—Restatement of the 2017 Year-End Financial Information" for additional information.

(3) This financial statement line item in the financial statements as of and for the period ended December 31, 2016 is denominated "Operational income."

(4) This financial statement line item in the financial statements as of and for the period ended December 31, 2016 is denominated "Operational costs."

(5) Finance costs, for periods prior to the adoption of IFRS 16 until December 31, 2018, represent our interest expenses and other costs and losses. After to the adoption of IFRS 16 (January 1, 2019), finance costs also includes operating leases expenses and interests from amortized cost application.

### Operating Income

We reported an operating income of €2,888.7 million for the fiscal year ended December 31, 2017, a €647.0 million increase compared to operating income of €2,241.7 million for the same period in 2016, following an increase in income resulting from an increase in tourism to Lisbon, Air Transport activity (an year-on-year increase of €587.1 million), as well as Maintenance and Engineering for Third Parties (a year-on-year increase of €65.7 million). Our operating margin in the fiscal year ended December 31, 2017 improved to 5.1% compared to 1.1% for the same period in 2016. This improvement was mostly driven by an increase in number of aircraft and greater maintenance services income.

### Operating Costs

Operating costs increased 23.6%, or €522.4 million, from €2,217.7 million in the fiscal year ended December 31, 2016 to €2,740.1 million in the fiscal year ended December 31, 2017 mainly due to increase in external supplies and services, related to a higher level of services and in particular higher aircraft fuel costs.

### Finance Income

Finance income decreased by €30.9 million, from €13.4 million in the fiscal year ended December 31, 2016 to negative €17.5 million in the fiscal year ended December 31, 2017, mainly due to the unfavorable currency exchange differences in 2017 resulting, essentially, from the significant devaluation of the Brazilian real and Angolan kwanza, partially offset by the effect of the devaluation of the U.S. dollar.

### Income tax for the year

Income tax for the year increased by €26.9 million, from €3.8 million in the fiscal year ended December 31, 2016 to €30.7 million in the fiscal year ended December 31, 2017, mainly due to higher net income before taxes and a higher effective tax rate.

**Net income/(loss) for the year**

We reported net income/(loss) for the year of €100.4 million for the fiscal year ended December 31, 2017, compared to a net income/(loss) for the year of €33.5 million for the same period in 2016, resulting in an improvement of €66.9 million on net results.

**Liquidity and Capital Resources**

**General**

Our short-term liquidity requirements relate to the payment of operating costs, including of jet fuel, salaries and operating leases, payment obligations under our loans and financings (including finance leases and aircraft debt-financing). Our medium and long-term liquidity requirements include equity payments for aircraft that we choose to finance through finance leases and debt-financing, the working capital required to start up new routes and new destinations and payment obligations under our borrowings and financings. On June 24, 2019, we issued €200,000,000 aggregate principal amount of the 2023 Notes. See "Description of Certain Indebtedness—TAP 2019-2023 Bonds."

For our short-term liquidity needs, we rely primarily on cash provided by operations and cash reserves. For our medium- and long-term liquidity needs, we rely primarily on cash provided by operations, cash reserves, credit card receivables financing, working capital loans and bank credit lines including, but not limited to, bank loans, debentures and promissory notes.

In order to manage our liquidity, we review our cash and cash equivalents, short-term investments and trade and other receivables on an ongoing basis. Trade and other receivables include credit card sales and accounts receivables from travel agencies and cargo transportation. Our accounts receivables are affected by the timing of our receipt of credit card revenues and travel agency invoicing. One general characteristic of the retail sector in Brazil and the aviation sector in particular is the payment for goods or services in installments via a credit card. Our customers may pay for their purchases in up to ten installments without interest or up to 12 installments with 3% interest per month. This is similar to the payment options offered by other airlines in Brazil. Once the transaction is approved by the credit card processor, we are no longer exposed to cardholder credit risk and the payment is guaranteed by the credit card issuing bank in case of default by the cardholder. Since the risk of non-payment is low, banks are willing to advance these receivables, which are paid the same day they are requested. As a result, we believe our ability to advance receivables at any time significantly increases our liquidity position. In addition, we may from time to time also enter into receivables financing transactions including credit card receivables transactions in order to manage our liquidity needs.

As of September 30, 2019 our cash and cash equivalents, which comprises term deposits, bank deposits available on demand, other bank deposits and cash, was €245.3 million, compared to €217.6 million as of September 30, 2018.

For the years ended December 31, 2015, 2016, 2017 and 2018 and for the nine months ended September 30, 2018 and 2019, we had net debt of €756 million, €760 million, €567 million, €552 million, €425 million and €786 million. The average maturity of our debt was 2.8 years as of December 31, 2015, 2.8 years as of December 31, 2016, 2.8 years as of December 31, 2017 and 2.5 years as of December 31, 2018. As of September 30, 2019, the average maturity of our debt was 3.8 years.

The table below presents our cash flow from operating, investing and financing activities, as well as the amount of our cash and cash equivalents for the periods indicated:

| | For the year ended December 31, (audited) | | | For the nine months ended September 30, (unaudited) | |
|---|---|---|---|---|---|
| | 2016 | 2017[1] (Restated) | 2018[2] | 2018 | 2019 |
| | | (in millions of euros) | | | |
| **Cash Flow** | | | | | |
| **Cash flow from operating activities**......... | 72.0 | 156.9 | 7.5 | 32.7 | 371.2 |
| **Cash flow from investment activities**......... | (37.2) | 82.7 | 7.4 | (36.4) | (101.6) |
| **Cash flow from financing activities**......... | (83.0) | (144.6) | 53.2 | 76.8 | (240.6) |
| **Net increase (decrease) in cash and cash equivalents**..... | (48.2) | 95.0 | 68.2 | 73.1 | 28.9 |

(1) See "—Factors Affecting Comparability."
(2) Not restated to give effect to IFRS 9 and IFRS 16. See "—Factors Affecting Comparability."

**Cash flow from Operating Activities**

Cash flow from operating activities in the nine months ended September 30, 2019, was €371.2 million compared to €32.7 million in the nine months ended September 30, 2018. The increase in operating cash flows was mainly a result of the increase in operations and a reduction in supplier payments.

Cash flow from operating activities in the year ended December 31, 2018 was €7.5 million compared to cash flow from operating activities of €156.9 million in the year ended December 31, 2017. The decrease in operating cash flows was mainly a result of higher payments to suppliers and to employees.

Cash flow from operating activities for the fiscal year ended December 31, 2017 was €156.9 million compared to €72.0 million for the same period in 2016. The increase in operating cash flows was related to the increase in commercial activity.

**Cash flow from Investment Activities**

Cash flow from investment activities was negative €101.6 million in the nine months ended September 30, 2019, compared to negative €36.4 million in the nine months ended September 30, 2018. This decrease is mostly related to increase in payments from tangible fixed assets.

Cash flow from investment activities was €7.4 million in the year ended December 31, 2018 compared to €82.7 million in the year ended December 31, 2017 a decrease of €75.3 million. This decrease in cash used in investing activities is mostly related to decrease in receipts from investing activities, mainly tangible assets.

Cash flow from investment activities totaled €82.7 million in the year ended December 31, 2017, an increase of €120.0 million compared to negative €37.2 million in the year ended December 31, 2016. The increase in investing activities was mainly due to the increase in tangible assets receivables from aircraft sale and leaseback operations.

**Cash flow from Financing Activities**

Cash flow from financing activities decreased €317.4 million, from €76.8 million in the nine months ended September 30, 2018 to negative €240.6 million in the nine months ended September 30, 2019. The decrease in net cash provided by financing activities was mainly due to operating leases payments.

Cash flow from financing activities increased by €197.9 million, from negative €144.6 million in the year ended December 31, 2017 to €53.2 million in the year ended December 31, 2018. The increase in net cash provided by financing activities was mainly due to an increase in receipts from financial activities, mainly borrowings, and decrease in financial leases payments.

In the year ended December 31, 2017, the amount of cash flow from financing activities decrease from negative € 83.0 million in the year ended December 31, 2016 to negative €144.6 million in 2017, reflecting lower borrowing receipts and higher financial leases payments.

**Loans and Financings**

***General***

The following table sets forth the balances of our aircraft and non-aircraft debt as of the periods indicated:

| | As of September 30, (Unaudited) | | As of December 31, | | |
|---|---|---|---|---|---|
| | **2019** | **2018** | **2018** | **2017** | **2016** |
| | (in millions of euros) | | | | |
| **Aircraft financing** | | | | | |
| In local currency (euros)..................................... | 90.7 | 72.3 | 69.5 | 22.3 | 105.5 |
| In foreign currency (US$) .................................. | 90.3 | 226.8 | 62.4 | 121.3 | 88.3 |
| **Non-aircraft financing**: | | | | | |
| In local currency (euros)..................................... | 534.8 | 642.8 | 644.0 | 580.6 | 622.3 |
| In foreign currency (US$) .................................. | - | - | - | - | - |
| Bonds (euros)…………………... | 315.5 | - | - | - | - |
| | 1,031.3 | 971.9 | 775.9 | 724.1 | 816.1 |

As of September 30, 2019, we had aircraft-related bank guarantees in an amount of €72 million and non-aircraft-related bank guarantees in an amount of €12 million.

As of September 30, 2019, our aircraft financing consisted of finance leases and loans used to finance 16 aircraft with an aggregate outstanding balance of €181.0 million, with the underlying aircraft serving as security. The remaining 66 aircraft were held by us under operating leases. Our non-aircraft secured loans, aircraft finance leases and aircraft debt financing contain customary covenants and restrictions, such as default in case of change of control and termination, or non-renewal of the agreement.

**Capital Expenditures**

Our capital expenditures (acquisitions of property, equipment and intangibles) for the nine months ended September 30, 2019 and 2018, capital expenditures totaled €181.3 million and €112 million, respectively, and for the years ended December 31, 2018, 2017 and 2016 totaled €180.1 million, €234.3 million and €171.5 million, respectively. Most of these expenditures are related to the acquisition of new aircraft, engines, engine overhaul and aircraft equipment such as spare parts. Other capital expenditures include IT systems and facilities. Capital expenditures figures does not include right-of-use related to operational leases contracts, mainly aircraft and engine leases, that were recognized since January 1, 2019 and increased by €1,275.1 million in the nine months ended September 30, 2019.

Our growth plans contemplate an expansion of our Operating Fleet from 102 aircraft at the end of 2019 (including eight ATR72 operated by White Airways and 13 Embraer E190/E195 operated by Portugália from our TAP Express Fleet that are under wet lease agreements) to 115 aircraft by the end of 2024. As of September 30, 2019, we had orders consisting of 48 next-generation Airbus A320neo family aircraft to be delivered by 2025. We expect to meet our contractual commitments by using cash generated from our operations together with loans and/or capital markets financings. Considering existing commitments, we expect capital expenditures associated with our fleet transformation and renewal program of approximately €3.5 billion, of which €1.5 billion has been deployed until September 30, 2019.

We typically hold the majority of our aircraft under operating leases but we have finance leases and we also own certain aircraft. Although we believe financing should be available for all of our future aircraft deliveries, we cannot assure you that we will be able to secure them on terms attractive to us, if at all. To the extent we cannot secure these and other financing, we may be required to modify our aircraft acquisition plans or incur higher than anticipated financing costs. We expect to meet our operating obligations as they become due through available cash, internally generated funds and credit lines. We believe that our cash provided by operations and our ability to obtain financing (including through finance leases and operating leases), as well as our ability to obtain operating leases and issue bonds in the Portuguese and international capital markets, will enable us to honor our current contractual and financial commitments.

In connection with purchase commitments, we expect to acquire 53 aircraft (39 A320 neo family and 14 A330 neo) between 2018 and 2025 from Airbus. This order is due to our assignment in the previously negotiated acquisition agreement signed between Airbus and DGN Corporation. Until September 30, 2019, 17 of the referred aircraft were assigned to lessors with subsequent leaseback contracts (8 A320 neo family and 9 A330 neo), from which two A321 neo, two A321 neo LR and eight A330 neo were received between 2018 and September 30, 2019.

A contract is also in force with CFM International Inc., S.A., for the purchase of 83 LEAP-A1 engines, including five reserve engines, which will equip and serve the new fleet of A320 neo family aircraft. These reactors will be acquired directly by Airbus, with the exception of the reserve engines.

Additionally we have signed contracts with Rolls-Royce, which include maintenance support for all TRENT 7000 engines, which equip the aircraft A330 neo, as well as the acquisition of three reserve engines.

For additional information relating to our commitments for future acquisition or leasing of aircraft, see Note 37 to our audited financial statements and Note 34 to our unaudited interim financial statements.

**Commitments and Contractual Obligations**

Our non-cancellable contractual obligations as of September 30, 2019 included the following:

| | Less than 1 year | 1 to 2 years | 2 to 3 years | More than 3 years | Total |
|---|---|---|---|---|---|
| | (unaudited, in millions of euros) | | | | |
| 2023 Notes(1) | - | - | - | 198.5 | 198.5 |
| Bank debt and unlisted notes | 176.3 | 155.1 | 131.4 | 189.0 | 651.8 |
| Financial leases | 29.4 | 23.1 | 21.7 | 106.8 | 181.0 |
| Liabilities with contractual obligations (current and non-current)(2) | 411.1 | 373.2 | 288.0 | 1,114.2 | 2,186.5 |
| **Total** | **616.8** | **551.4** | **441.1** | **1,608.5** | **3,517.8** |

(1) Represents the amounts to be paid under our 2023 Notes. The amounts shown are net of €1.5 million of unamortized issuance costs. See ''Description of Certain Indebtedness.''

(2) Corresponds to contractual obligations related to operating lease contracts and ACMI contracts.

## Off-Balance Sheet Arrangements

### *Purchase Commitments*

Airbus is contracted to supply 53 aircraft (39 A320 neo family and 14 A330 neo), which are expected to be received between 2018 and 2025. This order results from the novation to us of the previously negotiated acquisition agreement signed between Airbus and DGN Corporation. Until the present date, 17 of the referred aircraft were assigned to lessors with subsequent leaseback contracts (8 A320 neo family and 9 A330 neo), of which up to September 30, 2019 two A321 neo, two A321 neo LR and eight A330 neo were received.

A contract is also in force with CFM International Inc., S.A., for the purchase of 83 LEAP-A1 engines, including five reserve engines, which will equip and serve the new fleet of A320 neo family aircraft. Highlighting that these engines will be acquired directly by Airbus, with the exception of the reserve engines.

Contracts were also signed with Rolls-Royce, which include maintenance support for all TRENT 7000 engines, which equip the A330 neo aircraft, as well as the acquisition of three spare engines. With respect to the reserve engines, as of September 30, 2019, two engines have already been acquired and financed under finance lease and the third reserve engine has been contracted for financing, which is expected to be delivered by May 2020.

### *Other commitments*

Operating lease agreements are signed for aircraft whose phase-in is expected to occur between the second half of 2019 and 2020, whose minimum non-cancellable future payments amounts to approximately €1,214,471 thousand as at September 30, 2019. This amount includes six of the aircraft contracted with Airbus, as mentioned above.

## Quantitative and Qualitative Disclosures about Market Risk

## General

We conduct risk management at the strategic level and our risk management measures are subject to ongoing monitoring by the management board. The defined guidelines and decisions adopted regarding risk management are key elements for our positioning in the face of external threats of the markets and the economic and financial environment. Given the multiplicity of scenarios and possible developments, our risk management strategy incorporates elements of flexibility and discretion to allow timely adjustment to changes.

Our activities are exposed to a variety of financial risk factors, including the effects of market price changes, namely fuel price risk, price risk of acquiring CO2 licenses to ensure compliance with the CO2 emissions directive, currency risk, interest rate risk, as well as credit risk and liquidity risk.

Our risk management policies are driven and monitored by the Board of Directors and are executed by our management in each of the different areas of our group.

## Market risk

Competition in commercial aviation has intensified in recent years as a result of several dynamic changes such as, the increase of low cost players in the industry and competition from large groups that concentrate on activities that are continuously gaining scale. In Europe, the level of competition has been particularly high in most markets, including Portugal, with low-cost operators having achieved a larger market share. However, our growth in the last few years has allowed us to recover some of the market share in Portugal, particularly at our Lisbon and Porto hubs, following the loss of share in previous years. Additionally, in the long-haul segment, we face increasing competition because there are often various alternative routes to the same destination. For example, Madrid can easily compete with Lisbon in attracting traffic originated in Brazil and bound for other European cities. Similarly, in the North Atlantic, we try to divert traffic to ensure that different routes pass through our Lisbon hub from where we reach most of the relevant markets in Europe. We believe that, when compared to other European hubs, Lisbon has a unique location that serves as the gateway to the Atlantic, connecting America, Africa and Europe.

Offerings vary according to the route and type of customer (leisure or business). As such, competition and market risk can also depend on the business models and route networks that airlines provide that enable them to meet the different customers' demands. The differentiation in product offerings incorporates elements such as reliability, regularity, punctuality, diversity of schedules, frequency of flights and standard of the aircraft; in short, quality of the product and quality of the flight experience. Many of these aspects are inextricably linked to the characteristics of each aircraft, which have to be comfortable, modern, technologically advanced but also economically efficient, offering low fuel consumption, low noise, low emissions and flexibility in terms of flight autonomy. Thus, a modern fleet is a fundamental asset to compete in these markets.

With respect to air transport activity, several markets have significantly contributed to our sales growth, especially to Brazil, Portugal, North America and the Portuguese-speaking countries. The increase of available seats on some of the routes operated, the improvement in flight experience provided by the new aircraft, the significant increase in tourist demand for Portugal and intercontinental connections have contributed to our general sales growth.

In recent years, we have increased our turnover in our maintenance services to third parties, with a special focus on maintenance and repair of engines. This type of service is highly specialized and increasingly demanding due to the new technologies applied in the development and building of the aircraft and engines. Our maintenance services have allowed us to diversify our product offerings into a specialized, less volatile and profitable market.

Due to global political and economic tensions, the volume of cargo transportation activity has been slowing down since the second half of 2018, particularly in the Brazilian market. The impact of this downturn has resulted in significant drops in yields and revenues across all major trade lanes, being offset by our commitment towards greater market proximity and competitiveness, along with improving our services to the U.S. by entering new cargo gateways such as Chicago and San Francisco.

Immediately after our privatization in November 2015, we began an ambitious strategic plan for the renewal of our global fleet. A significant renewal of our fleet is under way, and our continuous investment in our aircraft will last for several years. In 2015, we placed an order with Airbus for 53 new aircraft, to be delivered at different intervals until 2025. Until September 30, 2019, 17 of the referred aircraft were assigned to lessors with subsequent leaseback contracts (8 A320 neo family and 9 A330 neo), of which two A321 neo, two A321 neo LR and eight A330 neo were received.

Simultaneously with the arrival of these new aircraft, TAP prepared an interim renewal program for its existing fleet, which includes upgrading the cabin of the aircraft (retrofit) to provide passengers with greater comfort and allow for greater flexibility in the commercial management of the space. Our cabin modification program for 48 aircraft began in 2016 and ended in 2018.

If the initiatives we have already implemented do not have the desired effect on the fleet improvement, service improvement or price attractiveness and, likewise, if we cannot successfully complete our fleet restructuring plan, our revenue and results of operations may be negatively impacted in the future.

**Fuel and $CO_2$ Emissions price risk**

We are subject to the impact of changes in international energy markets that determine our fuel costs. Fuel costs are our largest operating expense but it is a cost component with extreme volatility. In 2018, we witnessed a sharp increase in fuel prices: the Brent barrel rose approximately 31.5% in 2018 with an average of $71.2 compared to $54.1 in 2017. The ton average price of jet fuel stood at $687.5 in 2018 compared to $527 in 2017, an increase of 30.5%. During 2018, we carried out fuel hedging operations that helped us mitigate the impact of the increase of such fuel costs. As at December 31, 2018, a 10% change (positive or negative) in the price of jet fuel would result in an impact on the results for the year of approximately €77.0 million.

Additionally, we are also subject to $CO_2$ Emissions price risk, as in order to ensure compliance with the $CO_2$ emissions directive, we are obliged to buy on a yearly base a number of licenses depending on the amount of fuel consumption. The price of $CO_2$ licenses has been increasing over recent years.

**Currency risk**

We are exposed to fluctuating exchange rates as we are present in several geographic markets, and this impacts multiple relevant cost items and several of our assets and liabilities. In all the markets where we are present, our currency exchange exposure is significant because we operate more than 90 routes in three different continents, and we have significant cargo activity between the European and American continents.

The risks inherent to exchange rate fluctuations and exchange rate policy decisions of the monetary authorities of each of the countries with controlled exchange rates equate to important sovereign risks, such as the risk that materialized most recently in Venezuela, which resulted in the economic collapse of the country. Despite the strong geographical diversification of our commercial and operational activities, a significant part of our sales are in markets whose official currency is the euro, or whose currency has a fixed exchange rate with the euro zone. Thus, our concern focuses on the possibility of fluctuations in income obtained in other markets, of which Brazil, the U.S. and Angola are the most significant. The volatility that characterizes the Brazilian currency has consequences in terms of the fares we set and require greater flexibility and faster reactions from our management to adapt our pricing structures to better respond to the competition while simultaneously being able to maintain satisfactory local fares.

The American market accounted for nearly 10% of our passenger revenues by point of sale in 2018. Potential growth and expansion are important factors in counterbalancing our adverse net exposure to currency risk. We continue to focus on the growth and expansion of the North American market as a means to further diversity our revenue base. Another market that contributes to the U.S. dollar exposure, in terms of revenues, is the Angolan market, with a share of 2.5% in our passenger revenues by point of sale, given the indexation of ticket prices to the USD in that market.

In addition to our air transportation segment, our maintenance segment also generates income which is subject to foreign exchange impacts, particularly with respect to the U.S. dollar. In fact, since the U.S. dollar is the aviation industry's reference currency and covers such important inputs as fuel, aircraft leasing, maintenance materials and services, aviation insurance, shipping fees and airport charges in many of the geographic areas where we operate, fluctuations in its exchange rate are extremely important. Our fuel contracts, even those contracts that are subject to settlement in euro, are indexed to quotations of the U.S. dollar against the euro. In the case of operating leases and wet leases, the market operates predominantly in U.S. dollars from monthly rentals to maintenance reserve costs and security deposits. Aircraft maintenance is another source of U.S. dollar exposure that is not always passed on to the final customer in terms of billing in that currency. The various materials incorporated in our fleet are also normally purchased in U.S. dollars. Moreover, some financial leasing we have is denominated in U.S. dollars and we therefore have additional exposure to the U.S. dollar with respect to the interest payments and principal repayments of such agreements. At the end of 2018, 8% of our interest-bearing debt was denominated in U.S. dollars, compared to 17% at the end of 2017.

We are also exposed to the U.S. dollar in the long-term resulting from the liabilities we have assumed through the purchase of aircraft from Airbus. We signed an order to purchase 53 aircraft from Airbus to be delivered in the coming years which translates into medium and long-term exposure to the U.S. dollar.

Additionally, our existing operating lease liabilities are mainly indexed to the U.S. dollar.

**Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument fluctuates due to changes in market interest rates. At the end of 2015, coinciding with our privatization, there were multiple changes to our financial operations, including a restructuring of our short-term debt. On June 30, 2017, we entered into multiple debt agreements with eight different lenders, which had participated in the 2015 privatization of our Group, to allow us to extend repayment terms and reduce margins on such loans.

At the end of June 2018, we entered into a loan agreement with the Portuguese branch of a foreign institution in the amount of €70 million. During this same period, we refinanced the terms of six aircraft. At the beginning of 2019, we signed an agreement with a group of institutional investors for a fixed-rate loan in a principal amount of €137 million. In June 2019 we issued a fixed-rate bond in the amount of €200 million.

The number of fixed-rate loans in place has remained at stable levels accounting for approximately 22% in both 2018 and 2017. The majority of floating rate loans, corresponding to approximately 78% of our total debt, bear interest at EURIBOR plus the contractual spread which leads to having all variable rate euro-denominated loans be charged the contractual spread only.

Interest rate risk has not materialized in recent years, given the long period of interest rates close to zero that occurred in Europe. However, during 2018 as well as 2017, there was a gradual rise in interest rates in instruments that used U.S. dollars as their currency. The future impact of a rise in the general interest rates of either the U.S. dollar or the euro are relevant to us, not only in relation to our existing debt structure but also for debt that we may have to incur in the future. Interest rates are also a factor of cost increase in our operating leases related to our aircraft rentals.

**Liquidity risk**

Liquidity risk is the risk of not having sufficient net funds to meet our financial commitments as a result of a mismatch in terms or volume between expected income and expenses. In order to manage the liquidity of our cash in local and foreign currency, assumptions of future receipts and disbursements are set which our treasury group monitors regularly. Any turbulence in financial markets, such as those that occurred during the sovereign debt crisis, or any market changes in terms of our current costs or revenues, restricts our liquidity, economic and financial balance and prosperity.

**Credit risk**

Credit risk is inherent in our operating and financial activities and such risk is mainly represented in our trade receivables and cash and cash equivalents, including bank deposits. The credit risk associated with our trade receivables include values payable by the major credit card companies, which have a credit risk that is equal or better to our credit risk, those from travel agencies, sales in installments, government, and individuals and other entities. We assess the corresponding risk of financial instruments and diversify our exposure. We also mitigate such risk by holding financial instruments with counterparties that have strong credit ratings, or that are hired in futures and commodities stock exchange.

## REGULATION

### Overview

The aviation industry has historically been subject to significant governmental regulation both internationally and domestically.

We are a commercial airline authorized to operate aircraft for commercial service and we are licensed by the Portuguese Civil Aviation Authority (*Autoridade Nacional de Aviação Civil*, "ANAC"). We are, therefore, subject to regulation by ANAC and to national aviation regulation in Portugal.

As a European airline, we are subject to applicable European Union regulations implemented by the European Commission and the European Aviation Safety Agency ("EASA"), as well as oversight by the European Organization for the Safety of Air Navigation ("Eurocontrol"). European Union air transportation regulations include the European Union single aviation market and liberalization of air transportation (subject to conditions and limitations) on routes between the European Union and third countries, aviation safety, and air traffic control. Other important fields include slot allocation, ground handling services, computerized reservation systems (CRS), noise emissions, denied boarding, baggage controls, personnel licensing, accident investigation and occurrence reporting, airline passenger liability and aviation security. Portuguese legislation governing the commercial aviation industry is largely derived from the implementation of European Union law and, therefore, any potential regulatory changes that may impact the Portuguese aviation market would more likely arise from European legislation than from any legal and/or regulatory alteration implemented by the authorities in Portugal.

Portugal is a party to the following international aviation treaties which also govern our business: the Convention for the Unification of Certain Rules Relating to International Carriage by Air of 1929 (also known as the Warsaw Convention), the Convention on International Civil Aviation of 1944 (also known as the Chicago Convention), the Convention on the International Recognition of Rights in Aircraft of 1948 (also known as the Geneva Convention) and the Convention for the Unification of Certain Rules for International Carriage by Air of 1999 (also known as the Montreal Convention). Portugal is not a party to the Convention on International Interests in Mobile Equipment and its Aircraft Equipment Protocol (also known jointly as the Cape Town Convention) and therefore these regulations are not in force in Portugal.

### European Union Single Aviation Market

A single aviation market across Europe was implemented in 1992. The European aviation market, the European Common Aviation Area (the "ECAA"), is the world's most liberalized aviation market. The ECAA was created in 2006 as an extension of the previous Single Aviation Market through the execution on June 9, 2006 of the European Common Aviation Area Multilateral Agreement between certain countries from South-Eastern Europe (Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, Serbia and Kosovo) and the European Union, Norway and Iceland.

The European Union sought to achieve the goal of implementing a single aviation market through the adoption of three liberalization packages, which have harmonized national laws for airfares, market (route) access and capacity, and introduced the application of the European Union competition rules. The first package, adopted in 1987, initiated the relaxation of existing national rules. For instance, it limited the rights of governments to object to the setting of new fares and provided for limited liberalization of capacity sharing. The second package, adopted in 1990, introduced further flexibility for the setting of airfares and capacity sharing. The third liberalization package established a single European Union air transportation market as of January 1, 1993. The third legislation package, initially consisting of Regulation (EEC) Nos. 2407/92, 2408/92 and 2409/92, was subsequently consolidated into Regulation (EC) No 1008/2008 of the European Parliament and of the Council of September 24, 2008 ("Regulation (EC) No 1008/2008").

Regulation (EC) No. 1008/2008 covers the following areas:

- licensing of carriers: issuance, suspension and revocation of European Union-wide air carrier operating licenses. For an air carrier to obtain an operating license, it must comply with the requirements set down in the regulation, including ownership and control requirements, financial fitness and insurance;

- market access: establishment of the basic principle of free access for European Union air carriers to intra-European Union air routes, according to which all European Union air carriers are granted unconditional access to all member states' territories (including freedom to provide cabotage, ie, domestic air services within a member state); and

- pricing: liberalization of intra-European Union airfares, setting an imposition of an obligation on air carriers to publish airfares in a clear and unambiguous way.

On February 3, 2019, a regulation to amend article 13(3)(b) of Regulation (EC) No. 1008/2008 in order to bring the wet-lease regime of Regulation (EC) No. 1008/2008 in line with the 'open' wet-lease regime provided for in the European Union-US Air Transport Agreement came into force. The recitals to the amending regulation note that the Commission is in any event undertaking a review of Regulation (EC) No. 1008/2008, including its wet-leasing provisions, which may lead to a more general revision in future.

Separate regulations deal with other aspects of access to the European Union single aviation market, including Council Regulation (EEC) No. 95/93 of 18 January 1993 ("Regulation 95/93") on slot allocation at congested airports and Directive 96/67/EC on access to ground handling services.

**Regulatory Bodies**

***Portugal***

*Portuguese Civil Aviation Authority*

The regulatory authority in Portugal for the commercial aviation industry is ANAC. ANAC oversees all aspects of civil aviation in the Portuguese territory.

The aircraft, its engines and its equipment, the ownership interest in the aircraft, its engines, any lease agreement and any specific mortgage shall be registered with the National Aircraft Registry (*Registo Aeronáutico Nacional*, "**RAN**") which is managed and controlled by ANAC. Portugal is a single registry state, therefore no other filings/registrations are required under Portuguese Law other than those required to be made with RAN (the aircraft registry managed by ANAC).

*NAV Portugal, E.P.E.*

NAV Portugal provides air traffic services under Portuguese responsibility, ensuring that national and international regulations are fulfilled within the best safety conditions, optimizing capacities, emphasizing efficiency and upholding environmental concerns.

NAV Portugal carries out its work on mainland Portugal and in the autonomous regions of the Azores and Madeira.

*GPIAAF – Aircraft and Railways Accident Prevention and Investigation Office*

This organization's mission is to promote enquiries on accidents and incidents involving aircraft. These enquiries are primarily aimed at determining the technical causes of aviation accidents in order to study them and make the results known to relevant parties so as to prevent future occurrences.

***European Union***

*The European Aviation Safety Agency*

EASA is an agency of the European Union that has been given specific regulatory and executive tasks in the field of aviation safety. The purpose of EASA is to draw-up common standards to ensure the highest levels of safety, oversee their uniform application across Europe and promote them at the global level.

*The European Organization for the Safety of Air Navigation*

Eurocontrol is an autonomous international organization established under the 1960 Eurocontrol International Convention. Eurocontrol is responsible for, *inter alia*, the safety of air navigation and the collection of route charges for *en route* air navigation facilities and services throughout Europe. Several European regulations concerning Eurocontrol (single European sky, route charges systems, air traffic management network, noise related operating restrictions, etc.) are applicable to Portugal as a contracting state of the 1960 Eurocontrol International Convention (as amended from time to time). These regulations provide for the payment of charges to Eurocontrol as remuneration for the costs incurred by the contracting states in respect of *en route* air navigation facilities and services and the operation of the route charges system and for the costs incurred by Eurocontrol in operating the system.

The relevant Eurocontrol legislation imposes liability for the payment of any charges upon the operators of the aircraft in respect of which services are provided and, in case the operator's identity is not known, upon the owner(s) of such aircraft. As an aircraft operator, we are primarily responsible for the payment to Eurocontrol of route charges levied for each flight that we operate.

The applicable legislation also authorizes the detention and sale of aircraft in the case of default in the payment of any charge for air navigation services by the aircraft operator or the aircraft owner, as the case may be. This power of detention extends to any equipment, spare parts, fuel, stores or documents of the aircraft detained or sold.

*European Commission*

The European Commission is the European Union's regulatory body for aviation. Within the European Commission, the Directorate General for Mobility and Transport is responsible for developing and implementing European Union transportation policies

The European Commission is in the process of introducing an updated legislative package to its "single European sky" policy called "SES2+", which would lead to changes to air traffic management and control within the European Union. The "single European sky" policy currently consists of the Framework Regulation (Reg. (EC) No. 549/2004) plus three technical regulations on the provision of air navigation services, organization and use of the airspace and the inter-operability of the European air traffic management network. These regulations were amended by the so-called "Single European Sky II" regulation (European Union Regulation 1070/09), which focused on air traffic control ("ATC") performance and extended the authority of EASA to include Airports and Air Traffic Management. The objective of the policy is to enhance safety standards and the overall efficiency of air traffic in Europe, as well as to reduce the cost of air traffic control services.

The European Commission has published guidelines on the financing of airports and start-up aid to airlines by regional airports that place restrictions on the incentives public airports can offer to airlines delivering traffic, when compared with the commercial freedom available to private airports.

The European Union has also adopted legislation on airport charges (European Union Directive 2009/12), which was originally intended to address abusive pricing at monopoly airports but eventually includes all European airports with over five million passengers per year.

The European Union has also passed legislation calling for increased transparency in airline fares, which requires the inclusion of all mandatory taxes, fees, and charges in advertised prices.

***International***

*The International Civil Aviation Organization*

The International Civil Aviation Organization ("ICAO"), a specialized agency of the United Nations of which Portugal is a member, has developed standards and recommended practices covering a wide range of matters, including aircraft operations, personnel licensing, security, accident investigations, navigation services, airport design and operation and environmental protection.

*The International Air Transport Association*

The International Air Transport Association ("IATA"), the international trade organization of airlines with 290 members from 120 countries, including us, provides a forum for the coordination of fares on international routes and for international cooperation in areas such as technical safety, security, navigation services, flight operations and the development of communication standards and administrative procedures.

**Airport Infrastructure**

Portugal's airport operator is ANA – Aeroportos de Portugal ("ANA"). The privatization of ANA was concluded in December 2012 and the outcome of the privatization tender was a 50-year concession in favor of the French company Vinci Concessions SAS.

ANA manages and operates the Portuguese mainland airports (Lisbon, Porto, Faro and Civil Terminal of Beja) and Azores archipelago airports (Ponta Delgada, Horta, Santa Maria and Flores). ANAM, currently a subsidiary of ANA, has the same activity as regards the Madeira archipelago airports (Madeira and Porto Santo). Portway is the Group's handling subsidiary, handling services at four Portuguese airports (Lisbon, Porto, Faro, Madeira and Beja).

**Traffic Rights**

***Domestic Routes***

Pursuant to Regulation 95/93 airlines negotiate the use of airport and aeronautical infrastructure directly with airport operators and providers of air navigation services prior to registering routes with ANAC. All airlines operating to and from coordinated airports must always submit a request for the allocation of landing and/or take-off slots to ANA Slot Coordination Portugal and receive approval before operating.

***International Routes***

*Overview*

The Chicago Convention, which has been adopted by virtually every country worldwide, sets forth the general principle that each country has sovereignty over its airspace and therefore has the right to control the operation of air services over or into its territory. As a result, traffic rights between countries are governed by a large number of bilateral and multilateral air traffic agreements. These agreements usually designate the airlines, the airports, authorized routes, the capacity to be offered by airlines and procedures for the agreement of tariffs. We, as all other airlines, must obtain traffic rights to operate passenger and all cargo services. We have traffic rights in respect of all the routes we currently operate.

Portugal is currently a party to approximately 50 bilateral air traffic agreements. These agreements regulate the designation of airlines and points of call for the operation on specified routes, airline capacity, for passenger and cargo services, operational flexibilities and fare-approval procedures. In addition, the European Union and European

Union member states have concluded air transportation agreements, amongst others, with the United States, Canada, Switzerland, Iceland, Norway, Morocco, Georgia, Jordan, Moldova, the states of Western Balkans (Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Montenegro, Serbia and United Nations Interim Administration Mission in Kosovo (UNMIK)) and Israel. Further agreements (for example with Oman) are under negotiation or awaiting signature.

On the basis of these traffic rights agreements, contracting states grant to designated airlines the right to operate scheduled passenger and air-freight services on specified routes between those states. Most bilateral agreements, including the Air Transport Agreement of 2008 between the European Union, European Union member states and the United States, require that airlines must be able to demonstrate majority or substantial ownership and control by nationals of their home state or an European Union member state. If, at any time, the Company were to no longer be majority owned or controlled by Portuguese citizens or corporations, or, where the relevant agreement requires majority ownership and control by European Union nationals, European Union citizens and corporations, the contracting states to the relevant bilateral or multilateral agreements could deny the Company traffic rights under such agreements.

*Europe*

The single European aviation market allows all European Union-licensed air carriers to freely operate services between points within the European Union. As mentioned above, Regulation (EC) No 1008/2008 sets forth the basic principle of free access for European Union air carriers to intra-European Union air routes. In this regard, the operation of our flights to destinations within the EEA constitutes Intra-Community Air Services for the purposes of the Regulation (EC) No 1008/2008 and we are not required to obtain a traffic license for such routes.

In order to qualify for an European Union license, Article 4 of Regulation (EC) No. 1008/2008 requires airlines to have their principal place of business in an European Union member state, be principally engaged in air transportation activities, be, directly or indirectly, at least 50% owned and effectively controlled by an European Union member state and/or nationals of an European Union member state and to have persons of good repute as managers. Pursuant to Article 8, Paragraph 1 of Regulation (EC) No. 1008/2008 airlines must be able to demonstrate to the competent licensing authority that they meet the requirements for a license at all times. Our articles of association contain provisions aimed at ensuring compliance with these requirements at all times.

***Slot Allocation***

In order to take off from and land at airports, air carriers must request airport slots. A slot represents a general authorization to take off and land at a specific airport on a specific date and time. Slot allocation at primary airports, including Portuguese airports, is governed by Regulation 95/93, recently amended by Regulation (EC) No. 545/2009 of the European Parliament and of the Council of 18 June 2009.

Under Regulation 95/93, an airport coordinator distributes slots for each flight schedule period. If the number of applications exceeds the number of available slots, priority is given to the carriers that held the relevant slots in the previous flight schedule period and used such slots at least 80% of the time. If a carrier fails to meet the usage threshold, it may lose the relevant slot and the slot may be allocated to a slot pool for assignment to other carriers. However, if an air carrier has failed to use a slot for exceptional reasons (e.g. due to unforeseen and unavoidable circumstances outside the air carrier's control), the air carrier may be entitled to retain the slot.

In 2004 certain amendments were made to Regulation 95/93 to improve slot utilization procedures, access to slots for new entrants and services to regional airports. The amended regulation also sets forth criteria, including environmental criteria, to be used in allocating slots, and provides for independence of airport slot coordinators and judicial review of their decisions. Airport slot coordinators were given the right to revoke single slots or a series of slots for the remainder of a flight schedule period as a sanction against slot operators that engage in abusive market practices.

While air carriers may exchange slots with each other under certain conditions, it is still uncertain whether Regulation 95/93 permits the commercial trading of slots. However, in 2008, the European Commission indicated, in a communication on the application of Regulation 95/93, that it will not take action against the practice of exchanging slots for monetary and other consideration (so-called "secondary trading"), provided that such exchanges take place in a transparent manner.

The European Commission is currently working on another revision of Regulation 95/93 related to slot allocation to improve optimal use of airport capacity and infrastructure, enhance competitiveness of operators and improve environmental performance of airports and air transportation. On December 1, 2011, the European Commission published a proposal for the recasting of Regulation 95/93. In particular, under this proposal, airlines would be expressly allowed to trade slots at European Union airports with each other in a transparent way. At the same time, priority for the allocation of slots for the next corresponding flight schedule season would only be given to carriers that have used at least 85% (instead of 80%) of the allocated series of slots. The proposal is in the legislative process and the European Commission is currently preparing a fact-finding study on the allocation of slots at European airports together with the air transport operators.

Our ability to gain access to and develop our operations at slot-controlled airports will be affected by the availability of slots for takeoffs and landings at these specific airports. New entrants to an airport are currently given certain privileges in terms of obtaining slots, but such privileges are subject to the grandfathered rights of existing operators that are utilizing their slots. There is no assurance that we will be able to obtain a sufficient number of slots at the coordinated airports that we desire to serve in the future at the time we need them or on acceptable terms. See "Risk Factors—Risks Related to our Business and our Operations—Our access to airports could be limited by slot allocations and restrictions imposed by legislators or regulatory authorities."

## Air Operator Certificate and Operating Licenses

### *Air Operator Certificate*

An Air Operator Certificate ("AOC") is the authorization granted from a national aviation authority to an aircraft operator to allow it to use aircraft for commercial purposes. Any Portuguese-based individual, organization or company that wishes to operate an aircraft for the purpose of commercial air transportation of either cargo or passengers must, pursuant to both European Union and Portuguese law, obtain an AOC with ANAC. We hold a valid AOC issued by ANAC and we are duly authorized to operate aircraft for the purpose of commercial air transportation of passengers, cargo, and mail.

The rules governing AOCs granted to Portuguese aircraft operators are included in both Portuguese and European Union legislation, namely:

- Decree-Law no. 289/2003, of 14 November, as amended, which adopts the rules on the formal and material requirements necessary for the purposes of issuance of the AOC, as well as the requirements for the operation of civil aircrafts used for commercial air transportation ("Decree-Law no. 289/2003").

- ANAC's Aviation Informative Instruction (*Circular de Informação Aeronáutica*) no. 06/04, of 27 May 2004, which establishes the conditions for the issuance, renewal, amendment, suspension and revocation of the AOC.

- EC Regulation no. 2018/1139, on common rules in the field aviation and establishing a European Aviation Safety Agency ("EC Regulation 2018/1139").

- European Union Commission Regulation no. 965/2012, as amended by Regulations no. 800/2013, no. 71/2014, no. 83/2014 and no. 379/2014 (the "Air OPS Regulation"). The Air OPS Regulation lays down the specific technical requirements and administrative procedures relating to air operations and elaborates on the general requirements and obligations set out in Annex IV of EC Regulation no. 216/2008.

Furthermore, EASA publishes non-binding materials (i.e. the Acceptable Means of Compliance and the Guidance Material relating to Part-ORO of the Air OPS Regulation) which ultimately serve as a means by which the requirements set out in the Air OPS Regulation can be met, thus assisting in its interpretation and application.

Although the specific requirements for obtaining an AOC vary from country to country, the aircraft operator is generally required to have personnel, assets and system in place to ensure the safety of its employees and the general public. In this regard, article 8 of Decree-Law no. 289/2003 establishes that any Portuguese-based organization applying for the issuance of an AOC:

- shall have an organizational structure that allows such organization to carry out operational and maintenance control, as well as the supervision of, all flights operated. This organizational structure shall mandatorily include the following departments: (a) flight operations; (b) flight safety; (c) ground operations; (d) maintenance management system; and (e) crew training;

- shall ensure the existence of a services network, duly approved by ANAC, that guarantees the ground handling of its aircrafts; and

- shall have operational support facilities at its main base, adequate to the area and type of operation intended to be carried out.

Furthermore, with regard to human resources, the applicant organization must ensure that:

- the responsible manager/director meets the necessary conditions to ensure that all operations and maintenance activities are both financed and carried out in compliance with the requirements imposed by ANAC; and

- all candidates carrying out managerial roles within the departments referred to in (i) above hold adequate academic qualifications as well as adequate training and professional experience for the intended roles.

The applicant organization also has to provide to ANAC evidence that it has technical capacity to fulfill and comply with all rules, procedures and operational requirements applicable to the type of operation involved.

Portuguese AOCs are valid for one year and may be renewed for equal periods. For this purpose, the aircraft operator must apply for such renewal at least thirty days prior to the date of expiry. Following such application, ANAC shall carry out an inspection and if all requirements are met by the operator, its AOC is renewed.

The grant, renewal or amendment of an AOC is subject to ANAC's audits or inspections. Accordingly, ANAC may suspend or revoke an AOC in the case of (i) non-compliance with any of the procedures approved in the operator's flight manual or any basic legal requirement of certification or (ii) the deterioration of standards as verified by ANAC's audits or inspections. Furthermore, ANAC may also suspend an AOC as an ancillary penalty to a fine applied for certain very serious civil aviation administrative offences. The suspension of an AOC may be imposed for a maximum period of one year. Furthermore, ANAC may also decide to seize an AOC for precautionary purposes and for a maximum period of one year in certain circumstances.

***Operating Licenses***

All Portuguese companies that wish to operate an aircraft for the purpose of commercial air transportation of either cargo or passengers must obtain an Operating License. An Operating License is issued through an ANAC Instruction (*Despacho*), which is published in the Portuguese Official Journal.

The rules governing Operating Licenses are set out by both Portuguese and European Union legislation, namely:

- Decree-Law no. 19/82, of 28 January 1982, as last amended by Decree-Law no. 208/2004, of 19 August 2004 ("Decree-Law no. 19/82"). Decree-Law no. 19/82 sets out the rules applicable to non-scheduled air transportation; and

- Regulation (EC) No. 1008/2008.

For eligibility criteria, Regulation (EC) No. 1008/2008 provides that the applicant entity must:

( ) have its principal place of business and registered office in Portugal;

(i) hold a valid AOC issued in accordance with EC Regulation 2018/1139 either by ANAC or by several national authorities of Member States acting jointly in accordance with Article 62(5) of EC Regulation 2018/1139 or by EASA;

(ii) have one or more aircraft at its disposal through ownership or a dry lease agreement;

(iii) have as its main occupation the operation of air services. It should be noted that it may combine such operation of air services with any other commercial operation or the repair and maintenance of aircraft;

(iv) have a company structure that allows ANAC to implement the provisions set out in the Operating License chapter of Regulation (EC) No. 1008/2008;

(v) have any EEA states or nationals of such EEA states owning more than 50% of the company and effectively controlling it, whether directly or indirectly through one or more intermediate companies, except as provided for in an agreement with a third country to which the European Union Community is a party;

(vi) comply with the provisions of EC Regulation no. 785/2004, of the European Parliament and of the Council of 21 April 2004, on insurance requirements for air carriers and aircraft operators, and, in case of air carriers, the applicant entity must also comply with the requirement to be insured to cover liability in the case of accidents with respect to mail; and

(vii) comply with all provisions on good reputation (e.g. statement from the competent Portuguese authorities declaring the good standing of the company).

In addition to the above and with regard to financial conditions, the applicant entity also has to demonstrate that:

(i) it can meet and comply with (at any time) its actual and potential obligations established under realistic assumptions, for a period of twenty four months from the start of operations; and

(ii) it can meet its fixed and operational costs incurred by operations according to its business plan and established under realistic assumptions, for a period of three months from the start of operations, without taking into account any income from its operations.

The rules set out in Decree-Law no. 19/82 are very similar to those described above and do not add any further criteria. In fact, Decree-Law no. 19/82 only establishes that the applicant company (i) must have good "commercial reputation and commercial efficiency" and adequate financial and technical capacity, (ii) proper insurance covering civil liability that may arise from the activities carried out, and (iii) the requirement to have a valid AOC.

Likewise, the personnel of the licensed entities, mainly the operational, maintenance and engineering personnel, must comprise at least 90% Portuguese nationals.

***Authorization for the operation of extra-European Union routes***

In addition, Portuguese airline companies which intend to operate extra-European Union scheduled flights on routes where Portugal is the origin or the destination (and therefore the rules applicable to intra-Community routes as provided for in Regulation (EC) No 1008/2008 do not apply) need to obtain a specific authorization from ANAC as set out by Decree-Law no. 116/2012, of 29 May 2012 ("Decree-Law no. 116/2012").

In accordance with Decree-Law no. 116/2012, an authorization for the operation of extra-European Union air transportation may be granted by ANAC to any applicant company that:

(i) has a valid Operating License;

(ii) evidences adequate financial, economic and technical capacity (i.e. a valid AOC and an adequate fleet) for the air services that it provides;

(iii) has taken out adequate insurance;

(iv) meets all the conditions set out in the agreement or agreements on air services between the relevant states for the so-called "designated entity" that may carry out such services; and

(v) has duly fulfilled its tax and social security obligations towards the Portuguese state.

Applications for such authorizations have to be submitted to ANAC prior to the beginning of the IATA period intended for the operation. ANAC will make a public announcement of the aforementioned application in the Portuguese Official Journal, following which any interested parties may comment on such application or propose its authorization.

Further to the above, whenever possible, airline companies may execute private agreements between them to share the codes for the operation of non-European Union scheduled flights. This shall be also subject to authorization by ANAC and the authorization procedure is initiated by the companies that agreed on such code-sharing. These authorizations shall remain valid until the company no longer fulfills the conditions negotiated in the relevant authorization (unless previously revoked by ANAC in accordance with Article 18 of Decree-Law no. 116/2012).

Finally, Portuguese airline companies must provide ANAC, in addition to the documents described above, the detailed exploration plan, traffic forecasts, tariff structure, indication of means and services to perform the proposed operation, leasing agreements, booking system, regularity and punctuality information and passenger protection measures.

**Import of Aircraft into Portugal**

Any civil or commercial aircraft must be certified in advance by ANAC before being imported into Portugal. Once certified, the aircraft may be imported in the same way as other goods. Following import, the importer must register the aircraft with the RAN managed by ANAC.

Custom's clearance is only required for the import of aircraft into Portugal from a non-European Union country.

**Registration of Aircraft**

Pursuant to Regulation (EC) No. 1008/2008, an aircraft used by an EC airline company must be registered in the national register of the country of the company in order for the airline company to be able to operate the aircraft.

The registration of aircraft in Portugal is made at the RAN. Such registration serves to recognize the ownership and priority of interests of owners and mortgagees, as the registration of title and any other interest constitutes evidence of the ownership as well as of any other rights and interests to and in the aircraft. Likewise, registration gives publicity to the ownership or other rights over the aircraft and serves as public notice to third parties under Portuguese law. Third parties can rely on the accuracy of the public registration of the ownership interest (as recorded on the certificate of registration). An ownership or other interest registered at the RAN is effective against third parties until a new owner files for the registration of ownership or any interested party legally challenges the registered owner's defective interest.

Aircrafts used by airline companies under operational lease are also subject to registration at the RAN. In such case, a legalized copy of the relevant lease agreement shall also be filed.

In order to have an aircraft registered in Portugal, ANAC shall be provided with a legalized (notarized and apostilled) bill of sale or other document evidencing that the owner has full legal and beneficial title of the aircraft.

Further to the completion of all registration formalities, the owner of the aircraft will be duly registered with the RAN and such ownership will also be evidenced in the relevant aircraft certificates (radio-station license and registration/mark certificate) and in the aircraft log books. The certificate of registration is issued by ANAC.

Any deregistration of the aircraft must be requested or consented by the registered aircraft owner or by a duly appointed attorney.

Pursuant to the Portuguese Civil Code, the registration of a mortgage is a condition precedent to its effectiveness (even between the parties), i.e., registered interests beat unregistered. The mortgage over an aircraft is registered with the RAN and it is not necessary that it is registered anywhere else in Portugal in order for it to be perfected and binding upon the parties thereto and third parties pursuant to its terms.

The creation of a mortgage under the financial or operational lease of aircrafts is not very common in Portugal due its tax impact. In fact, the creation of a mortgage triggers stamp duty over the secured amount and the applicable rate depends on the maturity of the mortgage: (i) over 1 year and up to 5 years at 0.5%; and, (ii) for a period of 5 or more years at 0.6%.

The fee to be paid to ANAC for the registration of the mortgage shall correspond to 1/100 000 of the value of said mortgage. This amount has a minimum limit of, approximately, €72.33 and the maximum limit of, approximately, €947.71.

Since the Cape Town Convention is not in force in Portugal, ANAC will not process the registration of any lien over an aircraft created by a mortgage agreement with the International Registry that operates under the legal framework of the Cape Town Convention. Likewise, there is no IDERA (Irrevocable Deregistration and Export Request Authorization) form available in the Portuguese jurisdiction and ANAC will not recognize and/or register any IDERA with the national aircraft registry.

**Fares**

Regulation (EC) No. 1008/2008 stipulates the pricing freedom of air carriers and defines air fares as the prices expressed in euro or in local currency to be paid to air carriers or their agents or other ticket sellers for the carriage of passengers on air services and any conditions under which those prices apply, including remuneration and conditions offered to agency and other auxiliary services. Therefore, we are able to establish our own fares without prior approval from the Portuguese government or any other European or international authority.

Likewise, in accordance with Regulation (EC) No. 1008/2008, the provisions of bilateral agreements between European Union member states may not discriminate on grounds of nationality or identity of air carriers in allowing Community air carriers to set fares and rates for air services between their territory and a third country.

In addition, Regulation (EC) No. 1008/2008 further specifies that air fare or air rate, taxes, airport charges and charges, surcharges or fees, such as those related to security or fuel shall always be indicated in the final price and optional price supplements, such as fees for baggage. Such information shall be communicated in a clear, transparent and unambiguous way at the start of any booking process and their acceptance by the customer shall be on an 'opt-in' basis.

**Restrictions on the Ownership of Shares in Airlines**

Pursuant to Regulation (EC) No. 1008/2008, EEA states or nationals of such EEA states shall own more than 50% of the airline and effectively control it, whether directly or indirectly through one or more intermediate companies, except as provided for in an agreement with a third country to which the European Union Community is a party.

**Environmental Regulation**

***Environmental Licenses***

Under Portuguese law and pursuant to the EU Industrial Emissions Directive 2010/75/EU of European Parliament and Council of 24 November 2010, the authority to grant environmental licenses for facilities or activities within a state, among other activities, belongs to the Portuguese Environmental Agency (*Agência Portuguesa do Ambiente, IP*).

Our maintenance activities are regulated by an environmental license, valid until September 30, 2022, with very stringent requirements. This license was granted in accordance with Decree-Law 127/2013, of August 30, for air emissions resulting from plating and electrolytic treatments conducted in the engine maintenance process. Regulated activities without an environmental license or in violation of an existing license could entail various penalties, including the requirement to shut down the facility or activity and fines ranging from €2,000 to €5,000,000.

We seek to require our suppliers to comply with the environmental criteria for suppliers established by our environmental license and to commit to implement the proper tools to minimize their impact on the environment. We reserve the right to reject goods and services from companies that do not meet our environmental protection parameters unless confirmation of compliance is received.

***$CO_2$ Emissions***

Environmental regulations on the commercial aviation industry have become increasingly stringent, particularly on $CO_2$ emissions resulting from the use of jet fuel by aircraft.

In 2008, the European Union adopted a Directive for the inclusion of aviation activities in the European Greenhouse Gas Emissions Trading System ("ETS"). This scheme, which has thus far applied mainly to energy producers, is a cap-and-trade system for $CO_2$ emissions to encourage industries to improve their $CO_2$ efficiency. Under the legislation, airlines were granted initial $CO_2$ allowances based on historical aviation emissions and a $CO_2$ efficiency benchmark. Any shortage of allowances has to be purchased in the open market and/or at government auctions.

This Directive also established that airlines operating routes to and from the European Union would be required to obtain $CO_2$ emissions licenses. In the meantime, the European Union has twice postponed the application of this mechanism to non-European Union routes, keeping the scope restricted to emissions from flights between airports located in the European Economic Area (EEA). The most recent derogation from this ETS was passed in 2017, with the aim of allowing the entry into force of the global Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) mechanism as of 2021.

CORSIA was adopted by the ICAO in 2016, providing a framework for a global market-based measure to stabilize $CO_2$ emissions in international civil aviation. CORSIA will be implemented in phases, starting with the voluntary participation of ICAO Member States during a pilot phase (from 2021 to 2023), followed by a first phase (from 2024 to 2026), and a second phase (from 2027 onwards). Currently, CORSIA's main goal is to set standards for monitoring, reporting and checking emissions by air operators, as well as to define measures to offset $CO_2$ emissions after 2020.

To the extent that most of the countries in which we operate remain ICAO Member States, we could be affected in the future by regulations adopted in accordance with the CORSIA framework. The ICAO recently issued a resolution that CORSIA is expected to be the only market-based carbon offsetting measure applied to international flights.

The proliferation of national regulations and taxes on $CO_2$ emissions in countries where we have operations, including the environmental regulations that the commercial aviation industry faces, may also affect our operating costs and margins. Any changes to regulations and legislation may increase our operating expenses, reduce our revenues, or increase the amount borne by our customers, notably through an increase in the tax burden that falls on traffic documents. In addition, $CO_2$ allowances to emit under the ETS have significantly increased in price which results in a risk of increased operating costs to our business. Any changes in the applicable environmental laws and regulations may have an adverse impact on our business, financial condition or operating results.

***Waste***

Portuguese law, and particularly Decree-Law 178/2006, of September 5, as amended, provides that the transportation, management and final disposal of waste matter may not cause damage to the environment or inconvenience to public health and welfare. Portuguese legislation regulates the segregation, collection, storage, transportation, treatment and final disposal of waste, and states that parties who outsource waste disposal to third party providers are jointly and severally liable with the service provider. This legislation reflects the transposition of the EU Directive 2008/98/EC (the "Waste Framework Directive").

The administrative penalties applicable to the improper discharge of solid, liquid and gas waste include, among others, embargo of the activity or and fines up to €5,000,000.

We prioritize the routing of waste for recovery, whenever technically and economically feasible. The service provider ensures solutions for recycling, regeneration, waste recovery when possible, to the detriment of disposal operations (landfill and/or incineration). The service provider is licensed and ensures that the services provided comply with all applicable legal and regulatory standards.

***Noise***

We are subject to international, national and, in some cases, local noise regulation standards. European Union and Portuguese regulations require that all aircraft operated by us comply with the noise requirements set forth in Chapter 3 of Annex 16 of the Chicago Convention. All our aircraft currently comply with this requirement. Likewise, the majority of our fleet also comply with Chapter 4 of Annex 16 of the Chicago Convention and most of our neo aircraft comply with Chapter 14 of Annex 16.

Certain airports in Europe have established local noise restrictions, including limits on the number of hourly or daily operations or the time of such operations. These restrictions may cause curtailment of service or increases in operating costs and could limit our ability to expand our operations at affected airports. Directive 2002/49/EC sets a general framework for the assessment and management of noise. Likewise, for airports with more than 50,000 civil aircraft movements per calendar year Regulation (European Union) No. 598/2014 establishes rules and procedures with regard to the introduction of noise-related operating restrictions at European Union airports within a balanced approach.

***Environmental Liability***

Portuguese law provides for three different types of environmental liabilities: (i) civil, (ii) administrative and (iii) criminal (including administrative offences).

The civil and criminal liabilities may be applied separately and cumulatively. Any individual or legal entity (public or private) that directly or indirectly causes, by action or omission, any damage to the environment may be held liable for such damage.

Portugal's National Environmental Policy (Decree-Law 147/2008, of 29 July, as amended from time to time) provides for strict civil liability for damages caused to the environment, which means that an individual or legal entity that develops any economic activity listed under its Annex III –such as TAP– can be held liable for any damage irrespective of fault. To establish strict liability, one simply has to demonstrate a cause-effect relationship between the polluter's activity and the resulting damage in order to trigger the obligation to redress the environmental damage.

Citizens, Public Attorneys' offices, foundations, state agencies, state-owned companies and environmental protection associations are empowered to file public civil actions seeking compensation for environmental damages. The National Environmental Policy establishes joint liability among all the parties involved. Accordingly, the affected party or any of the other parties entitled to sue may choose to seek damages against any single responsible party, and the defendant is entitled to seek right of recourse against all other parties involved in polluting activity.

Portugal's National Environmental Policy establishes a 30 year-statute of limitation.

Portuguese Law no. 50/2006, of 29 August (as amended from time to time), establishes the legal framework of the environmental administrative offences. Besides fines, the competent authorities may also impose ancillary sanctions, amongst others: (i) seizure of objects used or produced at the time of the offence, (ii) seizure of animals, (iii) deprivation of the right to benefits or subsidies granted by national or EU public entities or services, or (iv) termination or suspension of licenses or authorizations related to the exercise of the relevant activity.

Criminal liability for environmental matters in Portugal extends to corporations as well as to individuals. If a corporation is found criminally liable for an environmental violation, its officers, directors, managers, agents or proxies may also be subject to criminal penalties if there is proof of their intent or fault in preventing the occurrence of the crime. The settlement of a civil or administrative lawsuit does not prevent criminal prosecution for the same violation. Criminal sanctions encompass imprisonment in the case of individuals, or dissolution or fines for legal entities.

In accordance with Portugal's National Environmental Policy we have conducted a risk assessment of our activities and subscribed an environmental insurance policy, covering hangars, engine test bench, offices, waste water treatment plant and other technical supporting facilities.

**Pending Legislation**

We do not anticipate at this moment new material legislative or regulatory proposals that may have particular effects on the aviation industry or potential investors in this market. The Portuguese legislation governing the commercial aviation industry results from the implementation of European Union law and therefore any potential changes that may have impact in the Portuguese aviation market should arise more from the European legislation than from any legal and/or regulatory alteration implemented by the competent authorities in Portugal (notably ANAC). Although we do not anticipate any material changes issued by the local competent authorities, a reference shall be made to the possible implications from the review European Union law, notably the current review of Regulation (EC) No. 1008/2008 that the European Commission is currently undertaking including in particular its wet-leasing provisions.

In any case, we cannot predict the continuing cost of regulatory compliance or the future impact of government regulation on our business operations. New laws and regulations may be adopted, which could further increase our compliance costs or affect our business. See "Risk Factors".

**Aircraft Repossession**

Repossession issues are usually raised in connection with the lease of aircraft to Portuguese airlines since a large proportion of the commercial fleet registered in Portugal is subject to financial or operational leasing, as is the case with us.

On termination of a lease agreement (whether by expiry or otherwise), as contemplated in the lease agreement the owner (and lessor) would be entitled to repossess the aircraft from the lessee /air carrier, deregister the aircraft from the RAN and take the aircraft away from Portugal. These actions do not require any further consents, approvals or licenses from any governmental or regulatory authority in Portugal other than those associated with the obtaining of a certificate of airworthiness for export, the cancellation of the aircraft registries (including any mortgage) and compliance with the procedures and documents required by ANAC to assure that the aircraft is duly removed by qualified personnel.

In principle, the consent of the lessee or operator is not necessary, although the owner is required to submit evidence to RAN demonstrating that the lease agreement has been terminated. In some cases, judicial intervention may be required if the lessee contends that such repossession is wrongful or undue. Even if in theory evidence of lease termination should suffice, it is not unusual in practice for ANAC to request a declaration of the lessee stating that he has no objection to deregistration. Likewise, the lessor will normally need cooperation from the lessee to have access to airport facilities, to the aircraft and to the technical records of the aircraft.

In the absence of such cooperation from the lessee, the alternative shall be to enforce deregistration by using the irrevocable power of attorney that is usually granted by the lessee as part of the security package and/or to initiate court proceedings against the latter, namely an injunction for provisional claim to possession. The provisional claim may have to be followed by the main lawsuit to claim possession.

**Insurance**

The insurance legal regime applicable to Portuguese airline companies is currently set forth in Decree-Law 321/89 of 25 September (as amended by Decree-Law No. 208/2004 of 19 August), and in Regulation (EC) No. 785/2004 of the European Parliament and of the Council of 21 April 2004 (as amended by Regulation (EC) No. 1137/2008 of the European Parliament and of the Council of 22 October 2008, by Commission Regulation (European Union) No. 285/2010 of 6 April 2010 and by Regulation (EU) 2019/1243 of the European Parliament and of the Council of 20 June 2019) on insurance requirements for air carriers and aircraft operators. The referred legislation and the implementation rules set forth the minimum insurance requirements for airlines and aircraft in respect of passengers, baggage, cargo and third parties, for both private and commercial flights.

Insurance coverage for purposes of compliance with the requirements set forth in the mentioned legislation may be granted to Portuguese airline companies by local insurers or foreign insurers duly passported to underwrite risks located in the Portuguese territory.

We maintain all other mandatory insurance coverage for each of our aircraft and additional insurance coverage as required by lessors. See "Business—Insurance" and "Risk Factors - Increases in insurance costs or a reduction in insurance coverage could have an adverse effect on our business."

***Customs and Border Protection***

As an air carrier, we are subject to international customs and to the border control laws and rules implemented in each state where we operate. In addition, subject to the relevant border control authorities, we are in compliance with International Standards and Recommended Practices of ICAO and to the provisions of Annex 9 to the Chicago Convention.

Our service to the U.S. is also subject to U.S. Customs and Border Protection, or CBP (a law enforcement agency that is part of the U.S. Department of Homeland Security), immigration and agriculture requirements and the requirements of equivalent foreign governmental agencies. Like other airlines flying international routes, from time to time we may be subject to civil fines and penalties imposed by CBP if un-manifested or illegal cargo, such as illegal narcotics, is found on our aircraft. These fines and penalties, which in the case of narcotics are based upon the retail value of the seizure, may be substantial. We have implemented a comprehensive security program at our airports to reduce the risk of illegal cargo being placed on our aircraft, and we seek to cooperate actively with CBP and other U.S. and foreign law enforcement agencies in investigating incidents or attempts to introduce illegal cargo.

***Security Regulation***

In order to protect persons and goods within the European Union, acts of unlawful interference with civil aircraft that jeopardize the security of civil aviation should be prevented by establishing common rules for safeguarding civil air transportation as well as mechanisms for monitoring compliance. The specific measures for the implementation of the common basic standards for safeguarding civil aviation against acts of unlawful interference that jeopardize the security of civil aviation, referred to in Article 4(1) of Regulation (EC) no. 300/2008, and the general measures supplementing those common basic standards, referred to in Article 4(2) of such Regulation, are set out in Regulation (EC) no. 2015/1998.

According to Article 13 of Regulation (EC) no. 300/2008 and to the Portuguese National Civil Aviation Security Program (PNSAC), we, as an air carrier, are required to draw up, apply and maintain an air carrier security program approved by ANAC. That program shall describe the methods and procedures which are to be followed by the air carrier in order to comply both with Regulation (EC) no. 300/2008 and with the national civil aviation security program of the member state from which it provides services. The program shall include internal quality control provisions describing how compliance with these methods and procedures is to be monitored by the air carrier. Upon request, the air carrier security program shall be submitted to the appropriate authority, which may take further action if considered appropriate.

Where an EU air carrier security program has been validated by the appropriate authority of the member state granting the operating license, the air carrier shall be recognized by all other member states as having fulfilled the requirements mentioned above.

We also have a Security Training Program, approved by ANAC and drafted in accordance with Chapter 11 of Regulation (EC) no. 2015/1998. In addition, we are required to accomplish with other Security International Regulations and Industry Best Practices, such as IATA, ICAO, TSA, TCCA, as well as physical, electronic and cyber security at administrative and operational facilities.

## INDUSTRY

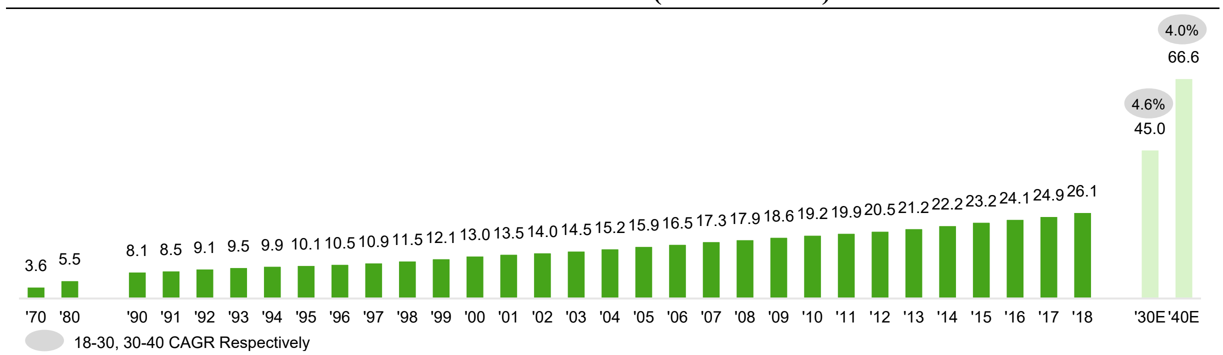
### Commercial Aviation Industry

#### *Key Trends Affecting Air Travel*

The commercial aviation industry has benefited from structural long-term growth in demand for air travel. The growth of air travel has historically been closely linked to economic growth and has become a preferred method of transport for a wide spectrum of travel needs, such as tourism and business. Over the long-term, growth in the industry has a high correlation to GDP and world trade, which has contributed to greater access to travel as well as the emergence of newer business models, such as LCCs, which have been gaining market share from more cost-conscious tourists in recent years.

Over the past 28 years, the commercial aviation industry has shown consistent growth, despite recessions, temporary spikes in oil prices, near-pandemics, wars and security threats. From 1980 to 2018, traffic has grown at a 4.3% annual growth rate on a RPK basis, according to ICAO data. Temporary periods of external shock have usually been followed by sustained rebounds, enabling the commercial aviation industry to recover quickly from these temporary upsets while continuing its long-term growth. Overall, traffic has proven to be resilient to external shocks, doubling every 15 years, with traffic growing 2.4x since 2000.

**World Annual Traffic (RPK Trillions)**




*Source: ICAO, Airline Monitor*

The period from 2001 to 2003 proved to be one of the most challenging for the commercial aviation industry in recent history due to a series of international events which began with the terrorist attacks on the United States on September 11, 2001 and continued with the war in Afghanistan, the SARS epidemic in Asia and the war in Iraq. However, the commercial aviation industry's recovery was almost immediate, with air passenger numbers growing at a CAGR of 5.7% between 2004 and 2008 globally, reaching 2.5 billion passengers carried annually in 2008 (Source: IATA Annual Report 2013).

While air traffic declined again in 2008-2009 due to the initial shock of the global financial crisis, the commercial aviation industry quickly recovered, with global air traffic growing again in 2010 and continuing to the present, despite temporary and localized external shocks, such as Iceland's volcanic ashes affecting European air traffic in 2010 and persistent unrest in the Middle East. IATA expects 2019 to be the tenth consecutive year of profitability and the fifth consecutive year where airlines on the whole deliver a return on capital that exceeds the industry's cost of capital. This is driven by an increasing number of passengers (partly related to the evolution of business models), growth in emerging markets and continued deregulation.

The continuous growth in air traffic has also been aided by significant technological advances in the industry, such as the widespread use of jet aircraft in the early 1960s, with newer generations of more capable and efficient aircraft enabling longer operating ranges, better fuel efficiency, enhanced safety features, larger capacity and lower maintenance costs evolving steadily since the introduction of the jet aircraft.

According to the World Bank (based on ICAO data), the number of air passengers globally has increased from 310.4 million in 1970 to more than 4.2 billion in 2018, representing a CAGR of 5.6%. Expectations are for this global growth in air travel to continue in spite of maturation of the industry since the 1970s. In October 2018, IATA issued a press release stating that the organization predicted air travellers to grow to 8.2 billion in 2037, corresponding to an almost doubling of travellers or 3.6% CAGR over the time period. Airline Monitor, which bases its projections on ICAO, estimates in 2018 the commercial aviation industry flew 8.5 trillion RPKs, with growth to 28.3 trillion RPKs by 2040 (an increase of 233% at a CAGR of 5.6%). These forecasts are based on multiple factors, including expectations for future global GDP growth, increased demand from emerging markets and continued liberalization of travel regulations and restrictions.

***Market Segmentation***

Airlines are generally divided into the following broad categories, but some airlines may overlap across categories. Some legacy network airlines offer a set of low fares on otherwise standard services, while some LCCs have begun to increase the number of legacy-style services that they offer.

*Legacy Network Carriers*

Network carriers are typically current or former flag carriers that operate large, full-service networks supported by hubs and alliance partners with the objective of offering passengers a comprehensive service. The primary aim of these airlines is to develop certain airports as their intercontinental hubs and to feed traffic to these hubs from their own domestic markets, as well as from international interline traffic, or traffic operated through its network alliances. Network carriers typically operate complex fleets, offering two or more classes of service with a broad range of supplementary services, such as catering, in-flight entertainment and ticket flexibility on any given flight. Premium cabins form a key revenue source for network carriers. As a result of the comprehensive and varied service offering, a wide range of price levels exist even on the same journey. These airlines are focused on long-haul premium traffic and high yielding corporate accounts where a price premium can be justified. In addition to hubs, major airline alliances, such as Star Alliance, oneworld and SkyTeam, are designed to maximize the available network to customers through code-share flights. With regard to their short-haul traffic, they either operate these routes themselves or utilize the services of regional airlines either through ownership or franchise operations. Unlike LCCs, many network carriers operate their own auxiliary services such as ground handling, on-board catering and aircraft maintenance.

In the United States, legacy network carriers include American Airlines, Delta Air Lines and United Airlines. In Europe, the network carriers are predominantly flag carriers, such as Air France-KLM, IAG (Aer Lingus, British Airways, Iberia and Vueling), the Lufthansa Group (Lufthansa, Swiss International Air Lines, Austrian Airlines and Brussels Airlines) and us. In the past, the majority of these carriers were state-owned, and some have benefited from state aid. Furthermore, they have either been fully privatized (for example, British Airways and Lufthansa) or partially privatized (for example, Air France-KLM, SAS Scandinavian Airlines and us).

*LCCs*

The principal aim within the LCC business model is to offer as simple a product as possible and to minimize operating expenses in order to profitably market lower fares than carriers with higher operating expenses. Low-cost carriers offer mostly short-haul, point-to-point flights, unbundled ancillary services and very low base rates under a no frills business model. They aim to maximize load factor and aircraft utilization rates by stimulating demand through low-cost fares and by operating short-haul, point-to-point routes with a smaller proportion of routes classified as medium-haul and a single aircraft-family fleet with a single class of service. Turnaround times are often kept to a minimum. LCCs have found a number of ways of driving down operating expenses, including flying to/from less congested regional airports, relying on direct sales to avoid agency costs and global distribution system charges, having ticketless service, avoiding frequent flyer programs and keeping labour costs low. The operational model means that such airlines typically have costs that are as much as 50% lower than their full-service competitors, enabling them generally to be able to charge much lower ticket prices.

Americas-based LCCs include, but are not limited to, Allegiant Air, Frontier Airlines, JetBlue and Spirit Airlines in the U.S. as well as Azul and Gol in Brazil. European LCCs include Ryanair, easyJet, Vueling, Norwegian and Wizz Air. Certain European LCCs are independently owned (for example, easyJet and Ryanair) while others are owned by flag carriers (for example, Vueling is majority owned by IAG).

LCCs have grown significantly over the last 20 years and are expected to continue to be major players in the growth of air travel. Recent trends show LCCs differentiating from one another. Some focus on ultra-low cost models combining efficient asset utilization with unbundled revenue sources other than ticket sales, offering multiple products and services for additional fees. Others focus less on low costs, instead implementing strategies to attract more business passengers by providing some of the supplementary services typically offered by legacy carriers and/or diversifying into longer-haul flights operated by a mixed fleet. As such, several LCCs are considering initiatives such as up-gauging aircraft size, flying to large airports in major cities, introducing pre-allocated seating and a fast-track security product, reducing certain baggage and other charges and marking its flights available for booking via third-party agents. These differentiated LCC offerings are intended to attract new customers while maintaining cost structure advantages.

Certain LCCs operate multiple types of aircraft to and from major airports, offer code-sharing and connection possibilities with network carriers (for example Vueling with Iberia), have frequent flyer programs and/or fly long-haul routes (for example Norwegian, which launched no-frills services from Northern Europe to major North American hubs and Bangkok). In addition, selected network carriers that have been losing market share to LCCs on domestic and regional routes have announced the launch of low-cost subsidiaries to counter the competitive pressure (for example Transavia, which is part of Air France-KLM).

*Regional Carriers*

Regional carriers are defined by the smaller aircraft they operate and the regional markets they serve. Regional airlines primarily transport passengers to the main hubs from which their shareholder or franchisor airlines operate and provide region-to-region air services linking regional communities.

Regional airlines typically operate regional jets or turboprop aircraft, which carry fewer passengers than those operated by LCCs, and serve point-to-point routes in regional markets to maximize operational efficiency. Regional airlines appeal to high yielding business or repeat travellers by offering services not typically associated with LCCs such as seats being allocated in advance as part of the standard fare, ticket flexibility, business class services and access to airport lounges in addition to the high frequency schedule on their chosen routes. Similar to network carriers, a wide range of price levels may exist as a result of the varied nature of the service offering provided by regional carriers.

Most regional airlines are subsidiaries of or operate under contracts with legacy network carriers such as Air Wisconsin which operates as United Express, Lufthansa CityLine and Air Dolomiti which are owned by Lufthansa, HOP! which is owned by Air France-KLM, Air Nostrum which is a franchisee of Iberia and Portugália which is owned by us.

*Charter Airlines*

Charter airlines operate unscheduled flights that are not a regular part of an airline's routing and are primarily active on leisure-dominated routes, both in the short- and long-haul space. A majority of the larger charter airlines are owned by major tour operators, which include flights as part of the integrated holiday packages. In order to maximize load factor and profits, some charter operators also sell left over capacity on a "flight only" basis or have diversified into scheduled flights.

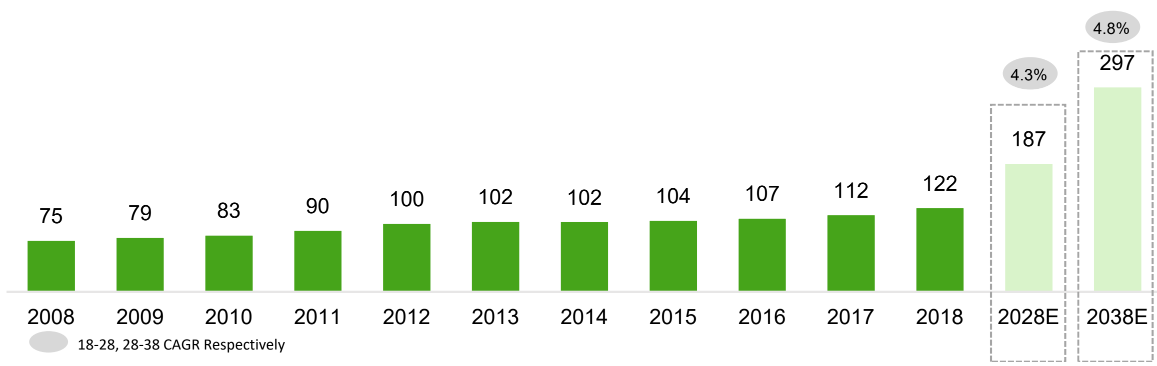
***Intercontinental Passenger Airline Market Overview***

*Europe – South America*

The market for passenger air travel between Europe and South America is largely served by legacy network carriers. Through long-haul intercontinental flights, airlines typically fly between the continents' larger cities. These flights often connect hub airports and feed networks that provide service within the continents. In 2018, this market represented 122.4 billion RPKs, having expanded at a CAGR of 5.0% since 2008. Demand is influenced by macroeconomic conditions in South America and Europe, foreign exchange rates and geopolitical developments.

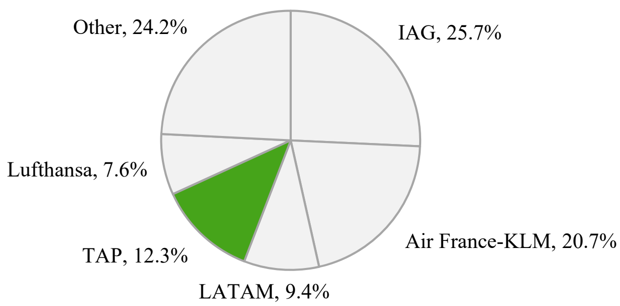
Recent trends include the introduction of low-cost business models servicing intra-Latin America and an expanding middle class stimulating travel demand. Liberalization continues to be the dominant trend in South America driving passenger traffic growth across the region and supporting a robust growth outlook. Recent developments include the confirmation of the open skies agreement in Brazil (the region's largest economy and aviation market) after the U.S. and the Argentinian governments decided to lift domestic aviation price floors. These developments underscore the ongoing recognition of the mutual economic benefits of a healthy and growing aviation market. Going forward, the market is expected to continue to grow at 4.5% through 2038, corresponding to 2.4x GDP growth.

**Europe – South America RPK Growth**




*Source: Boeing Commercial Market Outlook*

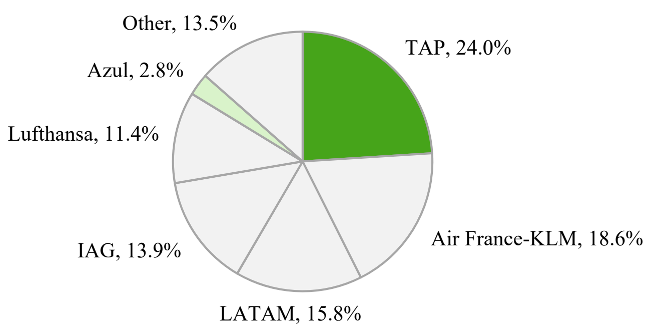
**Europe – South America – 2018 Market Share (based on RPKs)**




*Source: Direct Data Solutions (IATA)*

Similar economic and political conditions influence travel demand between Brazil and Europe. In 2018, TAP held a 24% market share on routes originating from Europe to Brazil based on RPKs and a 26% market share based on seat capacity. The Europe – Brazil market is expected to continue growing as Brazil continues to add new air services agreements with European countries, such as the memorandum of understanding signed with Portugal on June 28, 2019. Through this memorandum of understanding, previous capacity and tariff restrictions on air passengers and cargo between the countries and allowing designated airlines to offer international flights to any destination in both countries. In addition, wider freedom with respect to code-shares will be introduced.

**Europe – Brazil – 2018 Market Share (based on RPKs)**




*Source: Direct Data Solutions (IATA)*

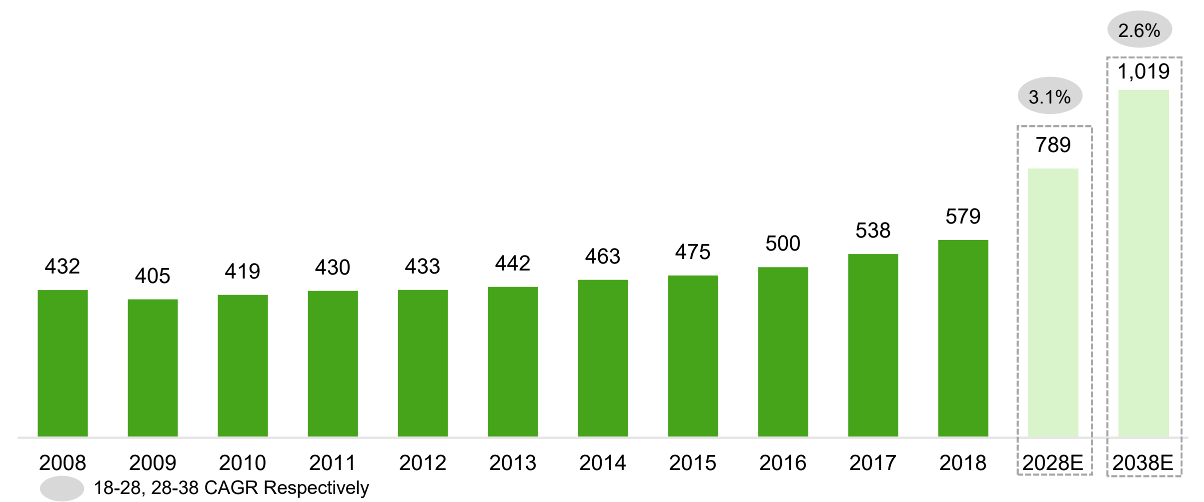
*Europe – North America*

The market for transatlantic passenger air travel between Europe and North America is largely served by legacy network carriers connecting large cities through long-haul flights. These routes often connect hub airports and feed networks that provide service within the continents. In 2018, the North Atlantic market represented 579 billion RPKs, having expanded at a CAGR of 3.0% since 2008. Demand is influenced by macroeconomic conditions in North America and Europe, foreign exchange rates and geopolitical developments.

A notable trend in the market is the continued growth and evolution in the variety of business models operated by airlines. The low-cost, long-haul (LCLH) business model has evolved in recent years, which has driven both traffic growth and fragmentation of nonstop city pairs in the North Atlantic market. The LCLH market share of departures has grown from 1.1% in summer 2012 to almost 6% in summer 2018. Additionally, legacy carriers have begun to segment their product offering, as several have increasingly focused on brand differentiation and ancillary revenues.

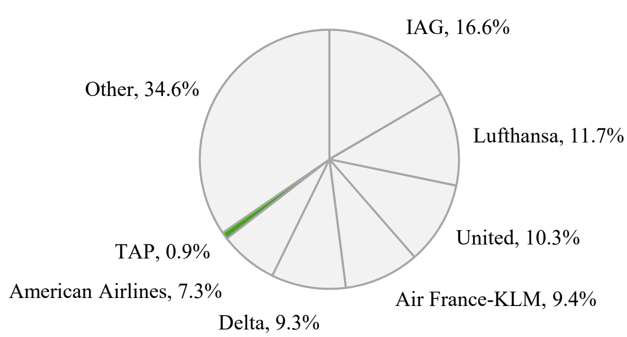
Key drivers of continued traffic growth have been economic growth, increased liberalization and greater passport ownership in the U.S. coupled with long-haul LCCs and increased tourism. The U.S. international market is expected to grow by 280 million passengers by 2037, with a transatlantic passenger CAGR of 4.9% driven by new market potential. RPKs are expected to continue to grow at 2.9% through 2038, corresponding to 1.8x GDP growth.

**Europe – North America RPK Growth**




*Source: Boeing Commercial Market Outlook*

**Europe – North America – 2018 Market Share (based on RPKs)**



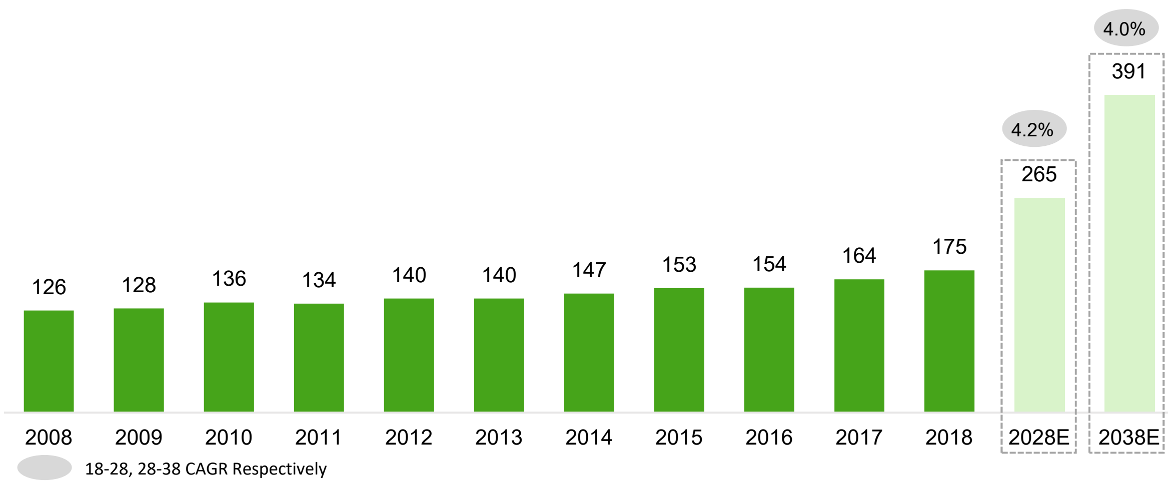

*Source: Direct Data Solutions (IATA)*

*Europe – Africa*

In 2018, the market for passenger air travel between Europe and Africa represented 175 billion RPKs, having expanded at a CAGR of 3.4% since 2008. Demand is influenced by economic and geopolitical conditions.

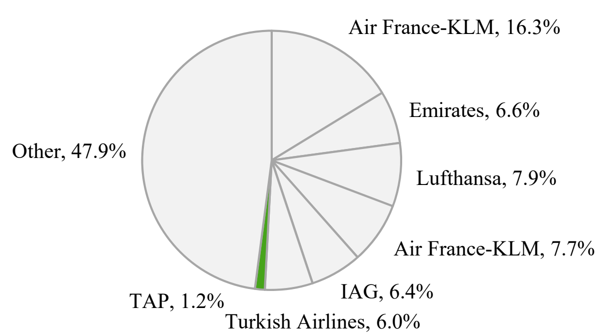
The proximity of certain cities in North Africa to Europe enables some routes in this market to be served through short-haul flights flown by both legacy network carriers and LCCs.

**Europe – Africa RPK Growth**




*Source: Boeing Commercial Market Outlook*

**Europe – Africa – 2018 Market Share (based on RPKs)**




*Source: Direct Data Solutions (IATA)*

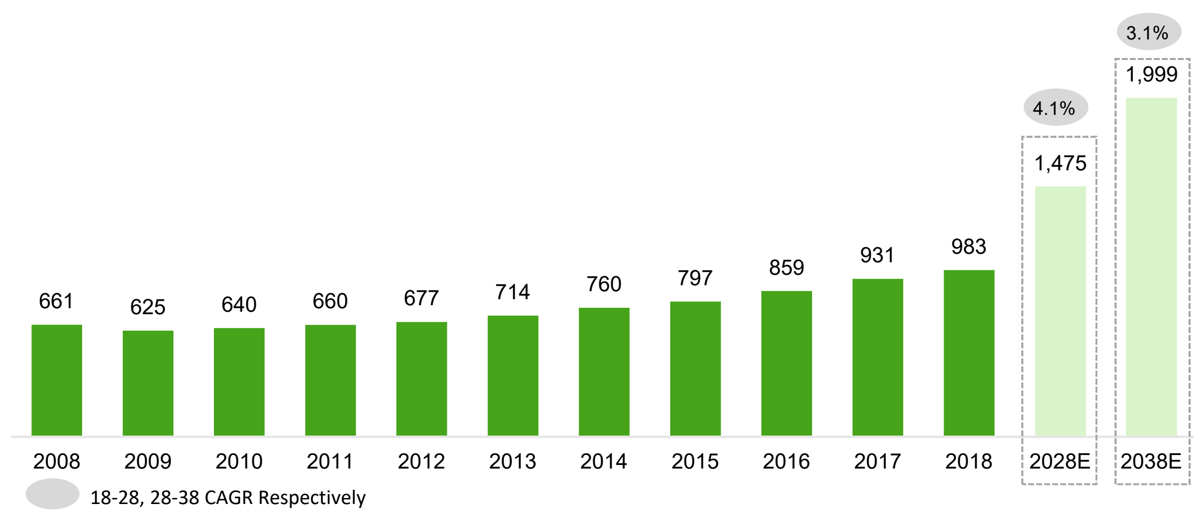
***Intra-European Passenger Airline Market Overview***

The commercial aviation industry in Europe today is shaped by decades of changing economic, political and regulatory conditions. Growth of the industry was accelerated in the 1990s by the liberalization of EU air transportation regulation. A series of measures aimed at deregulating aspects of the industry significantly affected competition and catalysed the growth of LCCs. This liberalization of air traffic has opened up the market, and airlines have responded by adapting their business models accordingly. In 1992, EU Member States adopted a package of liberalization measures that permitted greater access to intra-EU international routes. In 1995, the creation of the EEA extended these measures to Norway, Iceland and Liechtenstein. In 1997, liberalization was further extended to domestic routes of members of the EEA, allowing EEA carriers to provide passenger services on any route within the EEA without restriction on price or capacity. These developments led to industry growth, as the total market size for commercial passenger air travel in Europe reached 2,175 billion RPKs and 1,123 million passengers in 2018, according to the ICAO.

In addition, the EU has established horizontal agreements with a number of third-party nations including the United Arab Emirates, as well as full open skies agreements with nations such as the United States, Israel, Norway, Iceland, Montenegro, Serbia, Croatia, Macedonia, Albania, Bosnia and Herzegovina, Kosovo, Georgia and Moldova. These open skies agreements have progressively liberalized air markets, ultimately allowing any number of carriers to operate services on any route without price or capacity restrictions.

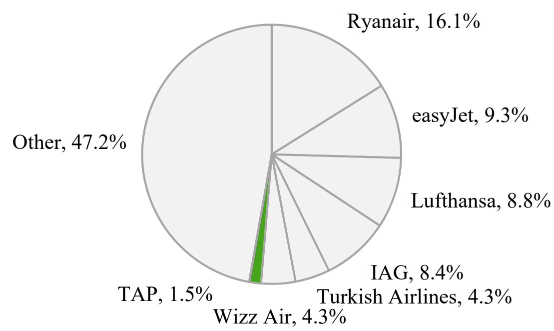
The European airline market generally follows economic cycles, with a long-term correlation between RPK growth and GDP growth.

**Intra-European RPK Growth**




*Source: Boeing Commercial Market Outlook*

**Intra-European 2018 Market Share (based on RPKs)**



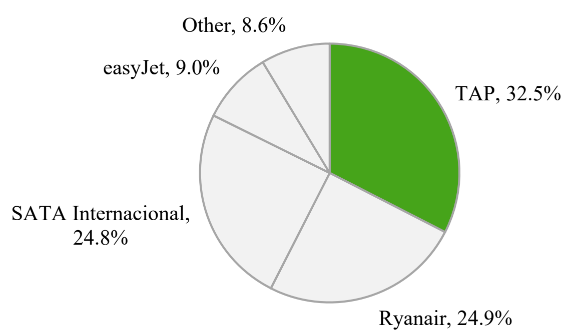

*Source: Direct Data Solutions (IATA)*

In addition to global economic conditions, passenger demand and fare levels have historically been influenced by the general state of the economy, international events, industry capacity and pricing actions taken by other airlines.

***Passenger Aviation, an Important Industry and Service within Portugal***

Passenger aviation comprises a meaningful portion of the Portuguese economy. TAP, the country's largest airline, earned €3,177 million in operating income in 2018, equivalent to 1.6% of the country's GDP of €201.6 billion over the same period. With approximately 9,000 employees, TAP is also one of Portugal's largest employers, and passenger aviation employees typically earn higher incomes than the median national income. Additionally, passenger aviation provides important links between the country's largest cities and islands in the North Atlantic as well as the rest of the world. Given that rail and road networks in Portugal tend to be less efficient than other geographies in Europe, passenger aviation services across the country receive widespread support.

**Intra-Portugal –2018 Market Share (based on RPKs)**



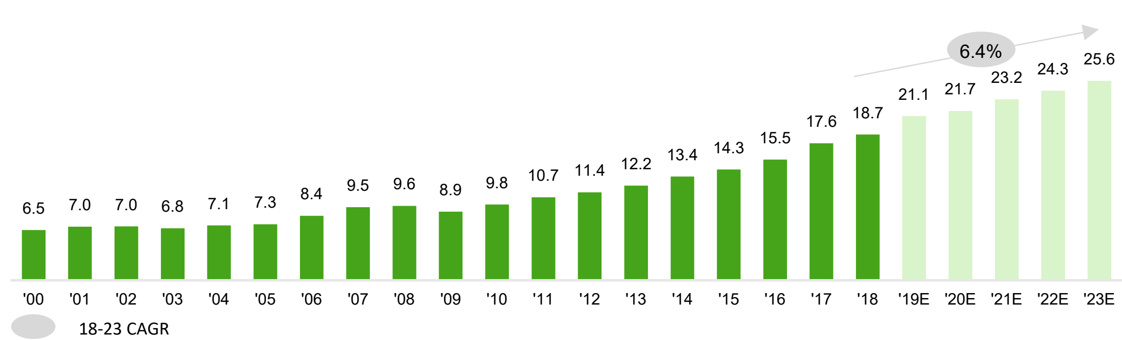

*Source: Direct Data Solutions (IATA)*

Broader support for the country's travel and tourism industry indirectly contributes to the passenger aviation industry in Portugal. Travel and tourism contributed €14.3 billion to the economy in 2018 through direct contribution (i.e. internal spending in the travel and tourism industry – accommodation, food, transportation, among others) and government individual spending (e.g., spending on cultural and recreational sites). Including indirect and induced impacts, such as investment spending and spending of direct and indirect employees, total contribution to GDP was estimated to be €38.4 billion or 19.1% of GDP in 2018 (Source: WTTC). Furthermore, direct contribution from the travel and tourism industry supported 389,196 jobs, or 8.1% of total employment in 2018, whilst total contribution supported 21.8% of total employment (1,047,430 jobs) in 2018.

This travel and tourism industry in Portugal depends on the efficient transportation of tourists to and around the country, vineyards in the northern part of the country, islands such as the Azores and Madeira and other popular destinations including a historic capital city. As such, the country's tourism board has significantly increased its efforts to encourage tourism, resulting in a robust tourism increase with non-resident tourists arriving in Portugal reaching 22.8 million in 2018. This represented 7.5% growth from 2017. Portugal ranks tenth among the most visited European countries by international tourist arrivals (Source: WTO). In addition, according to the WEF Travel & Tourism Competitiveness Index 2019, Portugal is the 12th most competitive country worldwide, which represents an improvement in its rank by two positions since 2017. Portugal also scores highly on the Tourist Service Infrastructure index due to its high hotel and ATM density as well as its high quality tourism infrastructure (Source: WEF). The growth of the travel and tourism industry in Portugal has been influenced by a recovering and growing economy in recent years, reflecting an increased domestic demand, growth in the export sector, the rolling back of austerity measures and the hosting of several high profile events in recent years. According to Fitch Solutions and the World Bank, international tourism receipts have increased from €6.5 billion in 2000 to €18.7 billion in 2018, representing a CAGR of 6.0%, and an increase in GDP contribution from 5.1% to 9.3% over the same time period. Through our Stopover program, we are actively encouraging international tourists to visit Portugal by allowing fliers to spend up to five nights in Lisbon or Porto for no extra charge on their way to more than 75 destinations. The program, which was launched in 2016, was voted the world's best by the readers of Global Traveler magazine in 2019 and comprises a network of more than 150 partners providing exclusive offer for customers of the Stopover program.

The growth of the tourism and travel industry in Portugal as well as its overall contribution to the Portuguese economy is expected to further continue in the long run. Direct and total contribution to GDP is expected to rise by 2.6% and 2.4% per year, respectively, between 2018 and 2028. As a result, direct contribution is expected to reach €18.0 billion or 8.2% of total GDP, and total contribution is expected to reach €44.7 billion or 20.5% of GDP. Direct and total contribution to employment is projected to rise by 1.6% and 1.3% per year, respectively, in the same timeframe, resulting in 1,151,000 jobs (24.9% of total employment) from total contribution (Source: WTTC). International tourism is a significant contributor to this growth, as receipts from international tourists are expected to increase to €25.6 billion by 2023 (6.4% CAGR from 2018 to 2023). Finally, tourist arrivals in Lisbon could more than double if the Lisbon airport were to be expanded, potentially receiving 50 million passengers by 2050, up from its current capacity of 22 million (Source: Euromonitor).

**International Tourism Receipts in Portugal (€ billion)**




*Source: Business Monitor, World Bank, Fitch Solutions*

## BUSINESS

### Our history

Since our inception in 1945, we have been the flagship Portuguese airline. We mainly operate in passenger and cargo air transport. We also provide aircraft maintenance support services to our fleet and to other airlines. We are headquartered at the Lisbon airport, which is our main hub of operations.

In 2003, following a corporate restructuring process, we became fully owned by Parpública, a state-owned Portuguese company, through its holding company, TAP SGPS. In 2015, TAP SGPS was privatized with Atlantic Gateway acquiring a 61% interest in TAP SGPS's share capital and voting rights. Subsequently, on June 30, 2017, as a result of the negotiations between the Portuguese public authorities and Atlantic Gateway, the Portuguese State, through Parpública, regained 50% of the share capital and voting rights of TAP SGPS.

As of the date of this presentation, Parpública holds 50% of the share capital and voting rights and 5% of the economic rights of TAP SGPS while the private shareholder Atlantic Gateway holds 45% of the share capital and voting rights and 90% of the economic rights of TAP SGPS. The remaining 5% of TAP SGPS's share capital, voting rights and economic rights are held by other shareholders as a result of a public offer. The public offer was made on April 10, 2017 and reserved to employees of TAP SGPS and other TAP Group companies. This public offer was launched as part of the process of re-privatizing our share capital pursuant to the Resolution of the Council of Ministers no. 42-A/2017 of March 23, 2017. As a consequence, employees of the TAP Group acquired a total of 75,000 shares representing 5% of the share capital and voting rights of the Parent, some of which have already been sold to third parties.

Since our privatization in 2015, our business has evolved and grown as demonstrated by the evolution of our geographical reach, active staff and our fleet. The following chart includes certain operating information relating to the evolution of our business since our privatization:

| | | | Total Aircraft at End of Period | | | | |
|---|---|---|---|---|---|---|---|
| As of | Cities Served | FTEs[(1)] | Owned | Finance Leases | Operating Leases | ACMI | Total[(2)] |
| December 31, 2016 | 75 | 7,200 | 5 | 23 | 35 | 17 | 80 |
| December 31, 2017 | 83 | 7,470 | 5 | 18 | 44 | 21 | 88 |
| December 31, 2018 | 81 | 8,145 | 7 | 16 | 52 | 21 | 96 |
| September 30, 2019 | 90 | 8,937 | 5 | 16 | 66 | 21 | 108 |

(1) Active Staff.
(2) Total fleet at the end of the period, including aircraft operated under wet lease agreements and aircraft in phase-in or phase-out.

### Products and services

Our principal service is the air transportation of customers, which generates passenger ticket and non-ticket revenue. In addition, we generate revenue through our cargo and mail transportation services and through the provision of maintenance services to our fleet and other airlines.

#### *Passenger air transport*

We target business and leisure long haul travelers from the Americas to Africa and Europe by offering convenient and frequent services to 93 overall destinations as of September 30, 2019. We also target short haul travelers from Portugal to other cities in Europe with our extensive European route network and our segmented pricing model, offering different fares for the same flight.

From the year ended December 31, 2016, the number of passengers we transported has grown at a faster rate than the main leading European airlines (based on the information available on investor relations websites of Air-

France/KLM, Deutsche Lufthansa AG, AIG Ryanair Holdings PLC and International Consolidated Airlines Group (IAG)). The number of passengers we carried increased by a nearly 16% CAGR from 11.7 million passengers in 2016 to 15.8 million in 2018. As of the nine months ended September 30, 2019, the number of total passengers we carried grew by 7.2% as compared to the nine months ended September 30, 2018. As of September 30, 2019, air transport represented 88.5% of our total operating income.

Our growth has also been significant in terms of our revenue. From December 31, 2016 to December 31, 2018 our revenue grew by approximately 19.1% CAGR. Our growth is partly due to our strategic geographic location in Lisbon, which allows us to connect Europe to the Americas and Africa (through owned routes, code-share flights and other cooperation agreements). As of the date of this presentation, we serve 93 airports in 36 countries.

Our Lisbon hub's geographical advantage is particularly illustrated through its routes to the Americas: Lisbon is approximately 430 kilometers closer on average to the main airports in the east coast of the U.S. and Mexico and approximately 1,250 kilometers closer on average to the main airports in South America than certain other airports in Europe (Madrid, London, Paris and Frankfurt). As a result, the fuel cost of a flight from Lisbon to the main airports of the U.S. east coast and Mexico or of South America is on average around $2,000 and $5,000 less per flight, respectively, than from such airports in Europe.

Furthermore, we have been implementing an effective strategy prioritizing fleet investments, as well as improving passenger experiences. We offer on-board services to our passengers, which we expect to be enhanced following through our fleet renewal and transformation strategy.

***Cargo and mail***

Our cargo and mail transportation business provides direct cargo and mail transportation services to over 90 Portuguese and international destinations and has sales representation in over 36 countries. Our cargo and mail transportation business is Portugal's largest provider of air cargo services as measured by cargo capacity and is the leading air cargo provider on Brazil to European routes. Our air cargo logistic services are provided on domestic, European and international flights, where we carry cargo and mail on our passenger flights, while keeping a close outlook for freighter opportunities on our key trade lanes.

Our cargo and mail transportation business has been consistently growing, with a 15% CAGR from the year ended December 31, 2016 to December 31, 2018. As of September 30, 2019, cargo and mail transportation income represented 4% of our total operating income. We expect to further expand this business with the launch of our new destinations and also through new off-line SPA partnerships for cargo.

***Maintenance and Engineering***

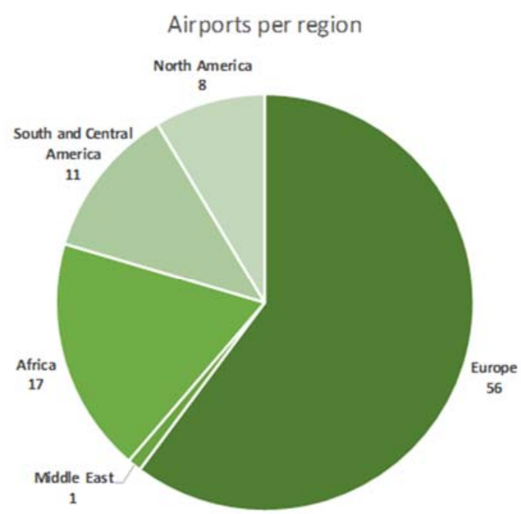
Our maintenance and engineering business provides maintenance services to our fleet and engines, as well as to other airlines. Revenues from maintenance and engineering have increased substantially from €79.1 million to €234.2 million from the year ended December 31, 2016 to the year ended December 31, 2018. This growth rate of 196% was related to an increase in demand from customers that include major European airlines but also some American, and more recently, Asian airlines. We also have existing management contracts with the French Air Force and SATA for the provision of regular maintenance and engineering services. As of September 30, 2019, maintenance and engineering represented 6.5% of our total operating income.

Our focus has been on building customer loyalty and broadening our base, especially in the engine maintenance business. The engine maintenance business is profitable because while it is labor intensive and requires high skilled labor, there are not a lot of high costs that we need to incur to provide it.

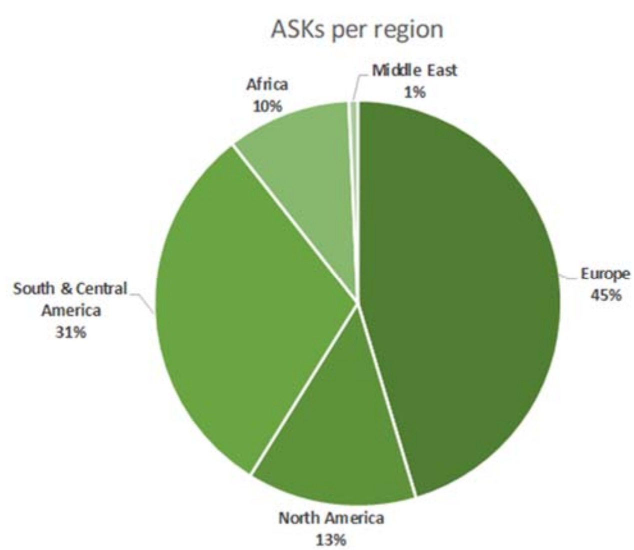
**Network and markets**

As of September 30, 2019, we flew to 93 airports in 36 countries worldwide with an average of approximately 400 flights per day. We operate a hub and spoke model, with our main hub being in Lisbon, to connect people from the U.S. and South America to Europe and Africa. To determine the frequency in our routes and new destinations that will increase our profitability, we look at factors such as the profitability of each route, its volatility, the impact on our network of increasing the frequency of our flights on that route or flying to different destinations, seasonality, among others. In addition, we are constantly examining our operational metrics to find opportunities to diversify our network and hence reduce the volatility in our business. For example, our flight services to the U.S. help us counter the volatility of travelers in the Brazilian market and our exposure to the Brazilian real currency exchange risk.

The chart below presents a geographic breakdown of the airports we flew to (excluding through our strategic alliances and code-sharing agreements) as of September 30, 2019:

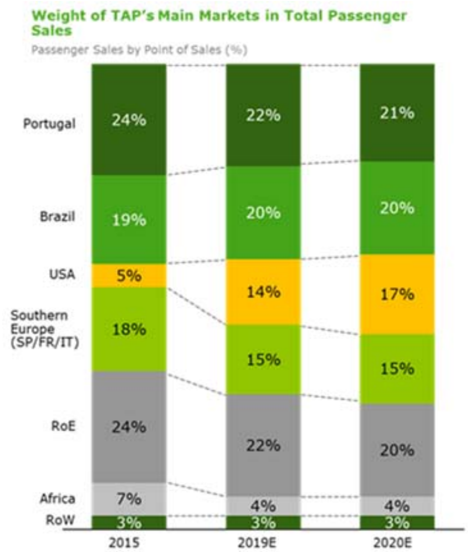



Moreover, the chart below represents a geographical breakdown of our capacity, measured by ASKs, as of September 30, 2019:

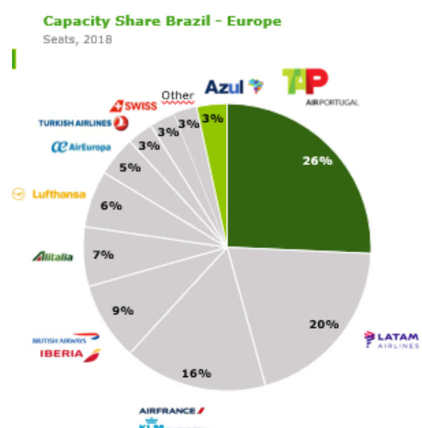



The U.S. market has increasingly become important to our business and we expect to continue increasing our presence in this region. In 2019, we opened new routes to Washington D.C., San Francisco and Chicago in 2019.

The chart below presents the portion of our passenger sales by region for the year ended December 31, 2018 and our expectations for the years ended December 31, 2019 and 2020:

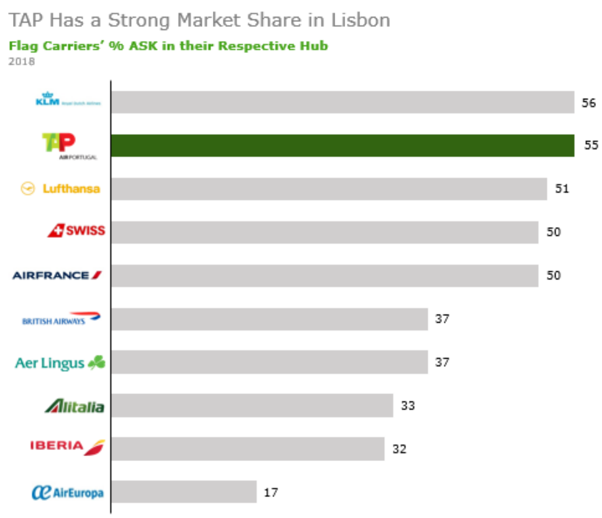



Our business has largely focused on three geographical areas: Europe, the Americas and Africa. In particular, Brazil has historically been one of our largest markets. In 2018, TAP carried 89% of passengers with non-stop direct flights between Brazil and Portugal. We also held a significant market share of 26% of seat capacity for flights from Brazil to Europe in 2018 as indicated in the chart below:




***Portugal***

Portugal represents our highest earning market, representing approximately 22% of our total passenger sales as of September 30, 2019 (sales originating in Portugal). We have a leading position in the Lisbon hub, with a 55% market share in 2018 as indicated in the following chart:




Moreover, we have an air bridge between Lisbon and Porto, which strengthens the connection between the two largest Portuguese cities.

We have also been reinforcing our presence in the Azores and Madeira islands, having transported more than 1.1 million passengers to these destinations during the nine months ended September 30, 2019, representing an increase of 7.5% over the same period in 2018.

***Europe***

For the nine months ended September 30, 2019, the European market, excluding Portugal, accounted for approximately 38% of our total passenger sales, a 6.2% increase in the number of passengers compared to the same period in 2018. In Europe, we adjust our routes according to demand, aiming to prioritize availability for connecting flights with long-haul passengers, which tend to be more profitable. In 2018, 55% of our passengers from the Americas to Europe passed through the Lisbon hub on connecting flights.

Our flight offering in Europe has grown significantly, with the number of weekly routes and flights increasing. In June 2019, two new destinations in Europe were launched: Naples, our sixth destination in Italy, and Tenerife, which will be our eleventh route in Spain and our second destination in the Canary Islands.

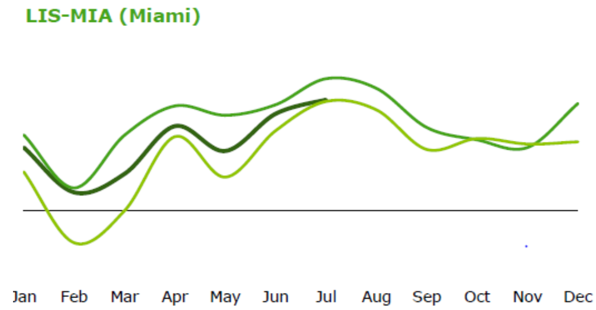
***North America***

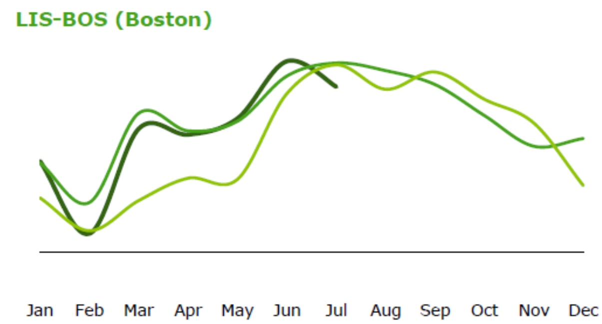
North America was the fastest-growing passenger revenue market in 2018, representing approximately 10% of total passenger sales (compared to 5% in 2015) and a trend that continued in the nine months of 2019 with North America representing 12% of total passenger sales as of September 30, 2019. As of September 30, 2019, we serve seven destinations in the U.S. and one in Canada. We increased our weekly flights to North America from 16 in 2015 to 56 in 2019 with an aim to reach 71 by 2020.

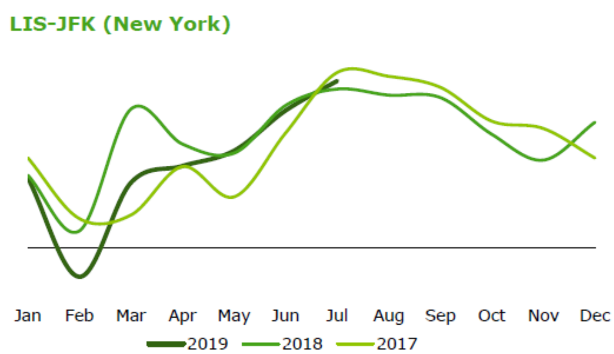
Our strategy is to increase our presence in the North American market, both by opening new routes and by increasing flights on existing ones. North American passengers are also important in our Stopover program, which allows TAP customers with stopover flights in Lisbon or Porto to make a free stop of up to five nights in these cities. We carried approximately 765 thousand North American passengers during the nine months ended September 30, 2019, representing a 24.8% increase over the same period in 2018 and an increase in ASK of approximately 250% compared to 2015.

In the summer of 2019, we started flying to Washington D.C., San Francisco and Chicago. In addition to opening these new routes, we have also increased our weekly flights from Porto to Newark Airport in New York.

U.S. routes are highly profitable and increase our U.S. dollar revenue. The charts that follow show the expanding margin percentages despite capacity additions in flights from Lisbon to Miami, Boston and New York. The contribution margin is calculated as the total operating revenues less the variable operating costs less the fixed operating costs less the normal and special passenger commissions, all of it divided by the total operating revenues.




In the first nine months of 2019, five of our seven most profitable wide-body routes were from Portugal to the United States.

We have invested in various campaigns and promotional materials for our North American market, with marketing initiatives targeting B2B and B2C, using digital and offline marketing on direct channel (flytap) and also on indirect channels, namely travel agents with the emphasis of Portugal as a destination.

***South and Central America***

Despite the recent adverse macroeconomic and exchange rate environment, Brazil accounted for 21% of our total passenger sales (passenger sales within Brazil) for the nine months ended September 30, 2019. Brazil has remained one of our main markets, with 85 weekly flights to 10 destinations (five of which are exclusive to us) as of

September 30, 2019 with an aim to increase our weekly flights to 88 by 2020. This is an increase from 77 weekly flights in 2015.

The chart below presents the number of cities we served in Brazil relative to our peers as of September 30, 2019:


***Africa***

Angola (Luanda) is our largest market in Africa and represents 3% of our total passenger sales for the nine months ended September 30, 2019. Our operations in Africa are mainly focused on the Portuguese speaking countries but we have also recently expanded to French speaking African countries through routes to Belgium and France. In addition to Angola, we fly to 10 other countries and 16 destinations in Africa, including Mozambique and Cape Verde, which together represent 4% of total sales as of September 30, 2019.

The number of passengers we transported to Africa during the nine months ended September 30, 2019 grew 11.2% compared to the same period in 2018.

**Partnerships and Alliances**

As part of our plans to expand globally, we have established strategic partnerships that allow us to improve our overall network, expand our international connectivity, offer more attractive benefits to our *Miles&Go* customers, enhance our brand and build customer loyalty and revenue. These strategic partnerships provide for expanded cooperation through commercial cooperation agreements, code-share and interline arrangements, as well as marketing initiatives, loyalty program reciprocity or benefit sharing, enhanced service levels at airports and equity and debt investments in us by our partners, or by us in our partners.

Our commercial cooperation agreements establish broad frameworks for cooperation in such areas as code-sharing, interlining, marketing, service and aircraft and engine maintenance, among others areas. Interline agreements are entered into among individual airlines to handle passengers traveling on itineraries that require multiple airlines, allowing passengers to utilize a single ticket and to check their baggage through to their final destination. Interline agreements differ from code-share arrangements in that code-share arrangements allow airlines to identify a flight with an airline's code even though the flight is operated by another airline, which enhances marketing and customer recognition.

We have entered into commercial cooperation agreements with several international carriers, such as code-share and frequent flyer reciprocity agreements with Azul and frequent flyer reciprocity across all Star Alliance Member Carriers and interline and code-share agreements with several other international carriers, including Lufthansa Group carriers (Lufthansa, Swiss, Austrian and Brussels Airlines), United Airlines, Air Canada and Jet Blue. We believe these strategic relationships allow us to increase our sales on flights departing from Portuguese airports in cooperation with our partners and expand our brand exposure internationally benefiting both our Portuguese-based and international customers. Our code-share agreements with our partners, such as with Azul, JetBlue, Lufthansa Group carriers and United allow us to sell flights on-line to destinations served by multiple carriers, contributing to the growth of our international operations and offering our passengers additional connectivity beyond Portugal. Furthermore, our relationships with other carriers allow us to expand our cargo operations by offering these services beyond the locations served by our own aircraft.

As a result of code-share arrangements and relationships, our customers have access to more than 160 additional destinations worldwide. Also, under interline relationships, our customers have access to destinations worldwide operated by our interline partners, which are approximately 100 carriers. We believe that our strategic relationships with our partner airlines, particularly Azul and Star Alliance Member Carriers, provide our *Miles&Go* members with a broad range of attractive redemption options and allow us to leverage our *Miles&Go* program beyond our own network. We continue exploring joint ventures and other arrangements with our strategic partners to determine the most effective and beneficial ways to expand our business and increase profitability through these relationships.

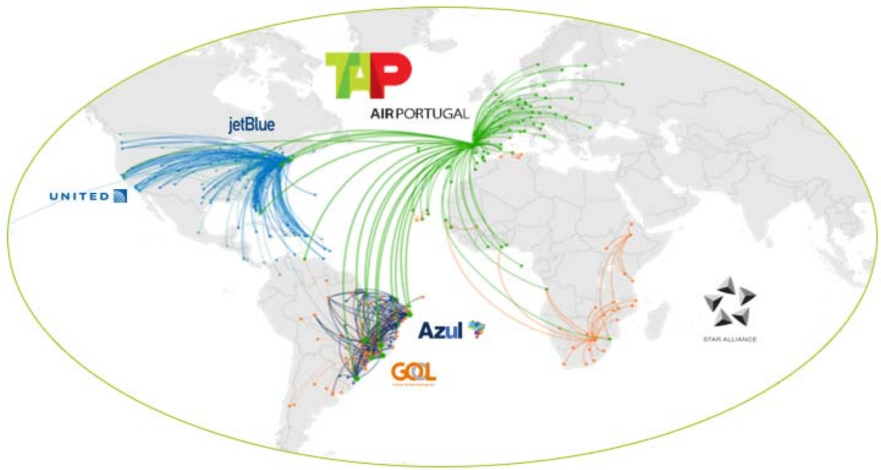
Likewise, we joined the Star Alliance in 2005, a global commercial aviation alliance with approximately 1,300 destinations and 26 member-carriers as of the date of this presentation. The purpose of the alliance is to provide airlines with innovation towards the efficient performance of their business while ensuring customers the best possible connections between continents. Each airline maintains its own individual style and cultural identity, bringing the richness of diversity and multiculturalism to the alliance. In addition, each airline shares a common dedication to the highest standards of safety, customer service and technical infrastructure. The Star Alliance has a track record of success towards innovation and excellence and has been named best airline alliance at Skytrax World Airline Awards for four consecutive years.

Our participation in the alliance's global multi-hub system has enabled us to benefit from the traffic provided by other members' operations and to diversify our offering by increasing the number of shared-code destinations.

Moreover, we have entered into shared-code partnership agreements with other airlines, including Azul, Gol, United and JetBlue, key partnerships for the consolidation of our dominant position in the Brazilian market and our expansion in the North American market.

The map below illustrates our global network reach through our own routes, Star Alliance network and our code-share and other strategic cooperation agreements.

**Our Network**




***Miles&Go*** **Loyalty Program**

Our wholly-owned loyalty program, *Miles&Go*, which was initially launched in 1992, aims to enhance customer loyalty and brand recognition. *Miles&Go* had approximately 4.1 million members as of September 30, 2019.

Members of the *Miles&Go* program are credited with miles based on the flights they make with us or on how much use they make of the products and services offered by the program's partners. The miles are credited in accordance with predefined rates and terms and conditions.

As soon as they join, program clients earn *Miles&Go* for each flight with us or a partner airline or use of a service provided by *Miles&Go* program partners. Miles must be claimed within six months of the date the service was provided and clients have to wait for eight days after flights operated by Star Alliance members to claim miles for these flights. New *Miles&Go* clients may only earn miles for flights completed from the registration date. We decide on the type and number of miles to be credited by each program partner and for each service provided to the client based on the criteria set forth below:

- Only flights in our network and selected flights operated by *Miles&Go* program partner airlines are recognized.
- The number of miles is calculated on the basis of the flight's departure and arrival airports and the fare (brand) purchased. The distance is based on the points of departure and arrival indicated on the passenger's ticket and IATA standards.
- *Miles&Go* are awarded for First, Business and Economy Class travel. Silver and Gold clients travelling with us will earn extra miles according to their tier level (*Miles&Go* status).

*Miles&Go* miles are valid for three years from date of collection. Before expiry, the validity of miles can be renewed for a fee paid by credit card.

*Miles&Go* clients have access to additional status-dependent benefits when travelling with us. Flight benefits are understood to be related to the travel experience, such as: seat reservation, priority check-in, priority boarding, extra luggage, fast track and lounge access.

Since the program's inception, *Miles&Go* members have generally demonstrated a willingness to pay higher average fares than those paid by non-members. We believe this is in part because of high customer satisfaction, increased passenger loyalty and because many of our business travelers, who frequently purchase more expensive, last-minute tickets, are typically also *Miles&Go* members.

To maximize the value creation potential of *Miles&Go*, we have been managing the program through a separate, dedicated team since 2003. On a standalone basis, *Miles&Go*'s income was €31.8 million for the nine months ended September 30, 2019.

Given the number of exclusive destinations we operate, our network strength, the expected growth of passenger air travel, credit card penetration and usage and member loyalty in Portugal, we believe that *Miles&Go* is a key strategic asset for us. We plan to continue investing in *Miles&Go*'s expansion and evaluating opportunities to unlock value for this strategic asset.

Certain of key operating statistics demonstrating *Miles&Go*'s growth are set forth below:

| | **As of and for the nine months ended September 30,** | | **As of and for the year ended December 31,** | | |
|---|---|---|---|---|---|
| | **2019** | **2018** | **2018** | **2017** | **2016** |
| *Miles&Go* Income (in millions of euros). | 31.8 | 18.5 | 24.7 | 25.2 | 21.2 |
| Total members (in millions) .................... | 4.1 | 3.2 | 3.4 | 2.6 | 2.2 |
| Ground partners...................................... | 102 | 93 | 95 | 85 | 95 |
| Airline partners....................................... | 30 | 33 | 32 | 31 | 31 |
| Total points sold (in billions) .................. | 11.9 | 4.8 | 7.4 | 6.8 | 6.5 |

We also launched *Miles&Go* Club, which requires an annual fee and allows for immediate travel, bonus miles credited monthly, more miles per trip and with banking partners and other benefits.

Our credit rights, intellectual property and software agreements under the *Miles&Go* program may be pledged as a security interest under our Parent Convertible Bond. See "Description of Certain Indebtedness—Parent Convertible Bonds."

**Revenue Management**

Our revenue management model is focused on effective pricing and yield management, which are closely linked to our route planning and our sales and distribution methods. We utilize a yield management system that is key to our strategy of optimizing yield through dynamic fare segmentation and demand stimulation. We target both business travelers, to whom we offer convenient flight options and cost-conscious leisure travelers, to whom we offer low fares to stimulate air travel and to encourage advanced purchases.

The fares and the number of seats we offer at each fare are determined by our proactive yield management system and are based on a continuous process of analysis and forecasting. Past booking history, load factors, seasonality, the effects of competition and current booking trends are used to forecast demand. Current fares and knowledge of upcoming events at destinations that will affect traffic volumes are also included in our forecasting model to arrive at optimal seat allocations for our fares on specific routes. We use a combination of approaches, taking into account yields and flight load factors, depending on the characteristics of the markets served, to design a strategy to achieve the maximum revenue by balancing the average fare charged against the corresponding effect on our load factors.

Our model of fare segmentation seeks to maximize revenue per seat through dynamic inventory adjustment depending on demand. By increasing price segmentation, we are able to ensure that we continue to attract and retain high-yield business traffic, including last-minute seat availability for late booking business travelers, which is integral to our revenue management, as well as leisure travelers who usually pay lower fares for tickets purchased in advance.

Utilizing the appropriate aircraft for a specific market enables us to better match capacity to demand. As a result, we believe we are able to enter new markets, cater to underserved destinations with high growth potential and provide greater flight frequency than our main competitors. With this model, we optimize revenue through dynamic fare segmentation, targeting both business travelers, who appreciate the convenience of our frequent non-stop service and cost conscious leisure travelers, many of whom are first-time or low-frequency flyers and for whom we offer low fares to stimulate air travel and encourage advance purchases.

**Fleet**

***General***

We have made a clear commitment to the reinforcement, modernization and comfort of our aircraft and as part of our on-going fleet transformation, 27 new aircraft have started or are expected to start operating during 2019. This renewal will be our largest aircraft phase-in operation in history and is a milestone for us. The renewal of our fleet allows us to improve our offered products to passengers, increases our operational efficiency levels and reinforces our commitment to punctuality and quality with our customers.

Our fleet has been and is being renewed with the introduction of Airbus neo airplanes that have features aimed at greater passenger comfort: business-class flatbed seats with more space and economy-class ergonomics, a quieter cabin, a state-of-the-art entertainment system and free unlimited Wi-Fi text messaging, among other benefits. Furthermore, these aircraft are more efficient, with fuel consumption savings.

Our fleet renewal and transformation aims to meet the best service and product standards. Customers increasingly value elements such as reliability, regularity, punctuality, timing, flight frequency, equipment comfort and flight experience which are inevitably linked to the characteristics of the aircraft, which must be comfortable, modern and technologically advanced. Our new aircrafts are also more efficient with lower fuel consumption and they have lower noise and greater flexibility in terms of flight range.

The following table sets forth the composition of our total fleet, including spare aircraft, for the periods indicated.

| | | **As of December 31,** | | | **As of September 30,** |
|---|---|---|---|---|---|
| **Total Fleet** | **Number of seats**[1] | **2016** | **2017** | **2018** | **2019** |
| Embraer aircraft | | | | | |
| E-190 | 106 | 9 | 9 | 9 | 9 |
| E-195 | 118 | - | 4 | 4 | 4 |
| ATR aircraft | | | | | |
| ATR 72 | 70 | 8 | 8 | 8 | 8 |
| Airbus aircraft | | | | | |
| A340 | 268 | 4 | 4 | 4 | 4 |
| A330 | 269/263/279[2] | 16 | 18 | 17 | 11 |
| A330 neo | 298 | - | - | 3 | 14 |
| A319 | 144 | 21 | 21 | 21 | 20 |
| A320 | 174 | 19 | 20 | 21 | 19 |
| A320 neo | 174 | - | - | 1 | 6 |
| A321 | 216 | 3 | 4 | 4 | 4 |
| A321 neo | 216 | - | - | 4 | 6 |
| A321 neo LR | 168 | - | - | - | 3 |
| **Total** | | **80** | **88** | **96** | **108** |

(1) Number of seats available for sale.
(2) The A330-200 GE has 269 seats available for sale, whereas the A330-200 PW has 263. Each A330-300 has 279 seats available for sale.

***New Models of the TAP Fleet***

*A330neo*

We were the first airline in the world to fly the A330neo and its new version of the Airspace cabin, which represents a new concept attuned to our ambition to offer the industry's best product to the customers. By the end of 2018, three A330neo had already entered our fleet, two of which started to fly in January 2019. Since December 31, 2018, we have introduced 11 additional A330neo, all of which started to fly prior to the end of September 2019.

In addition to a state-of-the-art entertainment system and Wi-Fi connectivity, the A330-900neo has 298 seats in a comfortable three-class cabin configuration. Furthermore, the new aircraft incorporates the latest generation of highly efficient Rolls-Royce Trent 7000 engines and a new 3D-optimized, longer wing with new vertical wing-tip extension for the best aerodynamic performance. These advances bring a significant reduction in fuel consumption per seat compared to our prior fleet (-28% compared to the A340 and -16% compared to the A330-200, based on data for the month of August 2019).

We have nearly completed the renewal of our wide-body/long-haul fleet with over 70% of neo wide-body block hours expected in the month of December 2019, up from 0% in 2018. Transitioning from the A330ceo to A330neo has reduced our CASK for these flights by 19% (from 5.07 to 4.12) and improved our PRASK by 3% (from 4.9 to 5.1) while increasing seats by 29 per flight or 11%. Our wide-body block hours are also expected to change from 100% on average for the A330ceo in 2018 to 26% in 2021, once neos replace the A330ceo.

*A321 Long Range*

The A321 Long Range is our first narrow-body aircraft capable of operating transatlantic routes, offering the premium comfort of a long-haul aircraft. It has 16 business-class seats and offers more economy-class space, equivalent to that available on the A330neo.

The A321 Long Range is essential to our expansion plan, as it allows us to reach destinations in the Americas from Lisbon that other wide-body airlines can only do with wide-body aircraft. The Lisbon-Washington D.C. route, which is expected to be run by the A321 Long Range, has an estimated fuel consumption saving of approximately 53%, compared to the same route operated with an A330-200. Thus, the A321 Long Range will allow us to travel to markets on the east coast of North America, such as New York, Montreal or Washington D.C. with a smaller aircraft and a lower cost per flight than a wide-body aircraft. In Brazil, this aircraft allows us to increase flights in various cities such as Recife, Natal or Fortaleza and fly to other cities in the north east of Brazil. As of September 30, 2019, we already have three A321 Long Range aircraft in our fleet.

We believe the A321 LR will have a significant impact on our unit economics and long haul flying by deploying additional capacity at lower cost and risk. Compared to the A330ceo, we believe our A321 LR will increase our contribution margin per flight by 8%, from an estimated 19.9% to 28.4%, using the Porto-Newark route as an example. Similarly, we expect fuel consumption, and thus fuel costs, to decrease by 51%, from 5,011 kg/BH to 2,450 kg/BH from the A330ceo to the A321-LR. Our narrow-body A321 LRs are also expected to take advantage of Lisbon's location, with key North Atlantic and South Atlantic cities (including New York, Newark, Washington D.C., Boston, Toronto, Philadelphia, Montreal, Fortaleza, Recife, Maceió, Belém and Natal) reachable from Lisbon but not from other major European airports.

*A321neo*

More environmental-friendly and versatile, the A321neo adds comfort, modernity and a significant reduction of cabin noise compared to its predecessor aircraft. It also adds greater efficiency, consuming approximately 22% less fuel than the A321, based on data for the month of August 2019, making it more flexible in terms of operability and allowing to fly longer routes. As of September 30, 2019, our fleet already includes six aircraft of this model.

*A320neo*

The new A320neo aircraft have fuel savings per seat of 29% compared to the A319 and 19% compared to the A320 (based on average fuel consumption of all aircraft operating by fleet type during the month of August 2019). The estimated operational cost savings (measured in CASK savings) from January 1, 2019 to August 31, 2019 are approximately 12% when compared to the A320ceo and 21% when compared to the A319ceo. The A320neo has 30 more commercial seats than the A319ceo (168 for the A320neo compared to the 138 for the A319ceo). As of September 30, 2019, we already have six A320neo aircraft in our fleet.

We expect to also renew our narrow-body fleet over a short period of time with our A320neos expected to comprise 33% of A320 BHs in the month of December 2019, up from 2% in 2018.

**Fuel**

Aircraft fuel costs are our second largest operating expense (slightly below traffic operating costs). Aircraft fuel accounted for 24.3% and 24.6% of our total operating costs for the nine months ended September 30, 2019 and 2018, respectively, and 24.9%, 21.2% and 19.5% of our total operating costs for the years ended December 31, 2018, 2017 and 2016, respectively. For 2016, this figure was calculated using information that is not derived directly from our audited financial statements for the year ended December 31, 2016.

Aircraft fuel prices are composed of a variable and a fixed component. The variable component is set by the refinery and reflects international price fluctuations for oil and the euro/U.S. dollar exchange rate. This variable component is reset daily in North America and Europe. The fixed component is a spread charged by the supplier and is usually a fixed cost per liter during the term of the contract.

As of September 30, 2019, we purchase our jet fuel needs from various jet fuel distributors in the jurisdictions in which we operate, other than in Portugal where we predominantly rely on Petrogal, S.A. In the Portuguese airports where our jet fuel consumption is highest, namely Lisbon and Porto, our jet fuel purchases are split among multiple distributors. For our international flights departing from outside Portugal, we usually purchase fuel from providers at the departing airports.

At the end of 2018, TAP implemented its fuel hedging policy with the aim of locking in fuel hedges at competitive prices by locking in approximately 50% of its jet fuel consumption for the next twelve months with the possibility to extend this until 24 months ahead as well as increase the hedging percentage if approved by the Board of Directors. As of November 13, 2019, the average strike price for derivative contracts maturing during the year of 2020 is $603 per mT, which is significantly below our average strike price in 2019 ($628 per mT). Our jet fuel hedge average strike price (US$/mT) for the fourth quarter 2019, first quarter 2020, second quarter 2020, third quarter 2020 and fourth quarter 2020 is expected to be $628/mT, $605/mT, $601/mT, $604/mT and $601/mT, respectively. For the same periods, our hedge ratio as of November 13, 2019 was 74%, 57%, 51%, 52% and 56%, respectively. Our hedge ratio for the next twelve months was 57% at an average price of $608/ton.

International oil prices, which are denominated in U.S. dollars, are volatile and cannot be predicted with any degree of certainty as they are subject to many global and geopolitical factors. For example, oil prices experienced substantial instability beginning in 2009 and through December 2016. Airlines often use WTI crude or heating oil future contracts to protect their exposure to jet fuel prices. In order to protect us against volatile oil prices, we have entered into derivative future contracts in the past. We also have the possibility of negotiating customized hedging products with fuel distributors, with the purpose of locking-in the cost of the jet fuel we will consume in the future and protect ourselves against any exchange rate risk associated to the jet fuel cost. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Principal Factors Affecting Our Financial Condition and Results of Operations—Effects of Aviation Fuel Costs Volatility."

Moreover, we operate an active fuel conservation program involving reducing taxi times, taxiing using a single engine and managing the aircraft's load balance, angles and cruising airspeed for optimal fuel-efficiency.

## Airports and Other Facilities and Properties

### *Airports*

The main airports of Portugal are currently managed by ANA, an airport operator belonging to the Vinci group. The concession contract dictates that changes to fees charged by the airport operator are subject to a cap based on a basket of selected European airports and inflation.

### *Other Facilities and Properties*

Our primary corporate offices and headquarters are located in Lisbon (Portugal), where we own a total area of 217,816 square meters, comprising the following areas:

- Green areas, such as gardens and parks, of approximately 9,714 square meters;
- Built surface area of approximately 97,500 square meters;
- Parking areas exceeding 45,000 square meters;
- Street areas with approximately 63,200 square meters;
- Industrial and administrative areas of approximately 175,000 square meters, including office and industrial buildings, which also include areas leased to other subsidiaries and associates of the TAP Group (UCS, Portugália and SPdH) and Lojas Francas de Portugal.

## Maintenance

Safety is our core value. Aircraft maintenance, repair and overhaul are critical to the safety and comfort of our customers and the optimization of our fleet utilization. Our maintenance policies and procedures are regulated by National and European requirements and our aircraft maintenance programs are approved by ANAC and are based on manufacturers' maintenance planning documents and our own experience. We employ our own experienced qualified technicians to perform maintenance services to our fleet and third parties and rely on outsourced service providers whenever required. All technicians are qualified in accordance with EASA Part 66 and meet stringent qualification requirements. Our maintenance technicians undergo extensive basic and type training provided by TAP's EASA Part 147 Organization and by the relevant OEM's to ensure the safety and continued airworthiness of our aircraft. Our training programs are all approved by ANAC.

Our organization is based on the macro processes of our activity in order to guarantee clear accountability and aimed to achieve high levels of safety, quality, efficiency and cost effectiveness. As part of this organization, we have established an Engineering and Airworthiness and Quality and Safety departments both overseeing the compliance of all airworthiness requirements in accordance with ANAC and EASA regulations. Both departments set the standards and specifications for maintaining our aeronautical products, monitor the performance and reliability of the aircraft systems, engine and components, perform root cause analyses of defects and plan schedule maintenance activities.

Aircraft maintenance and repair consists of routine and non-routine maintenance work and is divided into two general categories: line maintenance and base maintenance.

Line maintenance consists of scheduled pre-flight, daily and weekly maintenance checks. Troubleshooting, routine tasks and any unscheduled maintenance is on an as needed basis. All our line maintenance is currently performed by our own experienced and certified technicians, primarily in Lisbon but also in Porto, Faro, Luanda, Maputo and all our Brazilian destinations.

Base maintenance consists of more complex tasks and require well equipped facilities, such as hangars. Base maintenance checks are performed following a long-term plan with a pre-defined work scope. The scheduled interval for such major checks is set forth in the approved aircraft maintenance program and is based on the number of hours flown, landings and/or calendar time. Base maintenance checks may normally take from one to six weeks to be accomplished, depending on the work package and typically are required approximately every 24 months. Structural inspections require the lengthy down times and occur every 6 years.

Engine and component maintenance are mainly performed on our shops, following a "condition monitoring" or "on condition" concept, in the case of TAP's fleet or contracted by customers. The maintenance may consist on a defined repair or a full performance restoration in case of engines or full overhaul when referring to components. This activity, as well as airframe, is conducted under our EASA Part 145 and required international certifications (United States Federal Aviation Administration, TCCA, amongst others) held by TAP Maintenance and Engineering. Some engine repair activities as well as some components maintenance are outsourced.

In the case of the Trent 7000 engine, equipping our A330 neo fleet, we have entered in a Total Care Agreement with Rolls-Royce which covers all shop maintenance and is paid in accordance with the flight hours flown on a monthly basis.

TAP holds on site the parts and products inventory required to support its fleet maintenance activity, as well as a comprehensive number of spare Engines and APU's.

Our maintenance and engineering operations are also certified in accordance with ISO 9001 and EN 9110 which represents and guarantees high standards of quality and risk based management processes.

Performing its own maintenance while selling services to third parties grants to TAP a very competitive maintenance cost, flexibility and availability, ensuring the high safety and quality levels required.

**Safety and Quality**

We are committed to the safety and security of our customers and crewmembers and are certified by the IATA operational safety audit, an internationally recognized quality and safety evaluation system designed to assess the operational management and control systems of an airline. We maintain a safety and security team, divided into five departments: (i) Risk Management (ii) Promotion and Safety Intelligence, (iii) Emergency Response Plan, (iv) Security and (v) Environment. All our safety and quality team members have significant international experience in the commercial aviation industry and some of them are active members of EASA and IATA working groups, such as European operators flight data monitoring, accident classification technical group, hazard identification technical group and cabin operations safety technical group which provides them not only with knowledge of airline safety and quality systems. TAP is a Star Alliance member and is part of the Star Alliance Safety Committee.

The safety team is responsible for maintaining the safety management system of the company by addressing safety risks that have the potential to affect aircraft operations based on the analysis of Safety information: reports, internal safety investigations, flight data monitoring and safety audits. The safety team is also responsible for managing emerging risks that derive from change processes throughout the organization. All these safety processes maximize proactive and predictive actions to achieve high levels of safety.

The operational quality department conducts audits and inspections in all operational areas in accordance with a quality management system. These stringent standards and requirements are key to assuring the very highest levels of safety and quality throughout the operational areas.

The emergency response team is responsible for developing the corporate response Plan. This team also maintains a care team, composed of volunteers that are trained for emergency situations. This department also conducts regular drills, trainings and relevant media training along with our communications office, contact center, TAP Stations and TAP Management in order to maintain a higher safety standard.

The Security department focuses on the protection of aviation operations against acts of unlawful interference in compliance with EU and other security international regulations, such as ICAO, ECAC, TCCA and TSA, as well as physical, electronic and cybersecurity at administrative and operational facilities.

We are currently investing in state-of-the-art aircraft which are equipped with new technologies such as ROPS and AP TCAS ensuring a safer operational environment. The new fleet is also more efficient and environmentally friendly which has always been a major priority for us.

All our crew use electronic flight bags, an electronic information management device that helps flight crew perform flight management tasks safely. We maintain our aircraft in strict accordance with manufacturer specifications and all applicable safety regulations, perform routine daily line maintenance, which provides close monitoring of malfunction trends in systems and components. We also strive to comply with or exceed all health and safety standards. In pursuing these goals, we maintain an active aviation safety program, which all our personnel are expected to participate in and take an active role in the identification, reduction and elimination of hazards.

Our ongoing focus on safety and quality are reflected in the training of all of our staff, who are provided with the appropriate tools and equipment required to perform their job functions in a safe and efficient manner.

**Customer Service and Experience**

We believe that a high quality product and exceptional service significantly enhance customer loyalty and brand recognition through word-of-mouth, as satisfied customers communicate their positive experience to others. Based on this principle, we have built a strong company culture focused on customer service that serves as the foundation of a differentiated travel experience.

Since our privatization, we have been reinforcing our commitment to improving the quality of our service. In this sense, we have been developing several initiatives at various levels and some positive impacts of these initiatives are now recognized.

In order to better understand customer satisfaction, we currently use the NPS tool to receive feedback and gain insight into which points to improve. After each travel journey, customers receive a questionnaire so that they can evaluate the various stages of their journey with us, thus measuring their level of satisfaction and recommendation of us for travel. To implement a continuous improvement culture based on customer feedback, we created a customer committee, a biweekly meeting where the management team analyzes customer feedback, decides the projects to improve NPS and follows all the ongoing projects that impact our customers.


Indicators in the various pre-flight, flight and post-flight phases (for flights departing within 15 minutes of scheduled time) as of September 30, 2019 have shown significant successive improvements.

According to surveys we have conducted, as of September 30, 2019, 44% of our customers would recommend or strongly recommend us to a friend or relative.

Moreover, we have been developing a series of initiatives to improve punctuality levels, namely the availability of spare aircraft, an increase in the number of pilots and cabin crew and the organization of operational information and of work teams in a more efficient manner—including the implementation of a new operational management IT system better suited to our volume of operations and an integrated shared operations center.

**Marketing**

We strive to achieve a high marketing impact through efficient and effective marketing and advertising strategies. We believe we have been successful in building a strong brand by focusing on innovative marketing and advertising techniques rather than traditional marketing tools, such as print ads. Our marketing and advertising techniques focus on social networking tools (Facebook, Twitter, Instagram and YouTube), email, websites, mobile marketing and generating word-of-mouth recognition of our service, including through our *Miles&Go* loyalty program.

Our marketing and advertising strategies also involve sales and promotion campaigns with our travel partners. In addition, we increase our visibility and brand recognition by featuring TAP Air advertisements on the individual entertainment screens at every seat in all of our wide-body fleet, as well as onboard items branded with our logo.

We also build our brand by offering our business travelers with our VIP lounge in several airports. Additionally, we engage in marketing by maintaining planes with color, graphic and typographical identifiers painted with recognizable symbols, like the Portuguese flag. Furthermore, we engage in guerilla marketing campaigns (which consist of marketing activities conducted in public places, such as the airports and the aircraft that we operate) to enhance our brand recognition and provide promotions directed at our customers.

*Awards*

The strength of our brand has been recognized in a number of recent awards:

*Portugal*

- Award "Best Company – Which company would you most like to work for?" awarded by readers of Human Resources magazine.
- 3rd place at the "Randstad Employer Brand 2018," which awards the most attractive companies to work for according to the insight of the active population.
- Internationalization Award, awarded by PayPal, for its payment system and innovation.
- Universal McCann (UM) internally awarded the campaign created for TAP for the Portugal Stopover program (bronze).
- Best Airline in the tenth edition of the Marketeer.
- A' Design Award (silver) for Interior Space and Exhibition Design category, for the TAP Lounge at Humberto Delgado Airport.
- "Switch to Portugal mode" campaign won the M&P Creativity Award in the Autopromotions and Innovation in Media/International Markets categories.
- TAP Cargo won three T&N Cargo Awards, awarded by Transportes & Negócios magazine.
- TAP's "Retrojet" project wins a prize and two honorable mentions at the Media&Advertising awards.

- Largest and Best Exporter in Portugal, a distinction awarded by Exame Magazine, within the scope of the 500 Largest and Best Companies annual ranking.

*International*

- Outstanding Food Service by a Carrier – Readership Awards.
- Travel Plus Awards – Gold award for TAP's amenity kits and baby kits.
- Management Excellence Award from The Airline Strategy Awards organized by Airline Business.
- World Travel Awards: European Leading Company for Africa, European Leading Company for South America and European Leading In-flight Magazine – UP Magazine.
- Received distinction by Reader's Digest for being among the best Companies in the world in in-flight meal services.
- "Favorite Airline in Europe" from Trazee Travel Awards 2018.

**Sales and Distribution**

We currently sell our offerings through five primary distribution channels: (i) our website, (ii) our mobile app, (iii) our call center, (iv) airport stations and (v) third parties such as travel agents, including through their websites. Direct internet bookings by our customers represent our lowest cost distribution channel. Approximately 33% of all sales were generated by online channels in the nine months ended September 30, 2019, which create significant cost savings for us. We intend to continue working to increase sales through online channels, in particular sales through our website and our mobile app, as these sales are more cost-efficient and involve lower distribution costs than sales through travel agencies. We are also working on a new distribution model in order to reduce distribution costs through GDS, resulting in a considerably lower indirect distribution cost. In connection with sales booked through travel agents, we pay incentive commissions to these agents who attain our sales targets rather than upfront commissions. We maintain a high-quality call center, staffed solely with our crewmembers, as we believe that having a high-quality call center is crucial to our culture focused on customer service. We charge a fee for reservations made through our call center to offset its operating costs.

**Employees**

We believe that the quality of our employees, whom we refer to as crewmembers, impacts our success and growth potential. We believe we have created a strong service-oriented company culture, which is built around our values of safety, integrity, passion, innovation and sustainability. We are dedicated to carefully select, train and maintain a highly productive workforce of considerate, passionate and friendly people who serve our customers and provide them with what we believe is the best flying experience possible. We reinforce our culture by providing an extensive orientation program for new crewmembers and instill in them the importance of customer service and the need to remain productive and cost efficient. Our crewmembers are empowered to not only meet our customers' needs and say "yes" to a customer, but to also listen to our customers and solve problems.

We communicate regularly with all of our crewmembers, keeping them informed about events at our offices and soliciting feedback for ways to improve teamwork and their work environment. We conduct an annual crewmember survey and provide training for our leadership that focuses on crewmember engagement and empowerment. Our executives are also expected to interact with our customers when traveling to obtain feedback and suggestions about the TAP Air experience.

We are one of the main national employers in Portugal. As of September 30, 2019, the TAP Group had an active aggregated workforce of 10,844 employees, including TAP's 8,937 employees. We have been strengthening our structure with new hires to cover our growth. Since 2017, 2.526 new employees were hired, both into technical and flight areas, as well as business support areas. This recruitment strategy reflects our growth with the increase of the fleet and also launch of new routes. In 2018, more than 300 pilots and 1,000 flight attendants were hired. In 2019 alone, 816 workers have been hired so far and one thousand people are expected to be hired in 2020, of which over 140 are pilots.

We are focused on increasing the efficiency and productivity of our crewmembers. The following table sets forth the number of our crewmembers per category and the number of full-time equivalent employees ("FTEs") per aircraft at the end of the periods indicated:

| | For the nine months ended September 30, | At December 31, | | |
|---|---|---|---|---|
| **Crewmembers** | **2019** | **2018** | **2017** | **2016** |
| Pilots | 1,345 | 1,118 | 994 | 928 |
| Flight attendants | 3,431 | 3,215 | 2,879 | 2,427 |
| Airport personnel | 374 | 357 | 284 | 272 |
| Maintenance personnel | 1,844 | 1,827 | 1,903 | 1,892 |
| Call center personnel | 306 | 297 | 230 | 234 |
| Others | 1,637 | 1,331 | 1,180 | 1,447 |
| **Total** | 8,937 | 8,145 | 7,470 | 7,200 |
| End-of-period FTEs per aircraft(1) | 82 | 85 | 85 | 90 |

(1) Considering Total Fleet at the end of the period (including aircraft under wet-lease agreements)

We provide extensive training for our crewmembers that emphasizes the importance of safety. In compliance with Portuguese, European and international IATA safety standards, we provide training to our pilots, flight attendants, maintenance technicians, managers and administrators and customer service (airport and call center) crewmembers. We have implemented employee accountability initiatives both at the time of hiring and on an ongoing basis in order to maintain the quality of our crew and customer service. We currently operate 3 flight simulators with an extensive training program, 2 of them in TAP facilities and a third one in Sintra.

There are several unions representing TAP's different professional groups including pilots, flight assistants, engineers and maintenance technicians. In 2018, after a difficult social instability period, some negotiations took place and we entered into long term agreements with our unions. These agreements provided for wage increases on mutually acceptable terms and are for a duration of 5 years. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Comparability—Restructuring and Labor Instability in 2018."

Our compensation strategy is competitive and meant to retain talented and motivated crewmembers and align the interests of our crewmembers with our own. Salaries, wages and benefits paid to our crewmembers, include, among others, health care, dental care, child care reimbursement, life insurance, school aid (granted to expatriate executive officers only), bonuses, pension plans, transportation tickets, food allowances and meal vouchers.

Likewise, we have been developing various programs to improve internal satisfaction and employee recognition. In this context, the TAP Stars Program was created to recognize employees who have been identified for their exemplary work and the TAP NPS TOP Performer Program to identify the highest-rated cabin crew by customers.

Among the main projects implemented in Human Resources during the nine months ended September 30, 2019, we implemented our Employee Passenger Program. The Employee Passenger Program makes employee travel on our flights more uniform and equitable. We also implemented "RH Consigo", a point of contact between our employees and the Human Resources department, with new communication channels with the HR Team.

Furthermore, we introduced a global performance appraisal, talent management and accountability model in 2018.

We have won several awards that attest to the level of satisfaction of our employees, including the following:

- "Best Company – Which Company would you like to work for the most?" Award in 2018 from readers of Human Resources magazine.
- 2nd place in the "Randstad Employer Brand 2018" award, which highlights the most attractive companies to work according to the perception of the working population.
- "Best Employer Brand Company," award in 2019 from readers of Human Resources Magazine.

**Insurance**

We maintain insurance policies as required by law and the terms of our aircraft leasing agreements. Our insurance coverage for third-party and passenger liability is consistent with general commercial aviation industry standards in Portugal and Europe and we insure our aircraft against physical loss and damage on an "all risks" basis. We maintain all mandatory insurances coverage for each of our aircraft and additional insurances coverage required by lessors: liability cover for war and associated acts, including terrorism, is also covered under war and allied risks insurance which is provided by a combination of policies in accordance with the Extended Coverage Endorsement AVN 52E and is subject to an overall combined single limit (bodily injury/property damage) of not less than US$1,500,000,000 simultaneously for a single occurrence and as the annual aggregated amount; however, this limit shall not apply to cargo and mail whist on board an aircraft, passengers and passenger baggage. No assurance can be given, however, that the amount of insurance contracted will be enough to protect us from material loss. See "Risk Factors—Risks Related to Our Business and Our Operations—Increases in insurance costs or a reduction in insurance coverage could have an adverse effect on our business."

**Corporate Social Responsibility and Environmental Initiatives**

Aviation is a key driver of sustainable development, bringing together people, businesses and communities. Safe, reliable, efficient and cost-effective air transport are important components of a broader mobility strategy to foster development. Since our inception, we have engaged in activities that promote social awareness aiming to be a model in the Portuguese market of the transformation of individuals, companies and society.

The main premise of our corporate social responsibility strategy is the connection between our business, our employees' engagement and the potential for long-term value creation with lasting projects. Our corporate social responsibility includes: TAP Donate Miles Program, Solidarity Auctions and Campaigns and Donations.

TAP Donate Miles is currently supporting six NGO's and other associations whose missions recognizes and supports donations of miles from *Miles&Go* customers. We auction seats and other cabin material (that are no longer in use on the airline), and apply auction revenues to social institutions. We also promote internal campaigns and donations to support other causes.

Our main purpose is to connect people, economies and communities and we believe it is in reinforcing our values that our impact and contribution to the development of society can be maximized, in full alignment with our business.

Respect for people is fundamental to building strong and lasting relationships. We provide our crewmembers with training opportunities and promote equality, non-discrimination and diversity. For our customers, we offer a great customer experience including friendly, reliable and punctual service. We are continuously working to increase accessibility to our services.

The continuous improvement of environmental performance is a priority for us. We assume the commitment to minimize impact through resource consumption reduction, waste management, fleet modernization and fuel efficiency. Year after year, we have been improving our environmental commitment without compromising growth.

Energy, environmental and operational efficiency are our main action focus. In the retrofit operation of our aircraft, in progress since October 2016, we replaced the cabin interiors with more lightweight and environmentally friendly materials, reducing their weight and allowing greater performance. Throughout this process we have been working with national suppliers whenever possible, significantly reducing our ecological footprint. The materials chosen for the seats are an example—the seat skin is hardened and prepared in a Portuguese factory. The project includes the renovation of 7 thousand seats with national design, materials and labor.

For several years we have been committed to reducing greenhouse gas emissions and becoming more fuel-efficient to meet the strict goal defined by the aviation industry "Improving energy efficiency by 1.5% per year until 2020," which is one of the reasons for investing in modernizing our fleet. Until 2025, we expect to have received a total of 71 new aircraft (between A320neo, A321neo and A330neo). These new aircraft, along with new high-efficiency engines, allowing for a significant decrease in fuel consumption and $CO_2$ emissions.

Between 2015 and 2018, the environmental performance indicator for our global operation, improved 13.5% ($CO_2$ emissions per passenger) and the trend is toward improvement. For 2019, we estimate a 4.5% reduction in this indicator, as a result of the entry into operation of these the last generation neo aircraft from Airbus that allow us to be one of the companies with one of the most modern, efficient and environment-friendly fleets.

We have been for several years committed to reducing these emissions. The International Air Transport Association ("IATA") is currently reviewing and updating industry standards related to emissions.

We proudly became the first airline in the world to launch a Carbon Emissions Offset Program, in partnership with IATA, which earned us the "Planet Earth Award 2010" awarded by UNESCO and the International Union of Geological Sciences.

When passengers purchase a ticket at flyTAP, they are offered the option to offset the carbon emissions ($CO_2$) associated to their flights. The emission calculation is determined through a methodology developed by the International Civil Aviation Organization ("ICAO"), according to parameters such as flown distance, the booked class or average $CO_2$ emissions of the aircraft that operate the route. This program allows supporting projects certified by the United Nations in developing countries.

We are also undertaking an effort to look for more sustainable and reusable options on-board our flights. Some of the materials used in our flights are already reusable and collected by our caterers in Portugal. We are considering further transitioning to reusable, lighter and ideally plastic-free materials, such as cutlery, bowls and cups. We are currently identifying new solutions that will ensure the increase in the usage of more sustainable in-flight products while meeting the limitations imposed by the sector and by food & health regulations.

We are also promoting energy efficiency in our TAP Campus in Lisbon, where our major maintenance facilities are located. Through auditing we analyze detailed consumptions in each facility and equipment, identifying technical and economic measures feasible to increase energy efficiency.

**Licenses**

We depend on various licenses to carry out our business. These licenses relate to, among other areas, aircraft operation, environmental matters and airport assistance (including occupation and market access). The most relevant of these licenses are our Air Operator Certificate and our Operating License, each as issued by ANAC.

We also depend on certain licenses to conduct the baggage and handling operations necessary to our business. We rely on SPdH (or Groundforce) as the legal holder of these licenses.

## Intellectual Property

### *Brands*

We have registered, applied for registration or renewed licenses for approximately 40 trademarks with the Portuguese Institute of Industrial Property - INPI including, among others that have been granted, the trademarks "TAP Air Portugal", "FLYTAP" and "TAPVICTORIA". We also hold multiples trademarks with the EU and in several other jurisdictions where we operate.

We operate software products under licenses from our vendors, including but not limited to Amadeus IT Group SA, SAP SE and Lufthansa Systems GmbH & Co. KG. Under our agreements with Embraer, ATR and Airbus we use their knowledge and proprietary information to maintain our aircraft.

### *Patents*

We possess no patents registered with or granted by the INPI, except for a design patent applicable across EU for our marketing campaign "Portugal Stopover Tap Portugal."

### *Domain Names*

We have also registered several domain names with EuroDNS S.A. and other domain registers, including, among others, "flytap.com".

## Legal Proceedings

We are not currently party to any governmental, legal or arbitration proceedings which, if adversely determined, could have a material adverse effect on the continuity of our business, financial conditions, results of operations or prospects, except for (i) several administrative offenses from ANAC and other authorities, in particular related to violations of the rules on slots, noise and night time operating restrictions in the course of our activity, (ii) a legal proceeding initiated by a specific union against us based on an alleged breach of a previous agreement, where the claim is material, but based upon the advice of counsel and information available at this time, we believe there is a limited probability of success and (iii) legal proceedings against TAP Manutenção e Engenharia Brasil S/A to which the Company was called as a party, related to the lease of land with environmental risk. If (i), (ii) or (iii) were to be adversely determined, they could have a material adverse effect on us. We intend to pursue all available legal remedies against the allegations produced in these legal proceedings. We are also a defendant in a number of minor legal proceedings, mainly relating to our air carrier business (for example, passenger claims for cancellations or lost/damaged baggage), which are related to our business activities and which we do not consider to be individually material. In addition, we are also involved in a number of ongoing employee claims, labor disputes and tax disputes arising in the ordinary course of our business.

# MANAGEMENT

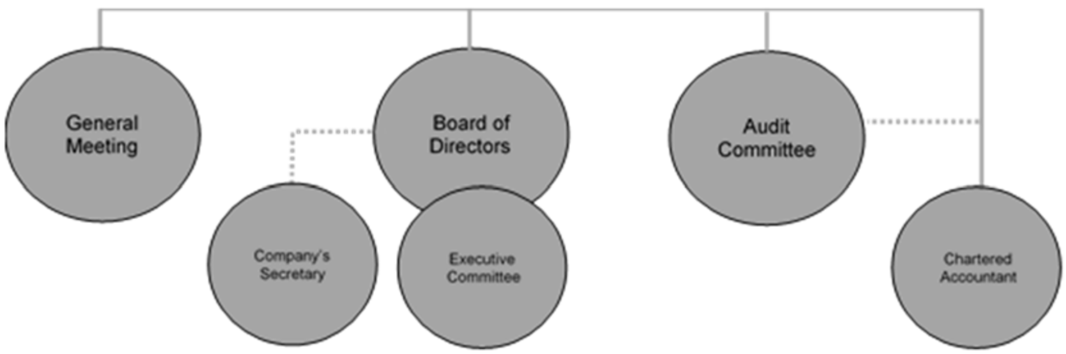
## Overview

TAP's corporate bodies are the Board of Directors, the General Meeting and the Audit Committee. We also have an appointed Chartered Accountant as required by Portuguese law. The members of our corporate bodies perform their capacities for a period of three (3) years, which is renewed as authorized by law.

Pursuant to the Shareholders Agreement, between Parpública and Atlantic Gateway, the members of our corporate bodies are nominated by the Board of Directors of the Parent, further to a proposal by Atlantic Gateway.

We also have an Executive Committee empowered by the Board of Directors and a Company's Secretary, appointed as provided for in the respective articles of incorporation and with the capacities provided for by law.

In a simplified form, the following organizational chart presents the several corporate bodies of our Executive Committee:




## Board of Directors

The Board of Directors is in charge of representing us and performing all necessary acts to manage our business. The Board of Directors' responsibilities include:

- managing our activities;
- managing corporate businesses and perform all acts relating to the corporate purpose that are not under the capacity of our other corporate bodies;
- acquiring, dispose of or encumber rights or personal assets or real property and holdings in other companies;
- taking out loans in the national or foreign financial market;
- deciding on the issuance of bonds or other securities, within such limits as annually set by the General Meeting;
- representing us in court and out of court, actively and passively, with the possibility of withdrawing, settling and confessing in any disputes and also settle arbitration agreements;
- establishing the technical and administrative organization for the company and its internal functioning rules;
- granting powers of attorney; and
- performing other capacities attributed by law or by the General Meeting.

Pursuant to our articles of incorporation, the Board of Directors may be composed of a minimum of three members and a maximum of 11 members, all of them elected by the General Meeting.

Pursuant to our articles of incorporation, the Board of Directors sets the dates or frequency of meetings, which happen, at least, once every quarter and whenever the Chairperson summons a meeting, on their own initiative. In the absence or impediment of the Chairperson, a meeting may be called by a deputy or at the request of at least two board members, or by request of Audit Committee.

The decisions shall be taken by a majority of the votes cast. Abstentions are not counted as votes cast. Pursuant to TAP's articles of incorporation, the Board of Directors may delegate, within the limits established by law, day-to-day management on one or more appointed board members or an Executive Committee.

As of the date of this presentation, TAP's Board of Directors consisted of the following five members elected for the three-year period of 2018–2020:

| **Name** | **Title** | **Election Date** | **Term of Office Ends** |
|---|---|---|---|
| Humberto Manuel dos Santos Pedrosa............. | Chairman | January 31, 2018 | December 31, 2020 |
| David Gary Neeleman...................................... | Director | January 31, 2018 | December 31, 2020 |
| Antonoaldo Grangeon Trancoso Neves............ | Director | January 31, 2018 | December 31, 2020 |
| David Humberto Canas Pedrosa........................ | Director | January 31, 2018 | December 31, 2020 |
| Raffael Guarita Quintas Alves........................... | Director | January 31, 2018 | December 31, 2020 |

The office of the abovementioned members of the Board of Directors (as well as other members of the corporate bodies), will end on December 31, 2020, but the Board members will remain in office until new members are elected, which will usually be in the annual general shareholders' meeting prior to March 31, 2021.

***Biographical Information***

Biographical information of the members of the Board of Directors is set forth below:

*Humberto Pedrosa*

*Chairman of the Board of Directors.* Mr. Pedrosa has served as Chairman of our Board of Directors since 2015. He also serves as Chairman of the Boards of Directors of the Parent, of Portugália and of a number of other companies in the transportation sector controlled by him and as director of Barraqueiro SGPS, S.A. Mr. Pedrosa professional life has been focused in the transportation sector, having participated in, among others, the following transactions: the acquisition and management of road passenger transport companies Rodoviária do Algarve, Rodoviária do Alentejo, Rodoviária da Estremadura, Rodoviária do Sul do Tejo and Rodoviária de Lisboa (this last entity being the official means of transportation for visitors to Expo 98), resulting from the reprivatization process of the Rodoviária Nacional in the 1990's, the foundation of the EPTO international grouping compromising the 10 largest European passenger transport business groups in 2006, the Metro do Porto (Porto Subway) project operation in 2010, as well as the contribution to the Brazilian and Angolan international markets with the creation of a passenger road transport operator in Brazil and with the establishment of a road freight transport company in Angola in 2011.

Mr. Pedrosa was awarded as Commander of the Order of Business Merit by the President of Portugal on June 10, 2013.

*David Neeleman*

*Member of the Board of Directors.* Mr. Neeleman is member of our Board of Directors since 2015. He also currently serves as member of the Boards of Directors of the Parent, of Portugália and Chairman of Azul. Mr. Neeleman served as CEO of JetBlue Airways from 1998 to 2007, as Counsel to WestJet Airlines from 1996 to 1999, as Executive Vice-Chairman of Morris Air from 1984 to 1988 and as Chairman of Morris Air from 1988 to 1993. He was also a member of the Executive Planning Committee of Southwest Airlines during the year 1993 and CEO of the company responsible for reservation and check-in systems of airlines Open Skies (which he developed from the ticketing electronic system of Morris Air) from 1994 to 1999.

Mr. Neeleman is a founder of, among others, the American airline company JetBlue Airways in 1998 and of the Brazilian airline company Azul in 2008. He also founded the company supplying systems and services to residential and commercial monitoring Vigzul in 2013 and co-founded the low-fare Canadian company WestJet Airlines in 1996. Likewise, Mr. Neeleman co-founded the charter low-cost fare company Morris Air in 1984. Mr. Neeleman holds a degree in accounting from the University of Utah (U.S.).

*Antonoaldo Neves*

*Member of the Board of Directors and Chairman of the Executive Board of Directors.* Mr. Neves is member of our Board of Directors and the Chairman of our Executive Committee since 2017 and our CEO since January 2018. He also currently serves as member of the Board of Directors of Anima Educação.

Likewise, he served as President of Azul from 2014 to 2017. Before joining the Azul group, Mr. Neves was a global partner at McKinsey in Sao Paulo, where he led the aviation, infrastructure and concession practices in Latin America from 2000 to 2014. In 2011 and 2012, he also was non-executive member of the Board of Directors of Infraero, the Brazilian state-owned company responsible for operating the main Brazilian commercial airports, where he was appointed as Administrator by the Secretary of Civil Aviation of Brazil. Likewise, between 2010 and 2012 Mr. Neves served as executive director at Cyrela, a Brazilian civil construction company, where he was responsible for planning, organization, processes and technology.

Mr. Neves holds a degree in Civil Engineering from the USP – Universidade Estadual de Sao Paulo, a master in Corporate Finance from the PUC – Pontificia Universidade Catolica do Rio de Janeiro and a Master in Business Administration (M.B.A.) from the University of Virginia.

*David Pedrosa*

*Member of the Executive Board of Directors.* Mr. Pedrosa has served as member of our Board of Directors since 2015. He also currently serves as Chief Controller Officer of the TAP Group and as member of the Board of Directors and member of the Executive Committee of the Parent and of Portugália. Mr. Pedrosa worked as an auditor at Deloitte from 2001 to 2003, and from 2003 to 2007, he was appointed as director of the Grupo Barraqueiro and responsible for restructuring the transport network of Rodoviária de Lisboa. Since 2007, he is the director responsible for the financial and management control area and the development of new projects in the road transport sector and in particular in the monitoring of the group companies operating in the Algarve region of the Grupo Barraqueiro.

Mr. Pedrosa holds a degree in Economics by the Portuguese Catholic University.

*Raffael Quintas*

*Member of the Executive Board of Directors.* Mr. Quintas is member of our Executive Board of Directors and our Chief Financial Officer since January 2018. He was a Senior Strategy and Business Development Consultant at Brasil Telecom from 2004 to 2006 and then joined the Internet Group from 2006 to 2007 as Financial Planning Manager, until he was appointed Senior Financial Planning Manager of Azul on 2009. In 2012, Mr. Quintas became the Finance Director (Treasurer) of Azul, an office which he served until 2017. He also has professional experience at the ECM and M&A Departments of Banco Santander.

Mr. Quintas holds a degree in Business Administration from Fundacao Getulio Vargas and a Master of Business Administration (M.B.A.) from the Kellogg School of Management of Northwestern University.

**Executive Committee**

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

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

- management of the Company's activities pursuant to the annual budget approved by the Board of Directors;
- preparation of the Company's annual budget for approval by the Board of Directors;
- contracting and performance of the disciplinary, management and supervision powers of the employees of the Company as well as representation of the Company in its relationships with the employees;
- preparation and presentation to the other board members of the information necessary for the Board of Directors to take decisions, pursuant to the respective agenda;
- presentation to the Board of Directors of matters that require specific technical studies;
- financial, operational, commercial, administrative, marketing and promotional management of the Company;
- negotiation and execution of all necessary or convenient agreements to pursue the Company's corporate purpose, except agreements that imply in the contracting, modification or termination of any loans or issuance of debt instruments, to which the Company or any of its affiliates is a party, with an individual amount higher than 30% of the TAP Group's assets; granting guarantees by the Company and/or any of its affiliates; approval of investments or other capital expenses of the Company and/or its affiliates, with an individual amount higher than 30% of Tap Group's consolidated revenues; approval, modification or termination of partnership or joint-venture agreements to which the Company or any affiliate is a party , with an individual amount higher than 30% of the TAP Group's consolidated revenues; acquisition, encumbrance or sale of assets of the Company and/or any of its affiliates, with an individual amount higher than 30% of the TAP Group's consolidated revenues; acquisition or disposal of control over other companies by TAP; transmission of shares of any of the TAP Group's companies;
- opening bank accounts, negotiate financial conditions with the banks, make payments, make deposits or withdraw money from the Company's bank accounts;
- representing the Company before any ministries, general directions, government departments, municipalities and any public authorities or of other entities, public or private; and
- representing the Company before all courts, whether civil, criminal, administrative, labor and tax in all instances, filing motions, requests, requirements, answers, counterclaims, submitting evidence and filing ordinary or extraordinary appeals; settling all types of cases and disputes, withdraw actions or appeal, freely defining the conditions, settlements and obligations considered to be convenient; settling and withdrawing in any court, in all disputes with a civil, criminal, administrative, and tax nature, with the broadest faculties on behalf of the Company.

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

- approval or modification of the business plan or annual budget of the Company;
- appointment of members of the corporate bodies of companies affiliated or related to the Company;
- approval, modification or termination of any loans, issuance of debt instruments, to which the Company is and/or any of the affiliated companies of TAP SGPS are a party, with an individual amount higher than 30% of TAP Group's total assets;

- granting guarantees by the Company and/or any of its affiliated companies;
- approval of any investments or other capital expenses of the Company and/or the affiliated companies, with an individual amount higher than 30% of TAP Group's consolidated revenues;
- approval of any modifications to the capitalization plan in exhibit 1.1(j) to the direct sale agreement, entered into on June 24, 2015, between Parpública, DGN Corporation, HPGB, SGPS, S.A. and Atlantic Gateway;
- approval, amendment, or termination of partnership or joint-venture agreements to which the Company or any of its affiliates is a party, with an individual amount higher than 30% of the TAP Group's consolidated revenues;
- acquisition, encumbrance or sale of assets of the Company and/or any of the companies it is a part of with an individual amount higher than 30% of the TAP Group's consolidated revenues;
- acquisition or disposal of control over any other company by the Company;
- transmission of shares of any of the TAP Group's companies;
- filing of an insolvency proceeding or a special recovery proceeding of the Company;
- determination of the vote direction of the Company in the general meetings of affiliated companies on the following matters:
    - amendment of the articles of incorporation of any affiliates;
    - amendment of the policy of distribution of dividends of any affiliates;
    - merger, spin-off, capital stock/share capital increases and decreases, transformation, liquidation or dissolution of any of the Company's affiliates in;
    - payment and reimbursement of ancillary payments and definition of the respective terms and conditions.

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

The Executive Committee may not pass resolutions unless the majority of its members attend it or are represented or vote through mail.

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

As of the date of this presentation, the Executive Committee consists of the following individuals whose biographies are included in "—Board of Directors" above:

| Name | Title | Election Date | Term of Office Ends |
|---|---|---|---|
| Antonoaldo Grangeon Trancoso Neves....... | Chairman | January 31, 2018 | December 31, 2020 |
| David Humberto Canas Pedrosa.................. | Director | January 31, 2018 | December 31, 2020 |
| Raffael Guarita Quintas Alves..................... | Director | January 31, 2018 | December 31, 2020 |

**Audit Committee and Chartered Accountant**

TAP's supervisory body is formed by an Audit Committee and a Chartered Accountant, which cannot be a member of the Audit Committee.

The Audit Committee is in charge, under Article 420 of the Portuguese Companies Code, namely, for inspecting the Company's management and verifying the accuracy of the rendering of accounts documents, observing the strict compliance with the law and articles of incorporation. As a result, the Audit Committee prepares, annually, a report on the supervisory activity performed, indicating possibly detected constraints and it issues an opinion on the accounts documents and the allocations of proceeds, submitted by the Board of Directors to the General Meeting.

The Audit Committee is elected by the General Meeting and it is formed by a minimum of three effective members and an alternate member.

Our Audit Committee, elected for the three-year period from 2018 to 2020, is formed by the four members listed below:

| **Name** | **Title** | **Election Date** | **Term of Office Ends** |
|---|---|---|---|
| Sergio Sambade Nunes Rodrigues ............ | Chairman | January 31, 2018 | December 31, 2020 |
| Maria Susana da Mota Furtado e Almeida Rodrigues ............................................... | Incumbent member | January 31, 2018 | December 31, 2020 |
| Baker Tilly, PG & Associados, SROC, S.A., represented by Paulo Jorge Duarte Gil Galvao André .................................. | Incumbent member | January 31, 2018 | December 31, 2020 |
| Joao Miguel Guerreiro Aranha ................. | Alternate | January 31, 2018 | December 31, 2020 |

Biographical information on each member of the Audit Committee is set forth below.

*Sergio Sambade Nunes Rodrigues*

*Chairman of the Audit Committee*. Mr. Sambade Nunes Rodrigues has been with the TAP Group since 2015, working as chairman of the audit committee for Portugália, TAP and Transportes Aéreos Portugueses SGPS, S.A. He also worked for Barraqueiro Group since 2003. He is a member of the audit committee for Barraqueiro SGPS S.A. and CGDP S.A., member of the board of directors for Citirama – Viagens e Turismo S.A., EBGB S.A., Rodoviaria do Tejo S.A. and Totagus – SGPS S.A., manager of Outvalue, Lda. and chairman of the general meeting for Joaquim Jerónimo – Transportes Ferroviarios S.A. He has previously worked for Deloitte in several positions for 10 years. He holds a Bachelor's Degree in business management from Universidade Católica Portuguesa.

*Maria Susana da Mota Furtado e Almeida Rodrigues*

*Member of the Audit Committee.* Ms. da Mota Furtado e Almeida Rodrigues has been a member of the audit committee for TAP and Portugália – Companhia Portuguesa de Transportes Aéreos S.A. since 2015 and she has also been the internal auditor of Barraqueiro Group since 2003. Between 2015 and 2017, she was a member of the audit committee for TAP – Transportes Aéreos Portugueses SGPS S.A. Before that, between 1998 and 2003, she worked at Deloitte, serving as financial auditor of industrial companies. She holds a Bachelor's Degree in economics from Universidade Nova de Lisboa.

*Paulo Jorge Duarte Gil Galvao André (on behalf of Baker Tilly, PG & Associados, SROC, S.A.)*

*Member of the Audit Committee.* Mr. Galvao André has been a member of the audit committee of TAP since 2015. He is partner and head of assurance services at Baker Tilly Portugal. He is also a member of the audit committee for Portugal Telecom Group, Controlinveste Group, Nestlé Portugal and Santander Asset Management. He has previously worked for Deloitte in the risk management department for several years. He holds a Bachelor's Degree in economics from Universidade Nova de Lisboa.

*Joao Miguel Guerreiro Aranha*

*Alternate Member of the Audit Committee.* Mr. Guerreiro Aranha has been an alternate member of the audit committee of TAP since 2015. He is a partner at Baker Tilly Portugal. He has started his career in KPMG and has also worked as assistant manager for Deloitte. He holds a Bachelor's Degree in economics from Universidade Nova de Lisboa and a Masters in Finance from Universidade Católica Portuguesa.

**General Meeting and Company's Secretary**

The General Meeting is comprised of a Chairman and also by a Vice-Chairman and a Secretary. Vitor Pereira das Never was appointed Chairman of the General Meeting as of June 28, 2019. A Vice-Chairman has not been appointed as of the date of this presentation.

The General Meeting's Chairperson is in charge of summoning and conducting the General Meeting and they shall perform their capacities under the law and articles of incorporation.

The Company's Secretary, as well as their deputy, are appointed by the Board of Directors, with the capacities and duties provided for by law. The capacities of the Secretary end with the end of the term of office of the Board of Directors that appointed them.

Currently, the Company's Secretary is Ana Maria Sirgado Malheiro and her deputy is Carlos Alberto Neves de Almeida.

**Conflicts of interests of members of the management and supervision bodies**

As far as TAP is aware, there are no potential conflicts of interest between the obligations of any of the persons in the management and supervision bodies and their private interests or obligations.

**Committees**

There are no formal internal committees appointed in addition to the Executive Commission.

**Articles of Incorporation**

TAP's articles of incorporation are deposited in the Corporate Registry Office of Lisbon and are available on TAP's website (www.tapairportugal.com).

**Director and Officer Insurance**

The Company provides annual liability insurance for its directors and officers to provide reimbursement and/or indemnities that may become required pursuant to a final judgment, an arbitral award or a settlement agreement with injured third parties in connection with discharging their duties as directors and/or officers.

Coverage of the policy contracted by the Company includes, amongst others, management liability, pre-claim inquiry, special excess protection for non-executive directors and company securities liability.

All contracted coverage is in line with current standards and good corporate governance practices at the global level.

## RELATED PARTY TRANSACTIONS

We currently engage in various transactions with our shareholders and other entities owned by, or affiliated with, our shareholders in the ordinary course of business. These transactions are conducted at arms' length, based on terms that reflect the terms that would apply to transactions with third parties. Below is a brief summary of certain material arrangements, agreements and transactions we have with related parties.

***TAP SGPS***

Our Parent provides us with shared services, including management support. In the past, we have provided short-term loans to our Parent to fund certain group liquidity needs. We have extended the maturity of such loans from time to time. We may in the future provide additional short-term loans to our Parent which may be converted to medium- or long-term loans or which may be extended from time to time. We may also pay dividends to our Parent from time to time so that our Parent can make payments on such loans. As of September 30, 2019, €814.8 million was outstanding under such loans.

***Azul***

Azul is a Brazilian airline company of which David Neeleman owns 67% of the shares and which owns an indirect a stake of around 2% in our share capital.

In the nine months ended September 30, 2019, we had an operational lease of €262 thousand with Azul and maintenance, cargo and other services of €793 thousand.

In the scope of the normal development of our air transport business, we maintain code-share commercial relationships with our indirect shareholder Azul for flights between Brazil and Portugal. These transactions are carried out on terms and conditions similar to those agreed with other airlines. In the nine months ended September 30, 2019, our balances with Azul are: (i) receivables of €3,855 thousand and (ii) payables of €238 thousand.

In 2016 and 2017, Azul subleased certain aircraft to us:

- In 2016, Azul subleased thirteen aircraft (seven Embraer E-190s and six ATRs) to us for the remaining duration of the corresponding lease agreements executed by Azul with the relevant third parties.
- In 2017, Azul subleased two Embraer E-195s to us for the remaining duration of the corresponding lease agreements executed by Azul with the relevant third parties.
- In 2017, Azul also subleased two A330-200 to us, which have since been returned to Azul.

We have scheduled the return of two Embraer E-190s within the first half of 2020. We are exploring other agreements and arrangements with Azul as a means of further connecting Azul and its Brazilian operations with our European customers.

We are also in the process of seeking antitrust approval for a joint venture with Azul, wherein we propose to share seats in each other's flights for increased seat availability in shared routes.

In March 2016, the Parent issued the Parent Convertible Bonds, which are convertible at the purchasers' option into newly issued shares of the Parent. Azul invested €90,000,000 million in the Parent Convertible Bonds, which, if converted, would entitle it to hold a 41.25% economic interest in the Parent (which, taking into account Azul's current stockholding in the Parent, would result in a total economic interest in the Parent of 47.35%). See "Description of Certain Indebtedness—Parent Convertible Bonds."

### *TAPGER*

TAPGER is a wholly-owned subsidiary of the Parent that is engaged in the provision of consulting services. In the nine months ended September 30, 2019, we provided shared services, including management support and renting of facilities, of €375 thousand to TAPGER.

### *Portugália*

Portugália is a wholly-owned subsidiary of the Parent which main activity is the provision of services to TAP under a wet lease agreement. In the nine months ended September 30, 2019, we provided shared services, including management support and renting of facilities, of €1,629 thousand to Portugália.

Portugália also provides us with shared services as flight capacity provider through a wet lease agreement, wherein Portugália makes available to us its entire fleet, crew staff and maintenance services for our regional flight operations. In the nine months ended September 30, 2019, we recorded operating expenses of €10,798 thousand related to aircraft, crew, maintenance and insurance in connection with Portugália aircraft (nine 190 Embraer and four 195 Embraer aircraft).

### *SPdH (Groundforce)*

SPdH's main business is the provision of support handling services as well as professional training related with such services. We entered into a services agreement with SPdH (which operates under the commercial name Groundforce) related to the provision of support handling services on the ground regarding our aircraft, passengers, luggage, cargo and mail. In the nine months ended September 30, 2019, we recorded operating income of €5.4 million for management support, renting of facilities, air transport for employees and rebilling of payments on account provided to SPdH. In the nine months ended September 30, 2019, we recorded operating expenses of €78.3 million relating to handling services for SPdH.

We also depend on certain licenses from SPdH to conduct baggage and handling operations necessary to our business. We rely on SPdH as the legal holder of these licenses.

### *TAP ME Brasil*

TAP ME Brasil's main business is the provision of maintenance, repair and overhaul services. The maintenance, repair and overhaul of our aircraft is entirely carried out by TAP ME Brasil through a services agreement. In the nine months ended September 30, 2019, we recorded operating expenses of €452 thousand and operating income of €6,570 thousand relating to operations with TAP ME Brasil.

### *CateringPor*

CateringPor's main activity is the provision of catering services and the supply of food and beverage products. We entered into a services agreement with CateringPor relating to the provision of catering services for our flights as well as logistics services related to the supply of products to our aircraft. In the nine months ended September 30, 2019, we recorded operating expenses of €40,582 thousand and operating income of €1,242 thousand relating to operations with CateringPor.

### *UCS*

UCS's main business is the provision of healthcare services, focusing on safety, hygiene and general workplace health.

We also entered into a services agreement with UCS in connection with the provision of health services to employees of the TAP Group and their relatives. In the nine months ended September 30, 2019, we recorded operating expenses of €3,800 thousand and operating income of €728 thousand relating to our operations with UCS.

*Barraqueiro Group*

Barraqueiro Group's main business is the provision of services on public road, railway and metro passenger transport services. In the nine months ended September 30, 2019, we recorded operating expenses of €132 thousand to Barraqueiro Group mainly related to transport services provided by companies controlled by Barraqueiro Group.

# PRINCIPAL SHAREHOLDERS

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

The Parent, our sole shareholder, is a holding company based in Lisbon and is the parent company of the TAP Group.

The Parent was incorporated on June 25, 2003 under Decree-Law number 87/2003, of 26 April and its share capital was fully underwritten and paid-up in kind by Parpública through the contribution of shares representing the entire share capital of TAP. Following the privatization process which took place in 2015, the share capital of the Parent became held by the shareholders described below.

**Atlantic Gateway, SGPS, Lda.**

Atlantic Gateway is a private entity jointly and indirectly controlled by David Neeleman (through DGN Corporation, an entity wholly-owned by Mr. Neeleman and which holds 40% of the share capital of Atlantic Gateway and through GAVA Aviation Investment Limited, an entity in which Mr. Neeleman holds a majority indirect stake and which owns 10% of Atlantic Gateway) and by Humberto Pedrosa (through HPGB, SGPS, in which Mr. Pedrosa holds a direct 96.86% stake and which owns 50% of Atlantic Gateway).

Atlantic Gateway owns shares in the Parent representing 45% of its share capital and thus indirectly holds 45% of our voting share capital.

Atlantic Gateway's corporate office is in Lisbon.

**Parpública, Participações Públicas, SGPS, S.A.**

Parpública owns shares in the Parent representing 50% of its share capital and thus, indirectly holds 50% of our voting share capital.

Parpública is a state-owned company and its sole shareholder is the Portuguese State (through the General Directorate of Treasury and Finance). In addition to the TAP Group, Parpública also owns stakes in Aguas de Portugal, the company responsible for the water supply and sanitation systems in Portugal, Baia do Tejo, a logistics company which manages over 800 hectares of territory around Lisbon and Porto (including business parks and areas) and Imprensa Nacional – Casa da Moeda, which is the entity in charge of manufacturing and marketing the euro coins in Portugal and editing official publications of the Portuguese State (such as the Diario da Republica).

Parpública is based in Lisbon.

**Other Shareholders**

The remaining 5% of the share capital of the Parent, voting rights and economic rights is held by minority shareholders following the public offer that was made on April 10, 2017. Such public offer for the sale of Parent's shares representing 5% of its share capital, which was reserved to employees of the Parent and of other TAP Group companies, was launched as part of the process of indirect privatization of our share capital, pursuant to the Resolution of the Council of Ministers no. 42-A/2017 of March 23, 2017. As a consequence, employees of the TAP Group acquired a total of 75,000 shares representing 5% of the share capital and voting rights of the Parent. As of the date of this presentation, we are aware that a number of these shares have been sold to third parties by such employees.

**Shareholders' Agreement**

***Overview***

On June 30, 2017, a shareholders' agreement was signed between Parpública and Atlantic Gateway, which regulates their rights and obligations as direct shareholders of the Parent and indirect shareholders of other companies of the TAP Group, including the Company (the "Shareholders' Agreement"). The Shareholders' Agreement sets out, among other matters, the rules on the governance of the TAP Group, including the structure of the Parent's Board of Directors, Executive Committee and General Shareholder's Meeting, with the majority of rules agreed in the Shareholders' Agreement level and incorporated into the Parent's bylaws. In addition, the Shareholders' Agreement provides mechanisms for obtaining financing with third parties and sets forth the strategic plan and commitments of the TAP Group.

***Election of Board Members and members of other boards and committees***

The Board of Directors of the Parent shall be composed of 12 members, of which six will be designated by Parpública and the remaining six by Atlantic Gateway. The Executive Committee shall be composed of three members, all of them designated by Atlantic Gateway. The Audit Board shall be composed of three members, two of which will be designated by Atlantic Gateway and one of which will be designated by Parpública. The auditors of the Parent will be designated alternatively by each of the shareholders.

The members of the Board of Directors of the Parent must have relevant entrepreneurial experience, preferably in the aviation sector. Likewise, the Chairman of the Executive Committee must have acknowledged professional experience in the aviation sector.

***Transfer of Shares***

Each of the shareholders has a preemptive right in the event of the transfer by the other shareholder of the Parent's shares it owns. The Shareholder's Agreement does not establish any tag along or drag along rights.

With regards to any restrictions on the transfer of shares of the Parent, the share capital of the Parent shall always be controlled by European entities or individuals, pursuant to the provisions of Regulation (EC) No 1008/2008 (as defined herein).

***Deadlock***

The Shareholder's Agreement grants a call option to Parpública and a put option to Atlantic Gateway which can be exercised in the event of a deadlock situation.

***Funding Obligations of the Shareholders***

Under the bylaws of the Parent, Atlantic Gateway is required to make certain payments in cash, in the amount corresponding to US$226,750,000 and €15,000,000, pursuant to certain conditions as approved in the general meeting. Such payments may not be repaid before 30 years from the date of the respective payment and any decision related to reimbursement shall be taken by majority of 76% of the votes corresponding to the voting rights of the Parent. Atlantic Gateway finalized the mentioned payments as part of the capitalization plan.

Pursuant to the Parent's bylaws, Parpública and Atlantic Gateway are obliged to make certain payments in the amounts of €269,755,244.14 and €242,779,719.72, respectively, within two business days from the date on which the "Agent Bank" or other "Bank" (as defined in our financing agreements with certain Portuguese banks) notifies the Parent and the shareholders of the fact that a payment is due and payable under certain financing agreements defined in the Shareholders' Agreement. The maturity for these payments is automatically generated upon notification and such obligation shall not be affected by any modification of the Parent's bylaws, nor by any amendment or corporate decision. If any of the shareholders does not provide such payments, the other shareholder is jointly and severally obliged to pay.

Payments shall be remunerated, at the discretion of the shareholders who perform the payments, in either of the following ways: (i) under identical financial conditions to those established for the Parent Convertible Bonds (as defined herein) in accordance with the resolution of the Parent's general shareholders' meeting of March 8, 2016; or

(ii) through the payment of the equivalent special economic right of Class C shares corresponding to the amounts effectively paid.

***Conversion of the Parent Convertible Bonds***

On March 8, 2016, the general shareholder's meeting of the Parent approved the issue of the Parent Convertible Bonds (as defined). In a notice dated December 28, 2018, Parpública informed the Parent of its decision to convert the Parent Convertible Bonds in 2026 or on an earlier date if requested by Parpública. The Parent Convertible Bonds subscribed by Parpública will be converted into special shares of category C, which may represent up to 2% of the Parent's capital stock and voting rights and 13.75% of the Parent's economic rights. Similarly, in a notice dated June 24, 2019, Azul informed the Parent of its intention to convert the Parent Convertible Bonds it has subscribed in the event that third parties become shareholders of the Parent in the terms set forth in the Shareholders' Agreement, including through an IPO of the Parent. If converted, the Tranche A Parent Convertible Bonds would entitle Azul to hold a 41.25% economic interest in the Parent.

## DESCRIPTION OF CERTAIN INDEBTEDNESS

*The following is a summary of the material terms of our principal financing arrangements. The following summaries do not purport to describe all of the applicable terms and conditions of such arrangements and are qualified in their entirety by reference to the actual agreements. Capitalized terms used in the following summaries and not otherwise defined in this presentation have the meanings ascribed to them in their respective agreements.*

### The 2023 Notes

On June 24, 2019, we issued a €200.0 million aggregate principal amount of 4.375% senior notes due 2023 (the "2023 Notes") primarily sold in Portugal and listed on Euronext Lisbon. The 2023 Notes were not registered under U.S. law and were offered primarily to institutional investors outside the U.S.

The 2023 Notes are unsecured unsubordinated senior obligations. The 2023 Notes mature in June 2023. Interest is paid semi-annually on the 2023 Notes. The 2023 Notes are governed by Portuguese law.

The Parent, as our sole shareholder, has not provided any guarantee of, or collateral for, the 2023 Notes, but in accordance with Portuguese law it is effectively responsible for ensuring that we are able to repay the 2023 Notes and, in the event of non-payment by us, holders of the 2023 Notes would have an unsecured claim against the Parent.

The terms of the 2023 Notes include a restriction on liens which applies to liens over 30% of total consolidated assets with certain exceptions.

The 2023 Notes are subject to customary events of default and early prepayment events, including a change in the shareholding structure of the Parent or a breach of certain financial covenants (based on, among others, adjusted net debt / adjusted EBITDAR ratios).

### The 2034 Notes

On January 14, 2019, we issued €137.2 million aggregate principal amount of senior secured notes due 2034 through a private offering (the "2034 Notes"). The 2034 Notes were fully subscribed by a newly incorporated company ("NewCo Notesholder") using the proceeds of a loan granted by the London branch of an Australian bank to NewCo Notesholder and subsequently placed with institutional investors. The 2034 Notes are governed by English law.

As of September 30, 2019, the amount outstanding under the 2034 Notes was €136.0 million.

The 2034 Notes will be repaid in 30 semi-annual payments in the amounts set forth in the notes subscription agreement, with the remaining bullet amount to be paid on January 17, 2034.

We are subject to customary events of default which can entail mandatory prepayment obligations. In any of the cases of mandatory prepayment, the NewCo NotesHolder shall prepay the loan granted to it by the bank in an amount equal to the prepaid amount of the 2034 Notes.

Likewise, the NewCo Notesholder and us are subject to customary covenants under the 2034 Notes, such as covenants related to restriction on liens, mergers, financial covenants and operational covenants (related mainly to the maintenance of certain contractual rights and compliance with air transportation regulations).

The 2034 Notes are secured by a lien over certain of our contractual rights and cash collateral.

### Brazilian Bank Facility

On June 25, 2018, we and the Parent entered into a credit facility agreement with the subsidiary of a Brazilian bank (the "Brazilian Bank Facility") in the amount of €70.0 million and with final maturity in June 2021. The Brazilian Bank Facility is subject to Portuguese law.

As of September 30, 2019, the amount outstanding under the Brazilian Bank Facility was €58.8 million

The Brazilian Bank Facility includes conditions on liens and pledges and an obligation to comply with certain net debt to EBITDAR ratio. We may voluntarily make an early repayment of the agreement, in which case a commission fee will be due.

The Brazilian Bank Facility is secured by partial liens over receivables corresponding to the amount outstanding at each time.

The Brazilian Bank Facility is subject to customary events of default.

**Portuguese Banks Loan Agreement**

On June 30, 2017, we entered into multiple debt agreements with different lenders (the "Portuguese Banks Loan Agreement"), which had participated in the 2015 re-privatization of the TAP Group, with the purpose of allowing us to extend the repayment terms on such loans. The loans granted under the Portuguese Banks Loan Agreement have a maturity in November, 2022 and are governed by Portuguese law.

As of September 30, 2019, the amount outstanding under the Portuguese Banks Loan Agreement was €377.1 million.

We may early repay all or part of the loans granted under Portuguese Banks Loan Agreement at no cost provided that (i) the lenders are previously notified, (ii) the amount repaid is at least € 5.0 million, (iii) the repayment takes place on the interest payment date and the interest due at the specific date is paid, and (iv) we are not under an event of default.

The Portuguese Banks Loan Agreement includes a change of control provision. The Parent must comply with certain net debt to EBITDAR ratio. The Portuguese Banks Loan Agreement is also subject to customary events of default. The Portuguese Banks Loan Agreement is guaranteed by the Parent with an additional guarantee by the Parent's shareholders to make supplementary cash contributions if needed.

**Portuguese Bank Facility**

On October 31, 2016, we entered into a credit facility agreement with a Portuguese bank in the total amount of €75.0 million with final maturity in October 2028 (the "Portuguese Bank Facility"). The Portuguese Bank Facility is subject to Portuguese law.

As of September 30, 2019 the amount outstanding under the Portuguese Bank Facility was €69.4 million.

We may voluntarily prepay the Portuguese Bank Facility, in whole or in part, upon payment of a commission fee provided that (i) such prepayment shall be made at an interest payment date and (ii) prior written notice to the Portuguese Bank shall be served.

The Portuguese Bank Facility includes a mortgage in favor of the bank over certain real property owned by us and is also subject to customary events of default (including a change of control provision).

**Luxembourg Bank Facility**

On February 12, 2016, we, as borrower, executed a €25.0 million term facility agreement with a Luxembourg financial institution, as lender (the "Luxembourg Bank Facility"). The Luxembourg Bank Facility shall be repaid in trimestral instalments and entirely on February 12, 2023. The Luxembourg Bank Facility is guaranteed by the Parent.

As of September 30, 2019 the amount outstanding under the Luxembourg Bank Facility was €25.0 million.

We may voluntarily prepay the loan, in whole or in part, by giving a prior written notice to the financial institution and provided that (i) any partial prepayment shall be in a minimum amount of €3.0 million, (ii) no partial prepayment shall result in the loan having an outstanding principal balance of less than €3.0 million and (iii) we may only make one partial prepayment in any 3-months period.

We are subject to customary covenants under the Luxembourg Bank Facility, such as a restriction on liens, disposals, mergers, change of business, acquisitions and dividends. Likewise, the Luxembourg Bank Facility is subject to customary events of default.

**Parent Convertible Bonds**

In 2016 the Parent issued €120,000,000 Tranche A and Tranche B 7.5% secured bonds due 2026 convertible at the purchasers' option into newly issued shares of the Parent (the "Parent Convertible Bonds"). Tranche A Parent Convertible Bonds, which amount to €90,000,000, were fully subscribed by Azul on March 15, 2016 and Tranche B Parent Convertible Bonds, which amount to €30,000,000, were fully subscribed by Parpública on June 14, 2016 The Parent Convertible Bonds represent certain capital and voting equity and entitle their holders to receive certain dividends distributed by the Parent upon conversion.

The Parent can optionally redeem the Parent Convertible Bonds, provided that they have not been converted, upon the earlier of (i) an IPO of the Parent or (ii) four years from the date of issuance of the Parent Convertible Bonds provided that the Parent is in compliance with certain financial covenants set forth in the Parent Convertible Bonds indenture. In such case, the Parent would have to pay the bondholders of the Parent Convertible Bonds face value plus interest accrued until the redemption date.

The Parent Convertible Bonds are subject to customary covenants and events of default and they are governed by Portuguese law.

In a notice dated December 28, 2018, Parpública informed the Parent of its decision to convert the Parent Convertible Bonds in 2026 or on an earlier date if requested by Parpública. The Parent Convertible Bonds subscribed by Parpública will be converted into special shares of category C, which may represent up to 2% of the Parent's capital stock and voting rights and 13.75% of the Parent's economic rights.

Likewise, by way of a notice dated June 24, 2019, Azul informed the Parent of its intention to convert the Parent Convertible Bonds it has subscribed in the event that third parties become shareholders of the Parent in the terms set forth in the Shareholders' Agreement, including through an IPO of the Parent. If converted, the Tranche A Parent Convertible Bonds would entitle Azul to hold a 41.25% economic interest in the Parent (which, taking into account Azul's current stockholding in the Parent, would result in a total economic interest in the Parent of 47.35%).

**Finance Leases**

We have entered into several financial leases with different national and international financial institutions for aircraft and aircraft parts which are generally subject to customary events of default, including change of control.

As of September 30, 2019, the aggregate amount outstanding under such financial leases amounts to €181.0 million.

**Receivables**

To cover our medium- and long-term liquidity needs, we rely on, among other things, credit card sales and accounts receivables from travel agencies and cargo transportation. In addition, we may from time to time enter into receivables financing transactions, including credit card receivables transactions, in order to manage our liquidity needs. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—General."

**Hedging Transactions**

We have entered into commodity forward agreements with financial institutions to attempt to mitigate fuel price volatility. In 2018, we entered into hedging transactions for jet fuel price fluctuations and as of December 31, 2018, approximately 50% of the estimated 2019 jet fuel consumption was hedged. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Principal Factors Affecting Our Financial Condition and Results of Operations—Effects of Aircraft Fuel Costs Volatility."

## INDEX TO FINANCIAL STATEMENTS

**Unaudited interim financial statements of Transportes Aéreos Portugueses, S.A. as of and for the nine ended September 30, 2019 and 2018**

Statement of financial position . . . . . F-4
Interim income statement . . . . . F-5
Interim statement of comprehensive income . . . . . F-6
Interim statement of changes in equity . . . . . F-7
Interim cash flow statement . . . . . F-8
Notes to the interim financial statements . . . . . F-9

**Financial statements of Transportes Aéreos Portugueses, S.A. as of and for the year ended December 31, 2018**

Statement of financial position . . . . . F-55
Income statement . . . . . F-56
Statement of comprehensive income . . . . . F-57
Statement of changes in equity . . . . . F-58
Cash flow statement . . . . . F-59
Notes to the financial statements . . . . . F-60

**Financial statements of Transportes Aéreos Portugueses, S.A. as of and for the year ended December 31, 2017**

Statement of financial position . . . . . F-131
Income statement . . . . . F-132
Statement of comprehensive income . . . . . F-133
Statement of changes in equity . . . . . F-134
Cash flow statement . . . . . F-135
Notes to the financial statements . . . . . F-136

**Financial statements of Transportes Aéreos Portugueses, S.A. as of and for the year ended December 31, 2016**

Statement of financial position . . . . . F-202
Income statement . . . . . F-203
Statement of comprehensive income . . . . . F-204
Statement of changes in equity . . . . . F-205
Cash flow statement . . . . . F-206
Notes to the financial statements . . . . . F-207

AIR PORTUGAL

**TRANSPORTES AÉREOS PORTUGUESES, S.A.**

CONDENSED FINANCIAL INFORMATION

SPECIAL PURPOSE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

## INDEX


| | | |
|---|---|---|
| STATEMENT OF FINANCIAL POSITION | | F-4 |
| INCOME STATEMENT | | F-5 |
| STATEMENT OF COMPREHENSIVE INCOME | | F-6 |
| STATEMENT OF CHANGES IN EQUITY | | F-7 |
| STATEMENT OF CASH FLOWS | | F-8 |
| NOTES TO THE FINANCIAL STATEMENTS | | F-9 |
| INTRODUCTION | | F-9 |
| 1 | SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES | F-12 |
| 2 | TANGIBLE FIXED ASSETS | F-21 |
| 3 | INVESTMENT PROPERTIES | F-24 |
| 4 | INTANGIBLE ASSETS | F-24 |
| 5 | OTHER FINANCIAL ASSETS | F-25 |
| 6 | DEFERRED TAX ASSETS AND LIABILITIES | F-25 |
| 7 | OTHER RECEIVABLES | F-27 |
| 8 | INVENTORIES | F-29 |
| 9 | INCOME TAX RECEIVABLE/ PAYABLE | F-29 |
| 11 | CASH AND CASH EQUIVALENTS | F-31 |
| 12 | EQUITY | F-31 |
| 13 | SUPPLEMENTARY CAPITAL CONTRIBUTIONS AND RESERVES | F-31 |
| 14 | POST-EMPLOYMENT BENEFITS OBLIGATIONS | F-32 |
| 15 | PROVISIONS | F-36 |
| 16 | BORROWINGS | F-36 |
| 17 | LIABILITIES WITH CONTRACTUAL OBLIGATIONS | F-38 |
| 18 | OTHER PAYABLES | F-39 |
| 19 | OTHER CURRENT LIABILITIES | F-39 |
| 20 | LIABILITIES FROM UNUSED FLIGHT DOCUMENTS | F-40 |
| 21 | DERIVATIVE FINANCIAL INSTRUMENTS | F-40 |
| 22 | SEGMENT REPORTING | F-40 |
| 23 | OTHER OPERATING INCOME | F-41 |
| 24 | EXPENSES BY NATURE | F-42 |
| 25 | EMPLOYEE COSTS | F-43 |
| 26 | IMPAIRMENT LOSSES IN INVENTORIES, RECEIVABLES AND PROVISIONS | F-44 |
| 27 | OTHER EXPENSES | F-44 |
| 28 | RESTRUCTURING | F-44 |
| 29 | OTHER NON-RECURRING ITEMS | F-44 |
| 30 | DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES | F-45 |
| 31 | FINANCE RESULTS | F-45 |
| 32 | INCOME TAX | F-46 |
| 33 | EARNINGS PER SHARE | F-46 |
| 34 | COMMITMENTS | F-46 |
| 35 | CONTINGENCIES | F-47 |
| 36 | RELATED PARTIES | F-48 |
| 37 | SUBSEQUENT EVENTS | F-50 |
| 38 | NOTE ADDED FOR TRANSLATION | F-50 |

## STATEMENT OF FINANCIAL POSITION

| Amounts stated in euros | Notes | 30-Sep-19 | 31-dec-18 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Tangible fixed assets | 2 | 2,764,590,178 | 521,036,349 |
| Investment properties | 3 | 3,178,459 | 1,925,764 |
| Intagible assets | 4 | 22,939,934 | 11,245,385 |
| Investments in associates | | 172,310 | 172,310 |
| Other financial assets | 5 | 5,516,012 | 481,040 |
| Other non-current assets | 10 | 20,016,474 | — |
| Deferred tax assets | 6 | 84,394,344 | 91,040,705 |
| Other receivables | 7 | 113,466,240 | 61,136,878 |
| | | **3,014,273,951** | **687,038,431** |
| **Current Assets** | | | |
| Inventories | 8 | 98,766,001 | 63,944,563 |
| Other receivables | 7 | 1,243,291,826 | 1,154,621,266 |
| Income tax receivable | 9 | 19,547,072 | 8,329,644 |
| Other financial assets | 5 | — | 13,224,721 |
| Other current assets | 10 | 42,500,824 | 52,102,695 |
| Cash and cash equivalents | 11 | 245,285,508 | 223,714,593 |
| | | **1,649,391,231** | **1,515,937,482** |
| **Total Assets** | | **4,663,665,182** | **2,202,975,913** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share Capital | 12 | 41,500,000 | 41,500,000 |
| Supplementary capital contributions | 13 | 154,353,400 | 154,353,400 |
| Legal reserves | 13 | 8,300,000 | 8,300,000 |
| Hedge reserves | 13 and 21 | (1,731,585) | (29,132,283) |
| Other reserves | 13 | (200,588) | (200,588) |
| Retained earnings | 13 | 8,354,399 | (11,956,732) |
| Net income/(loss) for the period | | (110,830,879) | (58,065,358) |
| **Equity** | | **99,744,747** | **104,798,439** |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 6 | 26,165,163 | 18,760,179 |
| Post-employment benefits obligations | 14 | 101,019,004 | 86,212,751 |
| Provisions | 15 | 54,254,674 | 12,214,655 |
| Borrowings | 16 | 825,636,640 | 595,293,034 |
| Liabilities with contractual obligations | 17 | 1,775,370,516 | — |
| Other payables | 18 | — | 49,741,211 |
| | | **2,782,445,997** | **762,221,830** |
| **Current Liabilities** | | | |
| Borrowings | 16 | 205,665,728 | 180,646,796 |
| Liabilities with contractual obligations | 17 | 411,131,700 | — |
| Other payables | 18 | 609,966,015 | 667,492,728 |
| Income tax payable | 9 | 17,430 | 19,326 |
| Other current liabilities | 19 | 80,641,740 | 94,331,082 |
| Liabilities from unused flight documents | 20 | 474,051,825 | 393,465,712 |
| | | **1,781,474,438** | **1,335,955,644** |
| **Total liabilities** | | **4,563,920,435** | **2,098,177,474** |
| **Total equity and libilities** | | **4,663,665,182** | **2,202,975,913** |

The accompanying notes form an integral part of the statement of financial position as at September 30, 2019.

## INCOME STATEMENT

| Amounts stated in euros | Notes | 30-Sep-19 | 30-Sep-18 |
|---|---|---|---|
| Operating Income | | | |
| Passenger | 23 | 2.203.705.912 | 2.155.720.049 |
| Maintenance | 23 | 160.864.524 | 181.785.132 |
| Cargo and mail | 23 | 100.292.099 | 99.463.004 |
| Other operating income | 23 | 25.184.430 | 26.657.057 |
| | | **2.490.046.965** | **2.463.625.242** |
| Operating costs | | | |
| Aircraft fuel | 24 | (594.391.266) | (590.041.153) |
| Traffic operating costs | 24 | (601.961.776) | (708.612.685) |
| Aircraft rents | 24 | — | (109.645.953) |
| Aircraft maintenance costs | 24 | (42.439.244) | (95.676.984) |
| Cost of materials consumed | 24 | (116.001.032) | (133.884.192) |
| Comercial, communication and marketing costs | 24 | (125.904.936) | (138.823.723) |
| Employee costs | 25 | (511.709.823) | (450.959.473) |
| Impairment losses in inventories, receivables and provisions | 26 | (1.956.227) | (52.153) |
| Other operating expenses | 27 | (106.935.645) | (102.941.866) |
| Restructuring | 28 | (4.317.951) | (5.750.840) |
| Other non recurrent items | 29 | (1.482.863) | (16.778.645) |
| Depreciation, amortisation and impairment losses | 30 | (339.335.830) | (47.481.570) |
| **Operating income/(loss)** | | **43.610.372** | **62.976.005** |
| Interests and similar income | 31 | 25.356.858 | 28.016.428 |
| Interests and similar expenses | 31 | (126.336.075) | (27.674.634) |
| Net currency exchange | 31 | (94.607.958) | (54.347.019) |
| **Net income/(loss) before income tax** | | **(151.976.803)** | **8.970.780** |
| Income tax for the period | 32 | 41.145.924 | 1.323.674 |
| **Net income/(loss) for the period** | | **(110.830.879)** | **10.294.454** |
| **Results per share** | | | |
| Basic and diluted earnings per share | 33 | (13,4) | 1,2 |

The accompanying notes form an integral part of the income statement as at September 30, 2019.

## COMPREHENSIVE INCOME STATEMENT

| Amounts stated in euros | Notes | 30-Sep-19 | 30-Sep-18 |
|---|---|---|---|
| **Net income/(loss) for the period** | | **(110,830,879)** | **10,294,454** |
| **Items that may be reclassified to income statement:** | | | |
| Gains and losses in derivate financial instruments—cash flow hedge | 21 | 38,866,238 | 5,608,345 |
| Deferred tax on derivative financial instruments—cash flow hedge | 6 | (11,465,540) | (1,654,462) |
| **Items that will not be reclassified to income statement:** | | | |
| Remeasurements of defined benefit plans | 14 | (17,824,911) | (8,306,538) |
| Deferred tax on remeasurements | 6 | 5,258,349 | 2,450,429 |
| **Other comprehensive income/(loss) net of tax** | | **14,834,136** | **(1,902,226)** |
| **Comprehensive income/(loss) for the period** | | **(95,996,743)** | **8,392,228** |

The accompanying notes form an integral part of the income statement as at September 30, 2019.

## 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 period | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Equity as at 1 January 2018** | | **41,500,000** | **154,353,400** | **8,300,000** | **—** | **(200,588)** | **(70,390,762)** | **100,411,383** | **233,973,433** |
| Application of net income/(loss) of the year 2017 | | — | — | — | — | — | 100,411,383 | (100,411,383) | — |
| Dividends | | — | — | — | — | — | (30,000,000) | — | (30,000,000) |
| Remeasurement* | 6 and 14 | — | — | — | — | — | (5,856,109) | — | (5,856,109) |
| Fair value of derivative financial instruments* | 6 and 21 | — | — | — | 3,953,883 | — | — | — | 3,953,883 |
| Net income/(loss) for the period | | — | — | — | — | — | — | 10,294,454 | 10,294,454 |
| **Equity as at 30 September 2018** | | **41,500,000** | **154,353,400** | **8,300,000** | **3,953,883** | **(200,588)** | **(5,835,488)** | **10,294,454** | **212,365,661** |
| Remeasurement* | 6 and 14 | — | — | — | — | — | (6,121,244) | — | (6,121,244) |
| Fair value of derivative financial instruments* | 6 and 21 | — | — | — | (33,086,166) | — | — | — | (33,086,166) |
| Net income/(loss) for the period | | — | — | — | — | — | — | (68,359,812) | (68,359,812) |
| **Equity as at 31 December 2018** | | **41,500,000** | **154,353,400** | **8,300,000** | **(29,132,283)** | **(200,588)** | **(11,956,732)** | **(58,065,358)** | **104,798,439** |
| Application of net income/(loss) of the year 2018 | | — | — | — | — | — | (58,065,358) | 58,065,358 | — |
| Change in accounting policy—adoption of IFRS 16* | 1.2. | — | — | — | — | — | 90,943,051 | — | 90,943,051 |
| Remeasurement* | 6 and 14 | — | — | — | — | — | (12,566,562) | — | (12,566,562) |
| Fair value of derivative financial instruments* | 6 and 21 | — | — | — | 27,400,698 | — | — | — | 27,400,698 |
| Net income/(loss) for the period | | — | — | — | — | — | — | (110,830,879) | (110,830,879) |
| **Equity as at 30 September 2019** | | **41,500,000** | **154,353,400** | **8,300,000** | **(1,731,585)** | **(200,588)** | **8,354,399** | **(110,830,879)** | **99,744,747** |

* net of deferred taxes, when applicable

The accompanying notes form an integral part of the statement of changes in equity as at September 30, 2019.

## CASH FLOWS STATEMENT

| Amounts stated in euros | 30-Sep-19 | 30-Sep-18 |
|---|---|---|
| **Operating activities:** | | |
| Receipts from customers | 2,695,875,568 | 2,536,141,930 |
| Payments to suppliers | (1,892,124,997) | (2,013,560,002) |
| Payments to employees | (440,797,399) | (414,207,320) |
| Payments of low value and short-term leases | (8,076,734) | — |
| Cash generated from operations | 354,876,438 | 108,374,608 |
| Income tax (payment)/receipt | 353,336 | (4,194,868) |
| Other receipts/payments relating to operating activities | 15,925,646 | (71,498,701) |
| **Cash flow from operating activities (1)** | **371,155,420** | **32,681,039** |
| **Investment activities:** | | |
| **Receipts from:** | | |
| Other financial assets | 14,875,144 | 58,160,013 |
| Tangible fixed assets | 18,139,709 | 17,510,242 |
| Investment government grants | — | — |
| Loans granted | 519,010,000 | 480,580,596 |
| Interests and similar income | 22,212,224 | 22,911,471 |
| | 574,237,077 | 579,162,322 |
| **Payments relating to:** | | |
| Other financial assets | (53,497,285) | (7,497,819) |
| Tangible fixed assets | (83,387,139) | (81,449,365) |
| Intagible assets | (14,940,586) | (3,890,483) |
| Loans granted | (524,060,000) | (522,705,000) |
| | (675,885,010) | (615,542,667) |
| **Cash flow from investment activities (2)** | **(101,647,933)** | **(36,380,345)** |
| **Financing activities:** | | |
| **Receipts from:** | | |
| Borrowings | 327,045,778 | 70,000,000 |
| Financial leases | — | 71,496,988 |
| | 327,045,778 | 141,496,988 |
| **Payments relating to:** | | |
| Borrowings | (116,716,145) | (7,500,000) |
| Financial leases | (31,402,200) | (33,386,348) |
| Principal elements of operating lease payments | (303,672,383) | — |
| Interests and similar costs | (25,641,960) | (23,821,775) |
| Interest elements of operating lease payments | (90,245,937) | — |
| Dividends | — | — |
| | (567,678,625) | (64,708,123) |
| **Cash flow from financing activities (3)** | **(240,632,847)** | **76,788,865** |
| **Net increase (decrease) in cash and cash equivalents (1)+(2)+(3)** | 28,874,640 | 73,089,559 |
| Effects of currency exchange differences | 3,022,192 | (12,555,984) |
| **Cash and cash equivalents at the beginning of the period** | 213,354,955 | 157,093,780 |
| **Megasis Merger** | 33,721 | — |
| **Cash and cash equivalents at the end of the period** | **245,285,508** | **217,627,355** |

The accompanying notes form an integral part of the statement of cash flows as at September 30, 2019.

## NOTES TO THE FINANCIAL STATEMENTS

**Introduction**

TAP—Transportes Aéreos Portugueses, S.A. (“Company” or “TAP S.A.”) is a limited company with its head office in Lisbon, incorporated under the Decree-Law no. 312/91, of 17 August, and which succeeded the public company Transportes Aéreos Portugueses, EP, continuing its legal personality and retaining all the rights and obligations that are part of its legal scope at the time of its transformation into a limited company.

The Company’s core business consists in the air transport of passengers, cargo and mail, operating in Portugal, Mainland and its Autonomous Regions, Europe, Africa, North Atlantic, Mid-Atlantic, South Atlantic and Middle East. The Company has 21 representative offices in foreign countries and 4 in Portugal. Additionally, it carries out maintenance and engineering work for its fleet and for third parties.

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

The Company is affiliated to the IATA—International Air Transport Association.

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

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

With the transmission of 61% of the share capital of TAP SGPS to Atlantic Gateway on 12 November 2015, among other contractual instruments, it should be noted the “Agreement on Economic and Financial Stability of TAP” (“Acordo Relativo À Estabilidade Económica-Financeira”), between Parpública, Atlantic Gateway, TAP SGPS, TAP S.A. and Portugália, in which Atlantic Gateway, as buyer, and TAP S.A. and Portugália, as borrowers, assumed some obligations related to TAP Group financial debt and debt service.

As part of the process of notification to the Portuguese Civil Aviation Authority (“ANAC”) of the transaction concluded on 12 November, 2015, which led to the acquisition by Atlantic Gateway of shares representing 61% of the share capital of TAP SGPS, it should be noted that, by resolution of 19 February 2016, the Board of Directors of ANAC imposed a set of precautionary measures to the TAP Group. This proceeding with ANAC was, concluded favourably on 23 December 2016, at which date the Board of Directors of ANAC deliberated that TAP SA fulfilled the conditions set forth in Article 4 of Regulation (CE) n° 1008 / 2008 of the European Parliament and of the Council of 24 September 2008, on common rules for the operation of air services in the European Community.

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

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

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

The Resolution of the Council of Ministers n° 30/2016 of 19 May, which approved the minutes of the Share Purchase Agreement and the Shareholders Agreement and Strategic Commitments of TAP SGPS, also determined, among others, (i) the immediate cessation of the effects of the Strategic Commitment Agreement formalised on 24 June 2015, referred to above, on the date that the Shareholders Agreement and Strategic Commitments of TAP SGPS became effective, as well as (ii) the expiration of the unavailability scheme provided for in the specifications of the Reprivatization Process—with respect to the number of shares of TAP SGPS and TAP SA that are necessary to ensure the majority of the voting rights and effective control of mentioned companies—on the effective date of the transfer of the shares of TAP SGPS to Parbública.

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

After the deliberation of the Board of Directors of ANAC dated December 23, 2016, on January 12, 2017, the General Meeting of TAP SGPS decided to recognise the full production of the effects of the bonds issued by TAP SGPS, which was approved by the General Meeting of TAP SGPS on 8 March 2016, as well as the effects of the guarantee agreement entered into under the aforementioned bond issuance between TAP SGPS, TAP SA, Megasis—Sociedade de Serviços de Engenharia e Informática, S.A. (Company that was merged into TAP S.A. during the nine months period ended September 30, 2019), Azul S.A. and Bondholders, SL. It should be noted that the TAP Group has not yet fulfilled the contractually agreed guarantees, having agreed with the bond underwriters about the extension of the term for those guarantees.

Following the privatization of TAP SGPS, it was determined and concluded the public offering of shares available for TAP Group's employees, consisting on the sale of shares representing up to 5% of TAP SGPS' share capital, from Parpública, to the employees of TAP SGPS and other Group companies, as identified in Annex II of the Council of Ministers Resolution n.° 4-A/2015, from 20 January, amended by n° 7 of the Council of Ministers Resolution n.° 4-A/2015, from 23 March. This public offering of shares to employees was launched on April 10, 2017, in accordance with the Council of Ministers Resolution n.° 42-A/2017, from 23 March, TAP Group's employees acquired a total of 75,000 shares representing 5% of TAP SGPS' share capital and voting rights.

In accordance with the Council of Ministers Resolution n.° 95/2017, from July 4, approved in June 29, 2017, with effects from that date, Parpública and Atlantic Gateway concluded on June 30, 2017 the transfer of shares established in the Share Purchase Agreement, which was notified to ANAC under the terms and conditions legally foreseen. On September 20, 2018 it was decided, by resolution of the board of directors of ANAC, that the operation complied with the requirements of Regulation (EC) n.°1008/2008 of the European Parliament and of the Council of September 24, 2008, related to common rules for the operation of air services in the Community.

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

Therefore, TAP SGPS' share capital is as follows:

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

In accordance with the current corporate structure, TAP SGPS still does not qualify as a public company of the Portuguese State's business public sector, under the terms and for the purposes of Decree-Law nº 133/2013 from October 3, and subsequent amendments.

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

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

On 20 March 2019 TAPGER and TAP S.A. signed a purchase and sale agreement of the share capital of Megasis for the amount of Euro 1,791 thousand. On May 2, 2019, was registered the merger, by incorporation of Megasis into TAP S.A., having the respective accounting and fiscal effects backdated to

January 1, 2019. The statement of financial position of the merged company as at January 1, 2019 is detailed as follows:

| Amounts stated in euros | Megasis 01-jan-19 |
|---|---|
| **ASSETS** | |
| **Non-current assets** | |
| Tangible fixed assets (Note 2) | 1,653,771 |
| Investment properties (Note 3) | 1,205,000 |
| Deferred tax assets ((Note 6) | 117,103 |
| | **2,975,874** |
| **Current assets** | |
| Other receivables | 9,929,225 |
| Other current assets | 2,921,307 |
| Cash and cash equivalents | 33,721 |
| | **12,884,253** |
| **Total assets** | **15,860,127** |
| **SHAREHOLDER'S EQUITY AND LIABILITIES** | |
| **Shareholder's equity** | **1,791,234** |
| **Non-current liabilities** | |
| Deferred tax liabilities (Note 6) | 258,204 |
| Post-employment benefits obligations | 460,515 |
| | **718,719** |
| **Current liabilities** | |
| Other payables | 12,015,176 |
| Other current liabilities | 1,270,981 |
| Income tax payable | 64,017 |
| | **13,350,174** |
| **Total liabilities** | **14,068,893** |
| **Total shareholder's equity and libilities** | **15,860,127** |

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

These special purpose financial statements ("financial statements") for the nine months period ended September 30, 2019, approved at the Board of Directors meeting on November 18, 2019, were prepared to be presented to the different stakeholders. The statutory financial statements of the Company were prepared in accordance with the accounting principles generally accepted in Portugal ("Sistema de Normalização Contabilística").

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

## 1 Summary of the significant accounting policies

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

### 1.1. Basis of preparation

The financial statements presented refer to the nine months period ended September 30, 2019, and have been prepared in accordance with International Financial Reporting Standards adopted by the European

**1 Summary of the significant accounting policies (Continued)**

Union (IFRS—formerly referred to as the International Accounting Standards—IAS) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or by the former Standing Interpretations Committee (SIC) in force on the date of preparation of the mentioned financial statements. The standards and interpretations previously mentioned are hereinafter referred to as "IFRS".

The Board of Directors believes that these financial statements and the following notes ensure a fair presentation of the condensed financial information prepared under IAS 34—Interim Financial Reporting, from now on referred to as interim financial statements. Therefore these do not include all information required to the annual financial statements and should be read together with the Company's financial statements for the year ended December 31, 2018.

Consequently, part of the notes to the financial statements for the year ended December 31, 2018 are not disclosed, either because they have not significantly changed or are not materially relevant to the understanding of these financial statements.

Except for the adoption of new standards, in particular IFRS 16—Leases, as referred to in Note 1.2., the presented interim financial statements have been prepared in accordance with the same accounting principles and policies, including the financial risk management policies adopted by the Company in the preparation of annual financial statements for the year ended December 31, 2018, which essentially incorporated an explanation of the relevant events and changes occurred during the nine months period ended September 30, 2019 for the understanding of the changes in the Company's financial position and operating performance since the last date of the annual report,

The accompanying financial statements were prepared on a going concern basis from the accounting books and records of the Company based on historic cost, except for derivative financial instruments and investment properties, which are recorded at fair value.

In the preparation of the financial statements, accordingly with IFRS, the Board of Directors used important estimates, assumptions and judgments in the application of the accounting policies, which have impact on the measurement of assets and liabilities and on the recognition of gains and expenses at each reporting date. Despite the estimates used being based on the best information available during the preparation of these financial statements and best knowledge available at the reporting date, we note that actual and future results may differ from these estimates. The principal assertions which involve a greater degree of judgment or complexity and the most significant assumptions and estimates used in the preparation of those financial statements are disclosed in Note 1.4.

In the preparation and presentation of these financial statements, the Company declares that is in compliance, explicitly and without qualifications, with the IFRS.

The amounts expressed are presented in Euros, unless otherwise indicated.

**1 Summary of the significant accounting policies (Continued)**

**1.2. New standards and interpretations adopted by the Company**

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

| Description | Changes | Effective Date |
|---|---|---|
| **1. New standards, amendments and interpretations effective on January 1, 2019** | | |
| • IFRS 16—Leases | New definition of lease. New accounting of lease contracts by lessees. No major changes to lessor lease accounting. | January 1, 2019 |
| • IFRS 9—Financial instruments | Accounting treatment options for financial assets with negative compensation features | January 1, 2019 |
| • IAS 19—Employee benefits | Requirement to use updated assumptions for the calculation of remaining responsibilities, with impact on income statement except for any reduced excess under "asset ceiling' accounting treatment | January 1, 2019 |
| • IAS 28—Investments in Associates and Joint Ventures | Clarification regarding long-term investments in associates and joint ventures that are not being measured through the equity method | January 1, 2019 |
| • Standards improvements 2015 – 2017 | Clarifications: IAS 23, IAS 12, IFRS 3, IFRS 11 | January 1, 2019 |
| • IFRIC 23—Uncertainty over Income Tax Treatments | Clarifies how the recognition and measurement requirements of IAS 12 'Income taxes' are applied where there is uncertainty over income tax treatments | January 1, 2019 |

From the above mentioned accounting standards, IFRS 16—Leases should be highlighted. It was adopted by the Company in the preparation of its financial statements for the nine months period ended September 30, 2019, with significant impacts.

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

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

From January 1, 2019 onwards, leases that meet the requirements of IFRS 16, are recognised as a right-of-use asset, in the caption "Tangible fixed assets" (within the same line item as that within which the corresponding underlying assets would be presented if they were owned) and the related contractual liability is presented in the caption "liabilities with contractual obligations", at the commencement date of the lease. Each lease payment is allocated between the lease liability and the financial expense. The financial expense is recognised in the income statement through the lease term, based on the interest rate applicable to each lease and the lease liability remaining. The right-of-use assets are depreciated on a straight-line basis over the lease term.

**1 Summary of the significant accounting policies (Continued)**

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

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

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

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

- lease payments change based on an index or rate, or a change of expected payments as guaranteed residual values, in which case a re-assessment of the lease liability takes place at the interest rate implicit in the lease (unless the change in lease payments is due to changes in a variable interest rate, which motivates the use of an incremental borrowing rate); and
- the lease contract is modified and the modification does not qualify as a separate lease, in which case a re-assessment of the lease liability takes place at the interest rate implicit in the lease at the modification date.

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

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

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

Subsequent costs, including structural maintenance, are included in the cost of acquisition of the right-of-use asset whenever future economic benefits are likely to flow to the Company, and subsequently depreciated over the lease term or the next shop visit, as applicable. Other costs with current maintenance and repairs are recognised as expenses in the period as are incurred.

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

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

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

**1 Summary of the significant accounting policies (Continued)**

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

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

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

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

a) The portion of the lease payments that represent cash payments for the principal portion of the lease liabilities

b) are presented as cash flows resulting from financing activities;

c) The portion of the lease payments that represent the interest portion are also presented as cash flows resulting from financing activities; and

d) Lease payments which were not included in the measurement of the lease liabilities, including variable payments, short-term leases and leases of low-value assets, are presented as operating cash flows.

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

***Sale & Leaseback***

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

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

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

**1.3. Comparability of the financial statements**

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

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

Therefore, the financial statements for the nine months period ended September 30, 2019 are not comparable with the financial statements as of December 31, 2018 or with the nine months period ended September 30, 2018.

**1 Summary of the significant accounting policies (Continued)**

The main changes induced by IFRS 16 are the following:

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

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

- Accounting of the other-asset leases

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

- Accounting of the maintenance on leased aircraft

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

  - **Overhaul and restoration works**

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

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

  - **Airframe and engine structural maintenance**

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

At the date of adoption of IFRS 16, rights-of-use assets and lease liabilities were recognised in the amount of Euro 1,166 million. The reconciliation of operating lease commitments disclosed in the financial statements as of December 31, 2018 and the caption "Liabilities with contractual obligations" on January 1, 2019, is as follows:

| Amounts stated in thousand Euro | |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 1,182,364 |
| ACMI contracts commitments, including non-lease components | 289,374 |
| Impact of the financial discount of the rents | (305,003) |
| **Liabilities with contractual obligations as at 1 January 2019** | **1,166,735** |

The average discount rate used to discount future rents on January 1, 2019 is 6.5%.

**1 Summary of the significant accounting policies (Continued)**

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

| Amounts stated in euros | 31-dec-18 | IFRS 16 adoption impact | 01-jan-19 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Tangible fixed assets | 521,036,349 | 1,178,987,847 | 1,700,024,196 |
| Investment properties | 1,925,764 | — | 1,925,764 |
| Intagible assets | 11,245,385 | — | 11,245,385 |
| Investments in associates | 172,310 | — | 172,310 |
| Other financial assets | 481,040 | — | 481,040 |
| Deferred tax assets | 91,040,705 | — | 91,040,705 |
| Other receivables | 61,136,878 | 43,248,286 | 104,385,164 |
| | **687,038,431** | **1,222,236,133** | **1,909,274,564** |
| **Current Assets** | | | |
| Inventories | 63,944,563 | — | 63,944,563 |
| Other receivables | 1,154,621,266 | — | 1,154,621,266 |
| Income tax receivable | 8,329,644 | — | 8,329,644 |
| Other financial assets | 13,224,721 | — | 13,224,721 |
| Other current assests | 52,102,695 | — | 52,102,695 |
| Cash and cash equivalents | 223,714,593 | — | 223,714,593 |
| | **1,515,937,482** | **—** | **1,515,937,482** |
| **Total Assets** | **2,202,975,913** | **1,222,236,133** | **3,425,212,046** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share Capital | 41,500,000 | — | 41,500,000 |
| Supplementary capital contribuitions | 154,353,400 | — | 154,353,400 |
| Legal reserves | 8,300,000 | — | 8,300,000 |
| Hedge reserves | (29,132,283) | — | (29,132,283) |
| Other reserves | (200,588) | — | (200,588) |
| Retained earnings | (11,956,732) | 90,943,051 | 78,986,319 |
| Net income/(loss) for the year | (58,065,358) | — | (58,065,358) |
| **Total equity** | **104,798,439** | **90,943,051** | **195,741,490** |
| **Non-current liabilities** | | | |
| Deferred tax liabilities (Note 6) | 18,760,179 | 38,054,184 | 56,814,363 |
| Post-employment benefits obligations | 86,212,751 | — | 86,212,751 |
| Provisions (Note 15) | 12,214,655 | 26,082,076 | 38,296,731 |
| Borrowings | 595,293,034 | — | 595,293,034 |
| Liabilities with contractual obligations | — | 863,122,497 | 863,122,497 |
| Other payables | 49,741,211 | (49,741,211) | — |
| | **762,221,830** | **877,517,547** | **1,639,739,377** |
| **Current Liabilities** | | | |
| Borrowings | 180,646,796 | — | 180,646,796 |
| Liabilities with contractual obligations | — | 303,612,692 | 303,612,692 |
| Other payables | 667,492,728 | (49,837,157) | 617,655,571 |
| Income tax payable | 19,326 | — | 19,326 |
| Other current liabilities | 94,331,082 | — | 94,331,082 |
| Liabilities from unused flight documents | 393,465,712 | — | 393,465,712 |
| | **1,335,955,644** | **253,775,535** | **1,589,731,179** |
| **Total liabilities** | **2,098,177,474** | **1,131,293,082** | **3,229,470,556** |
| **Total equity and libilities** | **2,202,975,913** | **1,222,236,133** | **3,425,212,046** |

**1 Summary of the significant accounting policies (Continued)**

The recognition of the right-of-use assets and the corresponding liability resulted in an increase in depreciation expenses of, approximately, Euro 284 million and interest expenses of, approximately, Euro 90 million. Foreign exchange differences recognised in the income statement, related to lease liabilities, amounted to, approximately, Euro 80,1 million. On the other hand, the operating lease and other contractual obligations expenses (recognised until December 31, 2018 in the captions "Aircraft rents", "Traffic operating costs" and "Other operating expenses") decreased by, approximately, Euro 306 million. In the nine months period ended September 30, 2019, approximately, Euro 48 million of expenses with aircraft and engines structural maintenance were recognised in the caption tangible fixed assets.

Additionally, the presentation of payments related to operating lease contracts resulted in a reclassification in the amount of, approximately, Euro 304 million, from cash flows from operating activities to cash flows from financing activities.

**Seasonality**

The Company's activities have a high seasonality inherent to the air transport business. Consequently, the activity in the months from June to September is significantly higher than the average activity in the remaining months of the year.

**1.4. Accounting estimates and judgements**

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

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

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

- **Deferred tax (Note 6)**

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

- **Post-employment benefits (Note 14)**

Liabilities relating to defined-benefit plans are calculated based on actuarial assumptions. Changes to those assumptions can have a material impact on the aforesaid liabilities. The key demographic and financial assumptions for pension obligations are detailed in Note 14. The Company's policy is to periodically review the main demographic and financial assumptions, when their impact on the financial statements is considered relevant.

- **Recognition of provisions and impairments (Notes 7, 8 and 15)**

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

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

**1 Summary of the significant accounting policies (Continued)**

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

- **Customer loyalty program (Note 19)**

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

- **Liabilities from unused flight documents (Note 20)**

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

- **Useful life and residual value of tangible fixed assets (Note 2)**

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

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

- **Leases (Notes 2 and 17)**

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

- **Aircraft redelivery provision in operating lease contracts (Note 2 and 17)**

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

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

## 2 Tangible fixed assets

During the nine months period ended September 30, 2019 and for the year ended December 31, 2018, changes in tangible fixed assets, as well as the accumulated depreciation and impairment losses, were as follows:

| | Land and natural resources | Buildings and other constructions | Basic equipment | Transport equipment | Tools and utensils | Administrative equipment | Other tangible fixed assets | Other assets in progress | Advances to suppliers of tangible assets | Right-of-use assets (Note 1.2) | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Acquisition Cost** | | | | | | | | | | | |
| **Balance as at 1 January 2018** | **41,168,153** | **156,172,681** | **1,288,811,771** | **2,405,474** | **23,824,794** | **56,220,858** | **12,143,578** | **46,991,329** | **180,849,770** | **—** | **1,808,588,408** |
| Acquisitions | — | 293,361 | 86,484,187 | 12,457 | 1,624,264 | 999,719 | 417,598 | 37,011,066 | 42,366,558 | — | 169,209,210 |
| Disposals | (25,346) | (127,557) | (821,449) | (154,465) | — | (429,269) | — | (27,237,795) | — | — | (28,795,881) |
| Regularisation, transfer and write-off | (17,210) | (1,013,611) | 6,411,642 | (86,542) | (12,490) | (434,939) | (140,111) | (17,719,460) | (126,301,735) | — | (139,314,456) |
| **Balance as at 31 December 2018** | **41,125,597** | **155,324,874** | **1,380,886,151** | **2,176,924** | **25,436,568** | **56,356,369** | **12,421,065** | **39,045,140** | **96,914,593** | **—** | **1,809,687,281** |
| IFRS 16 Adoption | — | — | — | — | — | — | — | — | — | 1,178,987,847 | 1,178,987,847 |
| Acquisitions | — | 271,084 | 96,699,303 | 23,753 | 1,565,913 | 1,210,239 | 223,427 | 56,712,959 | 9,668,056 | 1,275,050,007 | 1,441,424,741 |
| Megasis Merger | — | — | 7,650,870 | — | — | 9,341,947 | 21,102 | 6,510 | — | — | 17,020,429 |
| Disposals | — | — | (102,050,757) | — | — | (5,033) | — | (33,898,137) | — | — | (135,953,927) |
| Regularisation, transfer and write-off | — | — | (6,093,971) | 69,824 | (6,276) | (1,264,707) | (15,829) | (3,132,559) | (3,505,697) | — | (13,949,215) |
| **Balance as at 30 september 2019** | **41,125,597** | **155,595,958** | **1,377,091,596** | **2,270,501** | **26,996,205** | **65,638,815** | **12,649,765** | **58,733,913** | **103,076,952** | **2,454,037,854** | **4,297,217,156** |
| **Accumulated deprec. and impairment losses** | | | | | | | | | | | |
| **Balance as at 1 January 2018** | **—** | **74,329,200** | **1,072,404,941** | **2,189,827** | **16,134,913** | **54,422,514** | **10,688,436** | **—** | **—** | **—** | **1,230,169,831** |
| Depreciations | — | 5,409,679 | 56,639,172 | 91,089 | 674,540 | 880,014 | 332,964 | — | — | — | 64,027,458 |
| Impairment loss | — | — | 4,186,407 | — | — | — | — | — | — | — | 4,186,407 |
| Disposals | — | (51,792) | (778,643) | (104,693) | — | (428,602) | — | — | — | — | (1,363,730) |
| Regularisation, transfer and write-off | — | (920,709) | (6,790,784) | (86,542) | (11,488) | (419,400) | (140,111) | — | — | — | (8,369,034) |
| **Balance as at 31 December 2018** | **—** | **78,766,378** | **1,125,661,093** | **2,089,681** | **16,797,965** | **54,454,526** | **10,881,289** | **—** | **—** | **—** | **1,288,650,932** |
| Depreciations (Note 30) | — | 4,065,011 | 43,592,690 | 41,361 | 495,886 | 897,011 | 218,588 | — | — | 284,018,651 | 333,329,198 |
| Megasis Merger | — | — | 6,501,452 | — | — | 8,846,575 | 18,631 | — | — | — | 15,366,658 |
| Impairment loss (Note 30) | — | — | 1,971,089 | — | — | — | — | — | — | — | 1,971,089 |
| Disposals | — | — | (95,485,346) | — | — | (4,652) | — | — | — | — | (95,489,998) |
| Regularisation, transfer and write-off | — | — | (9,917,573) | 2,291 | (5,900) | (1,263,889) | (15,830) | — | — | — | (11,200,901) |
| **Balance as at 30 september 2019** | **—** | **82,831,389** | **1,072,323,405** | **2,133,333** | **17,287,951** | **62,929,571** | **11,102,678** | **—** | **—** | **284,018,651** | **1,532,626,978** |
| **Carrying amount as at 31 December 2018** | **41,125,597** | **76,558,496** | **255,225,058** | **87,243** | **8,638,603** | **1,901,843** | **1,539,776** | **39,045,140** | **96,914,593** | **—** | **521,036,349** |
| **Carrying amount as at 30 September 2019** | **41,125,597** | **72,764,569** | **304,768,191** | **137,168** | **9,708,254** | **2,709,244** | **1,547,087** | **58,733,913** | **103,076,952** | **2,170,019,203** | **2,764,590,178** |

**2 Tangible fixed assets (Continued)**

As at September 30, 2019, the caption "Right-of-use assets" details as follows:

| | 30-Sep-19 | | | |
|---|---|---|---|---|
| | **Buildings and other constructions** | **Basic equipment** | **Transport equipment** | **Total** |
| **Assets** | | | | |
| Opening balance | — | — | — | **—** |
| IFRS 16 Adoption | 1,832,381 | 1,176,363,069 | 792,397 | **1,178,987,847** |
| Acquisitions | — | 1,274,950,115 | 99,892 | **1,275,050,007** |
| **Closing balance** | **1,832,381** | **2,451,313,184** | **892,289** | **2,454,037,854** |
| **Accumulated depreciations** | | | | |
| Opening balance | — | — | — | **—** |
| Depreciations (Note 30) | 357,142 | 283,517,829 | 143,680 | **284,018,651** |
| **Closing balance** | **357,142** | **283,517,829** | **143,680** | **284,018,651** |
| **Carrying amount** | **1,475,239** | **2,167,795,355** | **748,609** | **2,170,019,203** |

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

To assure the payments of the amounts due under a loan agreement, in the amount of, approximately, Euro 75 million, a mortgage was established on an urban building owned by TAP S.A., consisting of twenty-nine office buildings, workshops for construction materials and others, located at the Lisbon Airport (Note 16). As at September 30, 2019, the debt amounts to, approximately, Euro 69 million.

The main impacts occurred during the nine months period ended September 30, 2019 are as follows:

- Additions of basic equipment in the amount of Euro 96,699,303 mainly relate to: (i) capitalisation of structural maintenance costs of owned aircraft or under finance lease in the amount of about Euro 42,585,553 and (ii) acquisition of spare parts in the amount of Euro 12,252,864.
- Disposals of basic equipment in the net amount of Euro 6,565,411 relate, essentially, to the sale of two aircraft (A330), which generated a gain in the amount of Euro 4,204,960.
- Additions of other assets in progress in the amount of Euro 56,712,959 relate essentially to: (i) equipment to the future NEO fleet, in the amount of Euro 46,908,543; and (ii) ongoing structural maintenance, in the amount of Euro 8,308,481.
- Disposals of other assets in progress in the amount of Euro 33,898,136 relate essentially, to equipment initially acquired by the Company for the purpose of incorporation into the new aircraft included in the Purchase Agreement with Airbus, which were disposed to the manufacturer at acquisition cost.
- The increase verified in the caption "Advances to suppliers of tangible assets" in the amount of Euro 9,668,056 refers essentially to advances related to Rolls Royce "Total Care".
- Depreciation of tangible fixed assets is recognised under caption "Depreciation, amortisation and impairment losses" in the income statement (Note 30).

**2 Tangible fixed assets (Continued)**

As at September 30, 2019 and December 31, 2018, the heading "Basic equipment" is detailed, as follows:

| | 30-Sep-19 | | | 31-dec-18 | | |
|---|---|---|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Carrying amount | Acquisition cost | Accumulated depreciation | Carrying amount |
| Flight equipment | | | | | | |
| Aircraft | 516,082,735 | (447,673,581) | 68,409,154 | 605,358,303 | (526,441,146) | 78,917,157 |
| Spare engines | 6,033,911 | (3,553,575) | 2,480,336 | 11,483,714 | (7,811,898) | 3,671,816 |
| Spare parts | 117,620,102 | (76,827,777) | 40,792,325 | 109,178,704 | (76,666,174) | 32,512,530 |
| | 639,736,748 | (528,054,933) | 111,681,815 | 726,020,721 | (610,919,218) | 115,101,503 |
| Flight equipment under finance leases | | | | | | |
| Aircraft | 568,556,870 | (467,586,774) | 100,970,096 | 538,555,849 | (446,427,835) | 92,128,014 |
| Reserve engines | 76,347,669 | (6,588,949) | 69,758,720 | 33,907,632 | (524,284) | 33,383,348 |
| | 644,904,539 | (474,175,723) | 170,728,816 | 572,463,481 | (446,952,119) | 125,511,362 |
| Machines and miscellaneous equipment | 92,450,309 | (70,092,749) | 22,357,560 | 82,401,949 | (67,789,756) | 14,612,193 |
| | **1,377,091,596** | **(1,072,323,405)** | **304,768,191** | **1,380,886,151** | **(1,125,661,093)** | **255,225,058** |

As at September 30, 2019 and December 31, 2018, Company aircraft fleet is detailed, as follows:

| | 30-Sep-19 | | | | | 31-dec-18 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Owned by TAP | Finance leases | Operating leases | ACMI | Total | Owned by TAP | Finance leases | Operating leases | ACMI | Total |
| Airbus A340 | 4 | — | — | — | **4** | 4 | — | — | — | **4** |
| Airbus A330 | 1 | — | 10 | — | **11** | 3 | — | 14 | — | **17** |
| Airbus A330 NEO | — | — | 14 | — | **14** | — | — | 3 | — | **3** |
| Airbus A319 | — | 9 | 11 | — | **20** | — | 9 | 12 | — | **21** |
| Airbus A320 | — | 5 | 14 | — | **19** | — | 5 | 16 | — | **21** |
| Airbus A320 NEO | — | — | 6 | — | **6** | — | — | 1 | — | **1** |
| Airbus A321 | — | 2 | 2 | — | **4** | — | 2 | 2 | — | **4** |
| Airbus A321 NEO | — | — | 6 | — | **6** | — | — | 4 | — | **4** |
| Airbus A321 NEO LR | — | — | 3 | — | **3** | — | — | — | — | **—** |
| Embraer 190 | — | — | — | 9 | **9** | — | — | — | 9 | **9** |
| Embraer 195 | — | — | — | 4 | **4** | — | — | — | 4 | **4** |
| ATR 72 | — | — | — | 8 | **8** | — | — | — | 8 | **8** |
| | **5** | **16** | **66** | **21** | **108** | **7** | **16** | **52** | **21** | **96** |

During the nine months period ended September 30, 2019, the following changes occurred in the aircraft fleet:

- Phase-in of eight aircraft of NEO fleet contracted previously with the Airbus, two A321 NEO LR and six A330 NEO;
- Phase-in of thirteen placement aircraft (five A320 NEO, two A321 NEO, one A321 NEO LR and five A330 NEO);
- Phase-out of four A330 aircraft, two A320 aircraft and one A319 aircraft.
- Disposal of two A330 aircraft, one in May and other in August of 2019.

**3 Investment properties**

During the nine months period ended September 30, 2019 and for the year end December 31, 2018, the movements recorded in investment properties were as follows:

| | 30-Sep-19 | 31-Dec-18 |
|---|---|---|
| **Opening balance** | **1,925,764** | **883,849** |
| Transfers | — | 110,111 |
| Megasis Merger | 1,205,000 | — |
| Disposals | — | (361,000) |
| Fair value adjustments | 47,695 | 1,292,804 |
| **Closing balance** | **3,178,459** | **1,925,764** |

The impact due to the Megasis merger, in the amount of Euro 1,205,000, refers to buildings owned by Megasis (see introductory note).

**4 Intangible assets**

During the nine months period ended September 30, 2019 and for the year end December 31, 2018, changes in Intangible assets were as follows:

| | Industrial property and other rights | Computer programmes | Assets in progress | Advances to suppliers of intangible assets | Total |
|---|---|---|---|---|---|
| **Acquisition Cost** | | | | | |
| **Balance as at 1 January 2018** | **11,951,704** | **1,881,434** | **1,484,968** | **—** | **15,318,106** |
| Acquisitions | — | 6,085,323 | 3,555,255 | 1,215,922 | 10,856,500 |
| Regularisation, transfer and write-off | — | 380,060 | (380,060) | — | — |
| **Balance as at 31 December 2018** | **11,951,704** | **8,346,817** | **4,660,163** | **1,215,922** | **26,174,606** |
| Megasis Merger | — | 6,837,577 | — | — | 6,837,577 |
| Acquisitions | — | 9,613,542 | 4,880,454 | 446,590 | 14,940,586 |
| Regularisation, transfer and write-off | — | 2,119,330 | (2,119,330) | — | — |
| **Balance as at 30 September 2019** | **11,951,704** | **26,917,266** | **7,421,287** | **1,662,512** | **47,952,769** |
| **Accumulated amort. and impairment losses** | | | | | |
| **Balance as at 1 January 2018** | **(11,951,704)** | **(485,270)** | **—** | **—** | **(12,436,974)** |
| Amortisations and impairment losses | — | (2,492,247) | — | — | (2,492,247) |
| **Balance as at 31 December 2018** | **(11,951,704)** | **(2,977,517)** | **—** | **—** | **(14,929,221)** |
| Megasis Merger | | (6,048,071) | — | — | (6,048,071) |
| Amortisations and impairment losses (Note 30) | — | (4,035,543) | — | — | (4,035,543) |
| Regularisation, transfer and write-off | — | — | — | — | — |
| **Balance as at 30 September 2019** | **(11,951,704)** | **(13,061,131)** | **—** | **—** | **(25,012,835)** |
| **Carrying amount as at 31 December 2018** | **—** | **5,369,300** | **4,660,163** | **1,215,922** | **11,245,385** |
| **Carrying amount as at 30 September 2019** | **—** | **13,856,135** | **7,421,287** | **1,662,512** | **22,939,934** |

- The additions in the nine months period ended September 30, 2019 under the captions of computer programmes and assets in progress relate essentially to the acquisition and development of software related to the Company operating activity, considering the merger of Megasis.

**5 Other financial assets**

As at September 30, 2019 and December 31, 2018, the caption "Other financial assets" details as follows:

| | 30-sep-19 | | 31-dec-18 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Angola's treasury bonds | — | 5,034,972 | 13,224,721 | — |
| Bank deposits in Guinea Bissau | — | 1,778,484 | — | 1,727,665 |
| SITA Group Foundation | — | 455,915 | — | 455,915 |
| Other | — | 39,683 | — | 39,684 |
| | **—** | **7,309,054** | **13,224,721** | **2,223,264** |
| Impairment losses | — | (1,793,042) | — | (1,742,224) |
| | **—** | **5,516,012** | **13,224,721** | **481,040** |

The movement occurred in this caption during the nine months period ended September 30, 2019 and for the year end December 31, 2018 is as follows:

| | 30-sep-19 | | 31-dec-18 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| **Opening balance** | 13,224,721 | 481,040 | 34,852,859 | 46,440,556 |
| Increases | — | 4,830,936 | 7,497,818 | — |
| Decreases | (12,789,293) | — | (66,543,254) | — |
| Transfers | — | — | 47,272,685 | (47,272,685) |
| Currency translation differences | (435,428) | 204,036 | 480,690 | 1,313,169 |
| Other | — | — | (10,336,077) | — |
| **Closing balance** | **—** | **5,516,012** | **13,224,721** | **481,040** |

The increase in the nine months period ended September 30, 2019 in the amount of Euro 4,830,936, refers to the "Angola's Treasury bonds" subscribed in the amount of Kwanza 1,737,479 thousand, corresponding to the original exchange rate of 316.909 kwanzas per dollar, with maturity date on December 18, 2020, and indexed to the dollar.

The decrease in the nine months period ended September 30, 2019 in the amount of Euro 12,789,293, refers, essentially, to disposed "Angola's Treasury bonds" subscribed in 2018.

**6 Deferred tax assets and liabilities**

As at September 30, 2019 and December 31, 2018 the tax rate used to calculate the deferred tax assets relating to tax losses carried forward was 21%. In the case of temporary differences, the rate used was 29.5%, when it was deemed that the taxation of temporary differences in the estimated period of application of the aforesaid rate was probable.

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

### 6 Deferred tax assets and liabilities (Continued)

The main temporary differences between accounting and taxable amounts as at September 30, 2019 and December 31, 2018, the corresponding deferred tax assets and liabilities and the respective effect on the results for September 30, 2019 and December 31, 2018 are as follows:

| | 30-sep-19 | | | | |
|---|---|---|---|---|---|
| | **Opening balance** | **Megasis merger** | **Effect in results (Note 32)** | **Effect in comprehensive income** | **Closing balance** |
| **Deferred tax assets** | | | | | |
| Tax losses carried forward | 37,163,328 | — | — | — | 37,163,328 |
| Employee benefits obligations | 25,432,762 | 103,615 | (994,120) | 5,258,349 | 29,800,606 |
| Impairment losses in inventories | 6,831,884 | — | (77,017) | — | 6,754,867 |
| Impairment losses of accounts receivable | 7,020,375 | 13,488 | (424,331) | — | 6,609,532 |
| SIFIDE,CFEI and international double taxation convention | 442,275 | — | (442,275) | — | — |
| Other provisions and adjustments not accepted for tax purposes | 122,949 | — | (2,750) | — | 120,199 |
| Impairment losses in other fixed assets | 1,837,028 | — | 1,384,220 | — | 3,221,248 |
| Derivative financial instruments (Note 21) | 12,190,104 | — | — | (11,465,540) | 724,564 |
| | **91,040,705** | **117,103** | **(556,273)** | **(6,207,191)** | **84,394,344** |
| **Deferred tax liabilities** | | | | | |
| Revaluations | 18,760,179 | 258,203 | (698,652) | — | 18,319,730 |
| Derivative financial instruments | — | — | — | — | — |
| Ajustments due the adoption of IFRS 16 (Note 1.3.) | — | — | (30,208,751) | 38,054,184 | 7,845,433 |
| | **18,760,179** | **258,203** | **(30,907,403)** | **38,054,184** | **26,165,163** |
| | **72,280,526** | **(141,100)** | **30,351,130** | **(44,261,375)** | **58,229,181** |

| | 31-dec-18 | | | |
|---|---|---|---|---|
| | **Opening balance** | **Effect in results** | **Effect in comprehensive income** | **Closing balance** |
| **Deferred tax assets** | | | | |
| Tax losses carried forward | 20,750,265 | 16,413,063 | — | 37,163,328 |
| Employee benefits obligations | 16,323,829 | 4,097,132 | 5,011,801 | 25,432,762 |
| Impairment losses in inventories | 8,318,398 | (1,486,514) | — | 6,831,884 |
| Impairment losses of accounts receivable | 6,872,114 | 148,261 | — | 7,020,375 |
| SIFIDE,CFEI and international double taxation convention | — | 442,275 | — | 442,275 |
| Other provisions and adjustments not accepted for tax purposes | 133,103 | (10,154) | — | 122,949 |
| Impairment losses in other fixed assets | 471,288 | 1,365,740 | — | 1,837,028 |
| Derivative financial instruments (Note 21) | — | — | 12,190,104 | 12,190,104 |
| | **52,868,997** | **20,969,803** | **17,201,905** | **91,040,705** |
| **Deferred tax liabilities** | | | | |
| Revaluations | 19,691,715 | (931,536) | — | 18,760,179 |
| | **19,691,715** | **(931,536)** | **—** | **18,760,179** |
| | **33,177,282** | **21,901,339** | **17,201,905** | **72,280,526** |

**6 Deferred tax assets and liabilities (Continued)**

- **Tax losses carried forward**

Under the terms of current tax legislation in Portugal, tax losses generated in 2014 and 2015 are reportable for a period of twelve years, tax losses generated after 2017 are reportable for a period of five years, after its occurrence, and susceptible to deduction of tax profits generated during those periods, until the limit of 70% of taxable income.

The Company considers that tax losses carried forward are partially recoverable, through their use in the reduction of future taxable profit, and therefore recorded the corresponding deferred tax assets. It should be noted that, despite the Company having exercised its legitimate right of challenge, no deferred tax assets were recorded related to the tax losses carried forward resulting from the securitization operation in the years 2014 and 2015 amounting to, approximately, Euro 99 million, currently under discussion in a tax court.

Since 2017, the Company has been taxed according to the special taxation regime for groups of companies (RETGS—"*Regime Especial de Tributação de Grupos de Sociedades*"), and the tax result was determined by TAP SGPS. However, the tax estimate is recorded based on its tax results.

For additional information regarding tax losses, see the special purpose financial statements of TAP, S.A. as of December 31, 2018.

**7 Other receivables**

As at September 30, 2019 and December 31, 2018, other receivables are detailed as follows:

| | 30-Sep-19 | | 31-dec-18 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Trade receivables | 314,953,848 | — | 230,470,984 | — |
| Recoverable maintenance reserves | 12,753,237 | 61,999,379 | — | — |
| Security deposits of lease contracts | 7,210,408 | 51,466,861 | 6,030,928 | 53,749,191 |
| Accrued income | 47,265,789 | — | 24,861,437 | — |
| Advances to suppliers | 23,459,758 | — | 35,761,944 | — |
| Other debtors | 903,206,042 | 1,921,388 | 922,878,956 | 9,309,075 |
| | **1,308,849,082** | **115,387,628** | **1,220,004,249** | **63,058,266** |
| Impairment losses | (65,557,256) | (1,921,388) | (65,382,983) | (1,921,388) |
| | **1,243,291,826** | **113,466,240** | **1,154,621,266** | **61,136,878** |

The security deposits of lease contracts, recorded by the net present value, are constituted under the operating lease contracts for aircraft and engines, and will be returned, without interests, when the aircraft and engines are returned to their lessors.

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

**7 Other receivables (Continued)**

- **Trade receivables**

As at September 30, 2019 and December 31, 2018, the caption Trade receivables is detailed as follows:

| | 30-Sep-19 | 31-dec-18 |
|---|---|---|
| Private entities | 117,423,075 | 77,527,813 |
| Travel agency | 116,143,642 | 49,498,969 |
| Airlines | 22,130,746 | 22,904,051 |
| Related parties (Note 36) | 20,376,238 | 19,922,448 |
| Other | 7,624,468 | 7,644,151 |
| Doubtful debtors | 31,255,679 | 52,973,552 |
| | **314,953,848** | **230,470,984** |
| Impairment losses | (61,338,857) | (61,191,973) |
| | **253,614,991** | **169,279,011** |

The increase in the balance of trade receivables in the nine months ended September 30, 2019 is mainly due to the seasonality of the air transport business.

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

- **Recoverable maintenance reserves**

The change in the caption Recoverable maintenance reserves is due to the adoption of IFRS 16, since until December 31, 2018 these reserves were presented under the caption Other payables, deducted to the estimated liabilities with structural maintenance of aircraft in operating lease.

- **Accrued income**

As at September 30, 2019 and December 31, 2018, the amount recorded under the caption Accrued income corresponds to:

| | 30-Sep-19 | 31-dec-18 |
|---|---|---|
| Work for aviation companies | 22,032,197 | 9,893,975 |
| Related parties (Note 36) | 10,951,002 | 8,542,029 |
| Customer loyalty program | 6,679,136 | 748,297 |
| Airport facilities—incentives | 2,535,963 | 3,796,633 |
| Fuel | 1,326,922 | — |
| Other | 3,740,569 | 1,880,503 |
| | **47,265,789** | **24,861,437** |

- **Other debtors—current**

As at September 30, 2019 and December 31, 2018, the caption "Other debtors—current" is detailed as follows:

| | 30-Sep-19 | 31-dec-18 |
|---|---|---|
| Related parties (Note 36) | 823,007,280 | 819,729,783 |
| Advances related to lease contracts | 20,218,133 | 45,366,677 |
| Other | 59,980,629 | 57,782,496 |
| | **903,206,042** | **922,878,956** |
| Impairment losses | (4,218,399) | (4,191,010) |
| | **898,987,643** | **918,687,946** |

**7 Other receivables (Continued)**

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

- **Impairment losses of other receivables**

The movement in receivables impairment losses during the period from January 1, 2019 and September 30, 2019 and the year of 2018 is as follows:

| | 30-Sep-19 | 31-dec-18 |
|---|---|---|
| **Opening balance** | 67,304,371 | 66,235,623 |
| Increases (Note 26) | 4,455,365 | 2,422,962 |
| Reversals (Note 26) | (1,889,821) | (1,350,689) |
| Utilisation | (2,391,271) | (3,525) |
| **Closing balance** | **67,478,644** | **67,304,371** |

**8 Inventories**

As at September 30, 2019 and December 31, 2018, the detail of the inventories is as follows:

| | 30-sep-19 | 31-dec-18 |
|---|---|---|
| Raw materials, inputs and consumables | 121,663,858 | 87,103,493 |
| Inventory impairment losses | (22,897,857) | (23,158,930) |
| | **98,766,001** | **63,944,563** |

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

The movement of Inventory impairment losses during the nine months ended September 30, 2019 and for the year ended December 31, 2018 is as follows:

| | 30-set-19 | 31-dec-18 |
|---|---|---|
| **Opening balance** | 23,158,930 | 28,197,961 |
| Increases (Note 26) | 2,284 | 1,402,836 |
| Reversals (Note 26) | (259,077) | (499,964) |
| Utilisation | (4,280) | (5,941,903) |
| **Closing balance** | **22,897,857** | **23,158,930** |

**9 Income tax receivable/ payable**

Since 2017, the Company started to be taxed through the Special Taxation Regime for Groups of Companies ("RETGS"), being the tax result determined in TAP SGPS. However, the Company's income tax estimate is recorded based on its taxable income.

### 9 Income tax receivable/ payable (Continued)

For the nine months period ended September 30, 2019 and for the year ended December 31, 2018 the balance relating to income tax receivable or payable is detailed as follows:

| | 30-set-19 | | 31-dec-18 | |
|---|---|---|---|---|
| | Current assets | Current liabilities | Current assets | Current liabilities |
| **RETGS: Related Parties** | | | | |
| Payments on account | 8,177,124 | — | 7,889,280 | — |
| Withholding taxes | 1,234,472 | — | 639,653 | — |
| Current income tax (Note 32) | 10,135,476 | — | (199,289) | — |
| | **19,547,072** | **—** | **8,329,644** | **—** |
| **Income tax receivable/payable** | | | | |
| Other | — | (17,430) | — | (19,326) |
| | **—** | **(17,430)** | **—** | **(19,326)** |
| | **19,547,072** | **(17,430)** | **8,329,644** | **(19,326)** |

### 10 Other current and non-current assets

Other current and non-current assets as of September 30, 2019 and December 31, 2018 are as follows:

| | 30-Sep-19 | | 31-dec-18 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Deferred expenses | 38,450,177 | 20,016,474 | 47,472,655 | — |
| State | 4,050,647 | — | 4,630,040 | — |
| | **42,500,824** | **20,016,474** | **52,102,695** | **—** |

- **Deferred expenses**

As of September 30, 2019 and December 31, 2018, deferred expenses details as follows:

| | 30-Sep-19 | | 31-dec-18 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Security deposits | — | 20,016,474 | — | — |
| Aircrafts and engine leases | 23,515,223 | — | 34,227,664 | — |
| Rental costs | 1,372,419 | — | 4,310,856 | — |
| Commissions | 3,981,643 | — | 1,871,632 | — |
| Related parties (Note 36) | 3,932,042 | — | 4,696,968 | — |
| Other deferred expenses | 5,648,850 | — | 2,365,535 | — |
| | **38,450,177** | **20,016,474** | **47,472,655** | **—** |

Deferred expenses related to aircraft and engine leases refer to initial costs incurred between the inception and commencement date, to be recognised on a straight-line basis throughout the lease agreement. As at December 31, 2018, this caption also included the deferral of the rent paid in advance to the lessor.

Deferred expenses related to security deposits refer to the financial discount cost of these receivables, to be recognised in the period term of the related lease agreements.

The commissions refer to amounts paid to agents for tickets sold, but not yet flown and not expired, until September 30, 2019 and December 31, 2018.

### 11 Cash and cash equivalents

As at September 30, 2019 and December 31, 2018, the detail of cash and cash equivalents is as follows:

| | 30-Sep-19 | 31-dec-18 |
|---|---|---|
| Term deposits | 127,442,659 | 158,227,412 |
| Bank deposits available on demand | 117,551,202 | 54,940,178 |
| Other bank deposits | 111,000 | 10,488,153 |
| Cash | 180,647 | 58,850 |
| **Cash and cash equivalent in the statement of financial position** | **245,285,508** | **223,714,593** |
| Other deposits | — | (10,359,638) |
| **Cash and cash equivalents in the cash flow statement** | **245,285,508** | **213,354,955** |

### 12 Stakeholder's equity

As at September 30, 2019 and December 31, 2018, the share capital of TAP S.A. was fully underwritten and paid up, represented by 8,300,000 shares with a nominal value of Euro 5, fully owned by TAP—Transportes Aéreos Portugueses, SGPS, S.A..

### 13 Supplementary capital contributions and reserves

**Supplementary capital contributions**

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

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

**Reserves**

- **Legal reserve**

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

This reserve cannot be distributed, except in the case of the Company's liquidation, but can be incorporated into the share capital or used to absorb losses after all other reserves have been depleted.

As at September 30, 2019 and December 31, 2018, the legal reserve was fully constituted in accordance with the commercial legislation in force.

- **Hedge reserves**

As at September 30, 2019, the negative amount of Euro 1,731,585 presented under the heading "Hedge reserves", corresponds to the fair value of the financial instruments classified as hedging accounting (Euro 2,456,149), net of tax, in the amount of Euro 724,564 (Notes 18 and 21).

- **Other reserves**

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

**13 Supplementary capital contributions and reserves (Continued)**

**Retained earnings**

The caption "Retained earnings" corresponds to the net results of previous years, as deliberated at the General Meeting Assemblies. The impact that resulted from the first-time adoption of the International Financial Reporting Standards (IFRS) was also recorded under this caption, as well as gains or losses from the remeasurements of post-employment benefits, net of tax, and IFRS 16 first time adoption adjustments (additionally see Note 1.2).

**14 Post-employment benefits obligations**

**Assumptions used in the assessment of liabilities**

The Company's liabilities were determined by actuarial studies, reported as of 31 December 2018, prepared by independent entities, using the "Projected Credit Unit Method" and essentially using the following financial and demographic assumptions:

| | 30-Sep-19 | | 31-dec-18 | |
|---|---|---|---|---|
| | Portugal VIVA | Portugal Jubileu | Portugal VIVA | Portugal Jubileu |
| Mortality table | TV 88/90 | TV 88/90 | TV 88/90 | TV 88/90 |
| Invalidity table | EKV1980 | EKV1980 | EKV1980 | EKV1980 |
| Discount rate | 1.50% | 1.50% | 2.00% | 2.00% |
| Fund yield rate | 1.50% | 1.50% | 2.00% | 2.00% |
| Growth rate | | | | |
| Wages | [1,5% – 5%] | 2.00% | [1,5% – 5%] | 2.00% |
| Pensions | 1.00% | 1.00% | 1.00% | 1.00% |
| Trend of medical costs | 1.50% | — | 1.50% | — |
| Retirement age | 66 | 65 | 66 | 65 |

The Company reviews periodically the actuarial assumptions, or whenever relevant events occur, based on market financial information and information related to the beneficiaries covered by these plans. At September 30, 2019, the discount rate if VIVA and Jubileu was reduced to 1.5%, following the decrease of the high quality bonds interest rates.

Net liabilities as at September 30, 2019 and December 31, 2018 are detailed as follows:

| | 30-Sep-19 | | | | | |
|---|---|---|---|---|---|---|
| | VIVA fund | VIVA pensions | Medical acts | Jubileu lump sum | England Representation | Total |
| Liabilities from past services | | | | | | |
| —Active employees | 332,041 | 2,310,826 | — | 97,353,753 | — | 99,996,620 |
| —Early retirement | 3,052 | 17,808,127 | 438,246 | — | — | 18,249,425 |
| —Retired | 12,153,226 | 28,654,836 | 2,598,463 | — | 16,919,499 | 60,326,024 |
| Fair value of plan assets | (14,835,694) | — | — | (47,219,847) | (15,497,524) | (77,553,065) |
| **Deficit/(surplus)** | **(2,347,375)** | **48,773,789** | **3,036,709** | **50,133,906** | **1,421,975** | **101,019,004** |

| | 31-Dec-18 | | | | | |
|---|---|---|---|---|---|---|
| | VIVA fund | VIVA pensions | Medical acts | Jubileu lump sum | England Representation | Total |
| Liabilities from past services | | | | | | |
| —Active employees | 281,580 | 1,877,234 | — | 83,939,828 | — | 86,098,642 |
| —Early retirement | 37,608 | 18,281,534 | 438,246 | — | — | 18,757,388 |
| —Retired | 10,636,637 | 30,872,904 | 2,598,463 | — | 16,919,499 | 61,027,503 |
| Fair value of plan assets | (15,230,464) | — | — | (48,942,794) | (15,497,524) | (79,670,782) |
| **Deficit/(surplus)** | **(4,274,639)** | **51,031,672** | **3,036,709** | **34,997,034** | **1,421,975** | **86,212,751** |

**14 Post-employment benefits obligations (Continued)**

**Evolution of liabilities for past services**

The movement of the liabilities for past services, reflected in the statement of financial position, during the nine months period ended September 30, 2019 and during the year of 2018, is as follows:

| | 30-Sep-19 | | | | | |
|---|---|---|---|---|---|---|
| | VIVA Fund | VIVA Pensions | Medical acts | Jubileu lump sum | England Representation | Total |
| Liabilities at the beginning of the period | 10,955,825 | 51,031,672 | 3,036,709 | 83,939,828 | 16,919,499 | 165,883,533 |
| Currency translation differences | — | — | — | — | — | — |
| Values recorded through profit or loss for the period: | | | | | | |
| Current services | 320 | — | — | 3,438,093 | — | 3,438,413 |
| Net interest | 299,801 | 630,010 | — | 1,308,009 | — | 2,237,820 |
| Reestructuring - early retairment (Note 28) | — | 1,533,813 | — | — | — | 1,533,813 |
| Remeasurements | 1,855,600 | 344,400 | — | 15,578,446 | — | 17,778,446 |
| Megasis merger | — | 460,515 | — | — | — | 460,515 |
| Benefits paid | (623,227) | (5,226,621) | — | (6,910,623) | — | (12,760,471) |
| **Liabilities at the end of the period** | **12,488,319** | **48,773,789** | **3,036,709** | **97,353,753** | **16,919,499** | **178,572,069** |

| | 31-Dec-18 | | | | | |
|---|---|---|---|---|---|---|
| | VIVA Fund | VIVA Pensions | Medical acts | Jubileu lump sum | England Representation | Total |
| Liabilities at the beginning of the year | 10,591,863 | 35,020,845 | 2,773,101 | 70,210,638 | 17,058,710 | 135,655,157 |
| Currency translation differences | — | — | — | — | (456,065) | (456,065) |
| Values recorded through profit or loss for the year: | | | | | | |
| Current services | 21,891 | — | — | 4,437,586 | — | 4,459,477 |
| Net interest | 211,837 | 700,417 | 55,461 | 1,535,840 | 316,854 | 2,820,409 |
| Reestructuring - early retairment (Note 28) | — | 17,305,876 | — | — | — | 17,305,876 |
| Remeasurements | 867,369 | 1,967,522 | 208,147 | 13,822,725 | — | 16,865,763 |
| Benefits paid | (737,135) | (3,962,988) | — | (6,066,961) | — | (10,767,084) |
| **Liabilities at the end of the year** | **10,955,825** | **51,031,672** | **3,036,709** | **83,939,828** | **16,919,499** | **165,883,533** |

**14 Post-employment benefits obligations (Continued)**

**Evolution plan assets allocated to post retirement benefit schemes**

During the nine months period ended September 30, 2019, and during the year of 2018, the fund assets evolution was as follows:

| | 30-Sep-19 | | | |
|---|---|---|---|---|
| | VIVA Fund | Jubileu lump sum | England Representation | Total |
| Opening balance | 15,230,464 | 48,942,794 | 15,497,524 | 79,670,782 |
| Contributions in the period | — | 4,500,000 | — | 4,500,000 |
| Net interest | 228,457 | 734,141 | — | 962,598 |
| Benefits paid | (623,227) | (6,910,623) | — | (7,533,850) |
| Remeasurements | — | (46,465) | — | (46,465) |
| Currency translation differences | — | — | — | — |
| **Closing Balance** | **14,835,694** | **47,219,847** | **15,497,524** | **77,553,065** |

| | 31-Dec-18 | | | |
|---|---|---|---|---|
| | VIVA Fund | Jubileu lump sum | England Representation | Total |
| Opening balance | 16,398,887 | 48,296,222 | 15,625,035 | 80,320,144 |
| Contributions in the year | — | 5,871,000 | 328,554 | 6,199,554 |
| Net interest | (431,287) | 965,924 | — | 534,637 |
| Benefits paid | (737,136) | (6,066,961) | — | (6,804,097) |
| Remeasurements | — | (123,391) | — | (123,391) |
| Currency translation differences | — | — | (456,065) | (456,065) |
| **Closing Balance** | **15,230,464** | **48,942,794** | **15,497,524** | **79,670,782** |

**Expenses related to pensions and other post-employment benefits**

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

| | 30-Sep-19 | | | | | |
|---|---|---|---|---|---|---|
| | VIVA fund | VIVA pensions | Medical acts | Jubileu lump sum | England representation | Total |
| Current Services | 320 | — | — | 3,438,093 | — | 3,438,413 |
| Net Interest | 71,344 | 630,010 | — | 573,868 | 81,387 | 1,356,609 |
| **Sub-total (Note 25)** | **71,664** | **630,010** | **—** | **4,011,961** | **81,387** | **4,795,022** |
| Restructuring—early retirement (Note 28) | — | 1,533,813 | — | — | — | 1,533,813 |
| **Total** | **71,664** | **2,163,823** | **—** | **4,011,961** | **81,387** | **6,328,835** |

| | 30-Sep-18 | | | | | |
|---|---|---|---|---|---|---|
| | VIVA fund | VIVA pensions | Medical acts | Jubileu lump sum | England representation | Total |
| Current Services | 16,418 | — | — | 6,127,667 | — | 6,144,085 |
| Net Interest | (180,446) | 1,435,493 | 27,731 | 420,440 | 1,910 | 1,705,128 |
| **Sub-total (Note 25)** | **(164,028)** | **1,435,493** | **27,731** | **6,548,107** | **1,910** | **7,849,213** |
| Restructuring—early retirement (Note 28) | — | — | — | — | — | — |
| **Total** | **(164,028)** | **1,435,493** | **27,731** | **6,548,107** | **1,910** | **7,849,213** |

**14 Post-employment benefits obligations (Continued)**

As previously mentioned, the Company's pilots, admitted after June 1, 2007, benefit from a defined contribution plan. During the nine months period ended September 30, 2019, an expense was recognised in the heading "Employee costs—post-employment benefits" in the amount of Euro 1,916,164 (nine months period ended September 30, 2018: Euro 1,225,370), relative to the contributions made during the year in favour of its employees (Note 25).

The expenses relative to pensions and other post-employment benefits, during the nine months period ended September 30, 2019 and 2018 are recorded under the caption "Employee costs" (Note 25).

**Remeasurement gains/losses**

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

| | 30-Sep-19 | | | | | |
|---|---|---|---|---|---|---|
| | **VIVA Fund** | **VIVA Pensons** | **Medical Acts** | **Jubileu lump sum** | **England Representation** | **Total** |
| **Remeasurements** | | | | | | |
| Return of assets, excluding amounts included in the income statement | — | — | — | 46,465 | — | 46,465 |
| | **—** | **—** | **—** | **46,465** | **—** | **46,465** |
| (Gains)/losses due to changes in financial assumptions | 1,855,600 | 344,400 | — | 6,800,000 | — | 9,000,000 |
| (Gains)/losses due to experience | — | — | — | 8,778,446 | — | 8,778,446 |
| | **1,855,600** | **344,400** | **—** | **15,578,446** | **—** | **17,778,446** |
| **Total remeasurements** | **1,855,600** | **344,400** | **—** | **15,624,911** | **—** | **17,824,911** |

| | 31-Dec-18 | | | | | |
|---|---|---|---|---|---|---|
| | **VIVA Fund** | **VIVA Pensons** | **Medical Acts** | **Jubileu lump sum** | **England Representation** | **Total** |
| **Remeasurements** | | | | | | |
| Return of assets, excluding amounts included in the income statement | — | — | — | 123,391 | — | 123,391 |
| | **—** | **—** | **—** | **123,391** | **—** | **123,391** |
| (Gains)/losses due to changes in financial assumptions | — | — | — | 12,819,605 | — | 12,819,605 |
| (Gains)/losses due to experience | 867,369 | 1,967,522 | 208,147 | 1,003,120 | — | 4,046,158 |
| | **867,369** | **1,967,522** | **208,147** | **13,822,725** | **—** | **16,865,763** |
| **Total remeasurements** | **867,369** | **1,967,522** | **208,147** | **13,946,116** | **—** | **16,989,154** |

Total remeasurements recognised in 2019, amounting to Euro 17,824,911, mainly derive from the reduction of the discount rate, accompanied by the salary review and agreements established in 2018 with the pilots, which had an impact on the 2019 salary review higher than expected.

Gains/losses on remeasurements were recognised directly in the Company's comprehensive income.

## 15 Provisions

During the nine months period ended September 30, 2019 and the financial year of 2018, the movements in provisions were as follows:

| | Provision for legal claims | Others | Redelivery costs (Note 1.4) | Total |
|---|---|---|---|---|
| **1 January 2018** | **8,771,552** | **451,197** | **—** | **9,222,749** |
| Increases | 3,438,992 | 1,877,168 | — | 5,316,160 |
| Reversals | (255,166) | (34,420) | — | (289,586) |
| Utilisation | (157,500) | (1,877,168) | — | (2,034,668) |
| **31 December 2018** | **11,797,878** | **416,777** | **—** | **12,214,655** |
| IFRS 16 adoption | — | — | 26,082,076 | 26,082,076 |
| Increases | 28,193 | — | 23,249,727 | 23,277,920 |
| Reversals | (371,394) | (9,323) | — | (380,717) |
| Utilisation | (136,101) | — | (11,174,660) | (11,310,761) |
| Exchanges and interests | — | — | 4,371,501 | 4,371,501 |
| **30 September 2019** | **11,318,576** | **407,454** | **42,528,644** | **54,254,674** |

From these movements, resulted gains in the amount of Euro 352,524 at September 30, 2019, which were recorded in the caption Impairment losses in inventories, receivables and provisions in the income statement (Note 26).

- **Provision for legal claims**

Provisions for legal claims are recognised in accordance with the Company's and its legal advisors risk assessments, based on historical success rates by type of legal action and probability of unfavourable outcomes for the Company. As at 30 September 2019, the existing provision, amounting to Euro 11,318,576, is intended to cover the risk of several legal proceedings against the Company, in Portugal and foreign countries.

## 16 Borrowings

- **Current and non-current borrowings**

As at September 30, 2019 and December 31, 2018, the borrowings are detailed as follows:

| | 30-Sep-19 | | 31-dec-18 | |
|---|---|---|---|---|
| | Current | Non-Current | Current | Non-Current |
| Bank loans | 168,795,013 | 368,972,114 | 150,628,347 | 498,485,039 |
| Interest accrued | 2,898,760 | — | 3,621,389 | — |
| Initial charges | (960,821) | (4,933,083) | (3,952,807) | (4,811,843) |
| **Remunerated bank debt** | **170,732,952** | **364,039,031** | **150,296,929** | **493,673,196** |
| Bonds | 2,588,428 | 323,172,098 | — | — |
| Interest accrued | 3,478,397 | — | — | — |
| Initial expenses | (513,097) | (13,238,937) | — | — |
| **Bonds** | **5,553,728** | **309,933,161** | **—** | **—** |
| Financial leases | 29,012,420 | 152,425,563 | 30,045,208 | 102,050,837 |
| Interest accrued | 454,836 | — | 562,988 | — |
| Initial expenses | (88,208) | (761,115) | (258,329) | (430,999) |
| **Financial leases** | **29,379,048** | **151,664,448** | **30,349,867** | **101,619,838** |
| **Borrowings** | **205,665,728** | **825,636,640** | **180,646,796** | **595,293,034** |

**16 Borrowings (Continued)**

As at September 30, 2019 and December 31, 2018, the remunerated debt including accrued interests and net of initial charges, by maturity and by interest rate, is as follows:

| | 30-Sep-19 | 31-dec-18 |
|---|---|---|
| **Variable rate** | | |
| Up to 1 year | 183,979,878 | 166,739,901 |
| 1 to 2 years | 164,825,509 | 173,099,130 |
| 2 to 3 years | 139,353,690 | 149,833,718 |
| Over 3 years | 115,336,960 | 199,622,007 |
| | **603,496,037** | **689,294,756** |
| **Fixed rate** | | |
| Up to 1 year | 21,685,850 | 13,906,895 |
| 1 to 2 years | 13,339,249 | 19,746,060 |
| 2 to 3 years | 13,780,663 | 10,385,587 |
| Over 3 years | 379,000,569 | 42,606,532 |
| | **427,806,331** | **86,645,074** |
| | **1,031,302,368** | **775,939,830** |

- **Net debt**

As at September 30, 2019 and December 31, 2018 net debt is detailed as follows:

| | 30-Sep-19 | 31-dec-18 |
|---|---|---|
| **Borrowings** | | |
| Non-current | 825,636,640 | 595,293,034 |
| Current | 205,665,728 | 180,646,796 |
| | **1,031,302,368** | **775,939,830** |
| **Cash and cash equivalents (Note 11)** | | |
| Cash | 180,647 | 58,850 |
| Bank deposits available on demand | 117,551,202 | 54,940,178 |
| Other deposits | 127,553,659 | 168,715,565 |
| | **245,285,508** | **223,714,593** |
| **Net debt** | **786,016,860** | **552,225,237** |

- **Remunerated bank debt**

Under the Share Purchase Agreement of TAP SGPS, and the Debt service agreement on the debt service restructuring and monitoring of TAP Group, referred to in the Introductory Note, on June 30, 2017 TAP Group bank debt was restructured, being the main changes related to the maturity of the loans and its financial conditions, namely the reference rate and the applicable spread.

As at September 30, 2019 and December 31, 2018, the currency of all remunerated bank debt is Euro.

- **Bonds**

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

**16 Borrowings (Continued)**

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

At September 30, 2019 and December 31, 2018 all loans are denominated in Euros.

- **Finance Leases**

As at September 30, 2019 and December 31, 2018, the finance lease liabilities (accrued of interests and deducted of initial charges), respect essentially to airplains and engines.

Finance leases, by currency, are detailed as follows:

| | 30-Sep-19 | 31-dec-18 |
|---|---|---|
| Finance leases in EUR | 90,711,282 | 69,522,862 |
| Finance leases in USD | 90,332,214 | 62,446,843 |
| | **181,043,496** | **131,969,705** |

- **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 finance leases, operating duties relative to registrations at official entities, information relative to leased aircraft, strict compliance with all the regulations, and procedures defined by the authorities, amongst others.

In the context of the bank debt restructuring referred above and the bond issuance, some commitments were assumed regarding the follow up of the TAP Group's financial performance, through the analysis and accomplishment of certain ratios determined through the consolidated financial statements, namely equity, EBITDAR, Net Debt/EBITDAR, unsecured financial net debt and minimum unrestricted cash and cash equivalent amount. In addition bonds issued in 2019 includes certain financial covenants, including the accomplishment of Net Debt/EBITDAR ratio. These ratios have as main objective to follow up the TAP Group's financial situation and its capability to repay the debt.

**17 Liabilities with contractual obligations**

The caption "Liabilities with contractual obligations" refers essentially to the Company's non-cancellable payments under operating lease contracts, which vary in duration up to 12 years and may be extended at the express wish of the contracting parties, which are now recognised in the statement of financial position from January 1, 2019 with the adoption of IFRS 16.

As at September 30, 2019, there were 66 aircraft and 18 engines under operating lease and 21 aircraft under ACMI, as detailed in Note 2.

As at September 30, 2019, liabilities with contractual obligations, by maturity, break down as follows:

| | 30-Sep-19 |
|---|---|
| Up to 1 year | 411,131,700 |
| 1 to 2 years | 373,163,570 |
| 2 to 3 years | 288,045,015 |
| 3 a 4 years | 208,354,478 |
| 4 to 5 years | 157,504,102 |
| Over 5 years | 748,303,351 |
| | **2,186,502,216** |

These liabilities are mainly indexed to the US dollar.

## 18 Other payables

As at September 30, 2019 and December 31, 2018, the caption "Other payables" is detailed as follows:

| | 30-Sep-19 | | 31-dec-18 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Suppliers | 156.040.967 | — | 176.947.984 | — |
| Suppliers—related parties (Note 36) | 30.687.258 | — | 60.006.523 | — |
| Accrued expenses | 272.153.375 | — | 308.895.811 | 49.741.211 |
| Advances from customers | 1.793.605 | — | 835.687 | — |
| Other payables | 149.290.810 | — | 120.806.723 | — |
| | **609.966.015** | **—** | **667.492.728** | **49.741.211** |

- **Accrued expenses**

The decrease of accrual expenses occurred in the nine months period ended September 30, 2019 results mainly from the adoption of IFRS 16 (see Note 1.2.). At December 31, 2018, the balance of this caption includes to the estimated structural maintenance charges for aircraft under operating lease, less the maintenance reserves paid that are estimated to be recoverable considering the current contractual conditions established with the lessors and the estimate of the respective charges for the structural maintenance of these aircraft.

| | 30-Sep-19 | | 31-dec-18 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Remunerations | 144,927,750 | | 112,355,997 | |
| Maintenance—operating leases | — | — | 54,197,716 | 49,741,211 |
| Aircraft fuel and CO2 emission licences | 49,251,390 | — | 49,429,139 | — |
| Other accrued expenses | 77,974,235 | | 92,912,959 | |
| | **272,153,375** | **—** | **308,895,811** | **49,741,211** |

- **Other payables—current**

The other payables includes at September 30, 2019, mainly, an amount of, approximately, Euro 134 million of taxes and fees (approximately, Euro 89 million in December 31, 2018), an amount of, approximately, Euro 4 million regarding fixed assets suppliers (approximately Euro 16 million in December 31, 2018). The variation when compared to December 31, 2018 is due to the seasonality of the air transport activity and its increase. This caption includes, approximately, balance with related parties in the amount of 1 million and 2 million, respectively for September 30, 2019 and December 31, 2018. (Note 36).

## 19 Other current liabilities

As at September 30, 2019 and December 31, 2018, the caption other current liabilities refers essentially to:

| | 30-Sep-19 | 31-dec-18 |
|---|---|---|
| Deferred income | 57,100,310 | 58,594,413 |
| State | 23,541,430 | 35,736,669 |
| | **80,641,740** | **94,331,082** |

- **Deferred income**

As of September 30, 2019 this caption includes Euro 46,272,396 related with the loyalty program in the scope of application of IFRS 15—Revenue from contracts with customers, at the initial miles allocation to customers adhering to the loyalty program called "TAP Miles & Go", a contractual obligation is recognised based on the unit value of the mile.

**19 Other current liabilities (Continued)**

- **State**

As at September 30, 2019 and December 31, 2018, the balance of this caption is detailed as follows:

| | 30-Sep-19 | 31-dec-18 |
|---|---|---|
| Social security contribution | 12,139,301 | 18,867,431 |
| Personal income tax—IRS | 11,357,739 | 16,832,098 |
| Corporate income tax—IRC | 37,960 | 37,140 |
| Other | 6,430 | — |
| | **23,541,430** | **35,736,669** |

**20 Liabilities from unused flight documents**

The variation in this caption in September 30, 2019 as is due to the effect of seasonality and activities nature.

**21 Derivative financial instruments**

As at September 30, 2019 and December 31, 2018, the Company had negotiated the following derivative financial instruments related to jet fuel swaps classified as hedge instruments:

| | 30-Sep-19 | 31-dec-18 |
|---|---|---|
| Jet fuel swaps (Note 18) | (2,456,149) | (41,322,387) |
| | **(2,456,149)** | **(41,322,387)** |

As at September 30, 2019, the Company had contracted jet fuel derivative financial instruments whose fair value amounts to Euro 2,456,149, which maturity is between October 2019 and December 2020, covering approximately 47% of the estimated consumption.

The jet fuel derivative financial instruments, classified as hedging instruments, presented the following evolution during the nine months period ended September 30, 2019 and December 31, 2018:

| | Liabilities |
|---|---|
| **Fair value 1 January 2018** | **—** |
| Acquisitions during the year—payment/(receipt) | (4,109,128) |
| Payment/(receipt) of swaps during the year | — |
| Receipt/(payment) of swaps retained through profit or loss | 4,109,128 |
| Increase/(decrease) of fair value reflected in equity | (41,322,387) |
| **Fair value 31 December 2018** | **(41,322,387)** |
| Acquisitions during the year—payment/(receipt) | — |
| Payment/(receipt) of swaps during the period | (649,990) |
| Receipt/(payment) of swaps retained through profit or loss | 649,990 |
| Increase/(decrease) of fair value reflected in equity | 38,866,238 |
| **Fair value 30 September 2019** | **(2,456,149)** |

**22 Segment reporting**

The following business segments have been identified: air transport and maintenance and engineering. The net income/(loss) of each segment correspond to those directly allocated to them, as well as to those that can be reasonable attributed to those segments. The activities aggregated in "Other" do not qualify to report separately.

## 22 Segment reporting (Continued)

The financial information by operational segment at September 30, 2019 and 2018, is detailed as follows:

| | 30-Sep-19 | | | | 30-Sep-18 | | | |
|---|---|---|---|---|---|---|---|---|
| | Air Transport | Maintenance and engeneering | Other | Total | Air Transport | Maintenance and engeneering | Other | Total |
| Operating Income | 2,317,797,403 | 164,534,387 | 7,715,175 | 2,490,046,965 | 2,268,378,540 | 186,619,382 | 8,627,320 | 2,463,625,242 |
| Operating results | (19,359,274) | 71,595,681 | (8,626,035) | 43,610,372 | 47,646,419 | 24,994,194 | (9,664,608) | 62,976,005 |
| External net financial results | (181,782,764) | (13,804,411) | — | (195,587,175) | (54,972,738) | 967,513 | — | (54,005,225) |
| Income tax | 54,456,831 | (15,646,304) | 2,335,397 | 41,145,924 | (1,081,028) | 3,830,756 | (1,426,054) | 1,323,674 |
| **Net results** | **(146,685,208)** | **42,144,967** | **(6,290,638)** | **(110,830,879)** | **(8,407,347)** | **29,792,463** | **(11,090,662)** | **10,294,454** |

The Company does not present segmental assets and liabilities considering that this information is not presented to the chief operating decision maker.

The operating revenues by geographic market are detailed as follows:

| | 30-Sep-19 | | | | | 30-Sep-18 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Air Transport | Maintenance | Cargo and Mail | Other | Total | Air Transport | Maintenance | Cargo and Mail | Other | Total |
| Mainland and islands | 176,210,113 | 12,812,244 | 5,775,503 | 4,841,862 | 199,639,722 | 158,363,346 | 3,601,820 | 5,500,954 | 4,350,731 | 171,816,851 |
| Europe | 907,901,121 | 108,600,692 | 9,392,839 | 1,550,431 | 1,027,445,083 | 898,742,845 | 162,971,120 | 10,032,121 | 1,047,570 | 1,072,793,656 |
| South Atlantic | 563,343,340 | (3,506,198) | 54,573,975 | 264,176 | 614,675,293 | 618,180,129 | 200,310 | 57,485,044 | 188,946 | 676,054,429 |
| North Atlantic | 296,164,649 | 37,993,532 | 17,398,475 | 152,676 | 351,709,332 | 232,345,725 | 3,938,409 | 14,066,660 | 87,041 | 250,437,835 |
| Mid Atlantic | 11,104,129 | 5 | 936,257 | 5,610 | 12,046,001 | 16,021,801 | 7 | 949,287 | 5,069 | 16,976,164 |
| Africa | 235,810,950 | 545,357 | 12,195,234 | 181,092 | 248,732,633 | 232,066,203 | 2,255,654 | 11,428,938 | 116,433 | 245,867,228 |
| Other | 13,171,610 | 4,418,892 | 19,816 | 12,452 | 17,622,770 | — | 8,817,812 | — | — | 8,817,812 |
| | **2,203,705,912** | **160,864,524** | **100,292,099** | **7,008,299** | **2,471,870,834** | **2,155,720,049** | **181,785,132** | **99,463,004** | **5,795,790** | **2,442,763,975** |

## 23 Operating income

For the nine months period ended September 30, 2019 and 2018, this caption is presented as follows:

| | 30-Sep-19 | | | | |
|---|---|---|---|---|---|
| | Passenger | Maintenance | Cargo and mail | Other operating income | Total |
| Sales (Note 22) | — | 1,135,613 | — | 80,119 | **1,215,732** |
| Services rendered (Note 22) | 2,203,705,912 | 159,728,911 | 100,292,099 | 6,928,180 | **2,470,655,102** |
| Others | — | — | — | 18,176,131 | **18,176,131** |
| | **2,203,705,912** | **160,864,524** | **100,292,099** | **25,184,430** | **2,490,046,965** |

| | 30-Sep-18 | | | | |
|---|---|---|---|---|---|
| | Passenger | Maintenance | Cargo and mail | Other operating income | Total |
| Sales (Note 22) | — | 1,606,675 | — | 120,883 | **1,727,558** |
| Services rendered (Note 22) | 2,155,720,049 | 180,178,457 | 99,463,004 | 5,674,906 | **2,441,036,416** |
| Others | — | — | — | 20,861,268 | **20,861,268** |
| | **2,155,720,049** | **181,785,132** | **99,463,004** | **26,657,057** | **2,463,625,242** |

**23 Operating income (Continued)**

- **Others operating income**

The caption "others operating income" details for the nine months period ended September 30, 2019 and 2018 are as follows:

| | 30-Sep-19 | 30-Sep-18 |
|---|---|---|
| Gains from tangible fixed assets | 4,334,155 | 1,619,408 |
| Shared services | 3,723,069 | 3,849,885 |
| Recovered warehouse material | 3,606,475 | 4,642,080 |
| Rents and sub-leases | 2,794,497 | 3,101,166 |
| Navigator lounge | 2,127,711 | 1,593,322 |
| Operating government grants | 1,527,734 | 928,821 |
| Advertising | 1,514,272 | 1,686,229 |
| Other | 5,556,517 | 9,236,146 |
| | **25,184,430** | **26,657,057** |

**24 Expenses by nature**

- **Aircraft fuel**

The caption "aircraft fuel" details for the nine months period ended September 30, 2019 and 2018 are as follows:

| | 30-Sep-19 | 30-Sep-18 |
|---|---|---|
| Aircraft fuel | 579,517,920 | 568,972,887 |
| CO2 emission licences | 14,873,346 | 21,068,266 |
| | **594,391,266** | **590,041,153** |

- **Traffic operating costs**

The caption "traffic operating costs aircraft fuel" details for the nine months period ended September 30, 2019 and 2018 are as follows:

| | 30-Sep-19 | 30-Sep-18 |
|---|---|---|
| Handling | 153,583,631 | 150,228,337 |
| Navigation fees | 129,816,884 | 121,736,465 |
| Landing charges | 81,097,239 | 72,113,581 |
| Inflight expenses | 80,134,841 | 72,633,043 |
| Operational irregularities | 36,850,834 | 38,380,041 |
| Aircraft charters | 25,377,952 | 159,954,822 |
| Facilities at airports | 23,430,619 | 19,188,679 |
| Other traffic operating costs | 71,669,776 | 74,377,717 |
| | **601,961,776** | **708,612,685** |

The reduction in charter costs is mainly due to the adoption of IFRS 16, as mentioned in Note 1.2.

- **Aircraft rents**

The reduction in aircraft and spare parts operating leases results from the adoption of IFRS 16, as referred to in Note 1.2.

- **Aircraft maintenance costs**

The caption "aircraft maintenance costs" refers to the structural and recurrent maintenance expenses of the TAP fleet, including line maintenance. From January 1, 2019, following the adoption of IFRS 16, the

**24 Expenses by nature (Continued)**

charges for structural maintenance of aircraft under operating leases began to be capitalised together with the right of use, and depreciated over the estimated period of use, as per referred to in Note 1.2.

- **Costs of materials consumed**

The costs of materials consumed in rendering maintenance services to third parties for the nine months period ended September 30, 2019 and the year-end December 31, 2018 are as follows:

| | 30-Sep-19 | 30-Sep-18 |
|---|---|---|
| Consumed inventories | 92,004,507 | 111,588,979 |
| Maintenance subcontracting for third parties flight equipment | 23,996,525 | 22,295,213 |
| | **116,001,032** | **133,884,192** |

The variation in the costs of materials consumed is directly related to the decrease in maintenance and engineering services rendered to the third parties fleet (Note 22).

- **Commercial, communication and marketing costs**

The items for "commercial, communication and marketing costs" for nine months period ended September 30, 2019 and 2018 are as follows:

| | 30-Sep-19 | 30-Sep-18 |
|---|---|---|
| Booking fees | 46,391,680 | 53,439,444 |
| Commissions | 35,711,546 | 35,312,415 |
| Special sales charges—air transport | 19,291,087 | 27,463,488 |
| Advertising | 17,297,472 | 14,928,623 |
| Others | 7,213,151 | 7,679,753 |
| | **125,904,936** | **138,823,723** |

The caption Commercial, communication and marketing costs, for the nine months period ended September 30, 2019 and 2018, includes, essentially, expenses with booking fees, commissions and advertising. The decrease in this caption is a result of the renegotiation of distribution controls occurred in 2019.

**25 Employee costs**

Employee costs incurred during the nine months period ended September 30, 2019 and 2018 were as follows:

| | 30-Sep-19 | 30-Sep-18 |
|---|---|---|
| Remunerations | | |
| Employees | 511,674,823 | 450,927,973 |
| Statutory Bodies | 35,000 | 31,500 |
| | **511,709,823** | **450,959,473** |
| Fixed remuneration | 250,137,393 | 225,326,326 |
| Variable remuneration | 135,513,929 | 114,461,669 |
| Social security contributions | 82,976,158 | 70,864,246 |
| Post-employment benefits (Note 14) | 6,711,186 | 9,127,716 |
| Other expenses with employees | 36,371,157 | 31,179,516 |
| | **511,709,823** | **450,959,473** |

The increase in employee expenses is due to the headcount variation, and related training expenses, the average salary increase and the increase in variable remuneration, as a result of the growth of the operation and of the agreements established with the employees and their represents in 2018.

### 26 Impairment losses in inventories, receivables and provisions

During the nine months period ended September 30, 2019 and 2018, this caption is detailed as follows:

| | 30-Sep-19 | 30-Sep-18 |
|---|---|---|
| Inventories impairment (Note 8) | (256,793) | (4,450) |
| Receivables impairment (Note 7) | 2,565,544 | 266,838 |
| Provisions (Note 15) | (352,524) | (210,235) |
| | **1,956,227** | **52,153** |

### 27 Other expenses

The caption Other expenses, for the nine months period ended September 30, 2019 and 2018, includes, essentially, expenses with specialized work, conservation and repair of assets, communication and subcontractors.

### 28 Restructuring

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

| | 30-Sep-19 | 30-Sep-18 |
|---|---|---|
| Early retirements (Note 14) | 1,533,813 | — |
| Employee indemnities | 2,784,138 | 5,750,840 |
| | **4,317,951** | **5,750,840** |

### 29 Other non-recurring items

The detail of the caption other non-recurring items, beyond the restructuring (Note 28), results mainly from agreements celebrated with labour unions as follows:

| | 30-Sep-19 | 30-Sep-18 |
|---|---|---|
| Seniority—compensatory benefits to crew employees | 1,482,863 | 2,786,279 |
| Pilots special payment | — | 11,305,601 |
| SNPVAC—Pregnancy Complement | — | 2,686,765 |
| | **1,482,863** | **16,778,645** |

Following the Regulation of Recourse to Outsourcing ("RRCE"—"Regulamento de Recurso à Contratação Externa") celebrated on May 14, 2018 with the Civil Aviation Pilots Union ("SPAC"—"Sindicato dos Pilotos da Aviação Civil)", which replaced the Regulation of Internal Employees and Recourse to Outsourcing ("RERCE"—"Regulamento de Efetivos e de Recurso à Contratação Externa)" from July 30, 1998, that establishes new conditions for outsourcing, it has been agreed the payment of extraordinary benefits for the years 2017 and 2018, the cost of which was recognised during 2018.

The Company signed on May 17, 2016 a memorandum of understanding on the seniority attribution model to the Company's pilots. Within the scope of this memorandum, it was defined that TAP S.A. will reinstate until 2019, without any retroactive effects, the seniorities for the years 2011 to 2016, included in the scope of the prohibition of salaries increase imposed by the budgetary regimes in force at that date.

Whithin the scope of the agreement signed on January 30, 2018 with the Civil Aviation Flight Personnel Union ("SNPVAC"—"Sindicato Nacional do Pessoal de Voo da Aviação Civil"), the payment of pregnancy supplement was agreed in situations previously not covered, referring to previous years, in the total amount of, approximately, Euro 2,687 thousand, which cost was recognised in 2018.

Due to their nature, these situations were considered by the Board of Directors to be non-recurring in the context of these financial statements.

**30 Depreciation, amortisation and impairment losses**

In the nine months period ended and September 30, 2019 and 2018, the caption depreciation, amortisation and impairment losses is detailed as follows:

| | 30-Sep-19 | 30-Sep-18 |
|---|---|---|
| **Depreciation of Tangible fixed assets (Note 2)** | | |
| Land and natural resources | | |
| Buildings and other constructions | 4,065,011 | 4,055,877 |
| Basic equipment | 43,592,690 | 40,228,726 |
| Transport equipment | 41,361 | 75,416 |
| Tools and utensils | 495,886 | 479,139 |
| Administrative equipment | 897,011 | 550,946 |
| Other tangible fixed assets | 218,588 | 236,671 |
| | **49,310,547** | **45,626,775** |
| **Depreciation of Right-of-use (Note 2)** | | |
| Buildings and other constructions | 357,142 | — |
| Basic equipment | 283,517,829 | — |
| Transport equipment | 143,680 | — |
| | **284,018,651** | **—** |
| **Amortisation of Intangible assets (Note 4)** | | |
| Computer programmes | 4,035,543 | 336,837 |
| | **4,035,543** | **336,837** |
| **Impairment losses on fixed assets (Note 2)** | | |
| Basic equipment | 1,971,089 | 1,517,958 |
| **Total** | **339,335,830** | **47,481,570** |

**31 Financial results**

The detail of the financial results for the during the nine months period ended September 30, 2019 and 2018 is as follows:

| | 30-Sep-19 | 30-Sep-18 |
|---|---|---|
| Interest expenses | (25,532,215) | (22,501,385) |
| Operating lease interests—NPV | (80,707,564) | — |
| Interests from amortised cost application | (13,105,239) | — |
| Other financial expenses and losses | (6,991,057) | (5,173,249) |
| **Interests and similar expenses** | **(126,336,075)** | **(27,674,634)** |
| Interest income | 25,356,858 | 28,016,428 |
| **Interests and similar income** | **25,356,858** | **28,016,428** |
| Net foreign exchange differences | (94,607,958) | (54,347,019) |
| **Net currency exchange** | **(94,607,958)** | **(54,347,019)** |
| | **(195,587,175)** | **(54,005,225)** |

The caption Net foreign exchange differences include foreign exchange differences regarding the operation lease in the amount of, approximately, Euro 80,7 million, regarding variation of the Dollar .versus Euro.

Interest expenses and net foreign exchanges related to operating lease agreements derive from the adoption of IFRS 16 as of January 1, 2019.

### 31 Financial results (Continued)

The unfavourable exchange rate differences that occurred in the nine months period ended September 30, 2019 e 2018 were mainly due to the devaluation of the Brazilian real and the kwanza, as well as the appreciation of the dollar considering the debt in this currency.

### 32 Income tax

As at September 30, 2019 and 2018, the detail of the income tax, recognised in the financial statements, is as follows:

| | 30-Sep-19 | 30-Sep-18 |
|---|---|---|
| Deferred income tax (Note 6) | (30,351,130) | (783,618) |
| Current income tax (Note 9) | (10,135,476) | 1,038,597 |
| Insufficient/(surplus) taxes estimate | (659,318) | (1,578,653) |
| | **(41,145,924)** | **(1,323,674)** |

### 33 Earnings per share

There are no convertible financial instruments on the shares of TAP S.A., therefore there is no dilution of results.

| | 30-Sep-19 | 30-Sep-18 |
|---|---|---|
| Net income/(loss) attributable to the shareholder of TAP S.A. | (110,830,879) | 10,294,454 |
| Wheighted average number of shares | 8,300,000 | 8,300,000 |
| Basic and diluted earnings per share | (13.4) | 1.2 |

### 34 Commitments

- **Purchase commitments**

Airbus SAS (“Airbus”) is contracted to supply 53 aircraft (39 A320 NEO Family and 14 A330 NEO), which are expected to be received between 2018 and 2025. This order results from the novation to TAP SA of the previously negotiated acquisition agreement signed between Airbus and DGN Corporation. Until the present date, 17 of the referred aircraft were assigned to lessors with subsequent leaseback contracts (8 A320 NEO Family and 9 A330 NEO), of which up to 30 September 2019 two A321 NEO, two A321 NEO LR and eight A330 NEO were received.

A contract is also in force with CFM International Inc., S.A., for the purchase of 83 LEAP-A1 engines, including 5 reserve engines, which will equip and serve the new fleet of A320 NEO Family aircraft. Highlighting that these engines will be acquired directly by Airbus, with the exception of the reserve engines.

Contracts were also signed with Rolls-Royce, which include maintenance support for all TRENT 7000 engines, which equip the A330 NEO aircraft, as well as the acquisition of 3 spare engines. With respect to the reserve engines, as of September 30, 2019, two engines have already been acquired and financed under finance lease, and the third reserve engine has been contracted for financing, which is expected to be delivered by May 2020.

- **Other commitments**

Operating lease agreements are signed for aircraft whose phase-in is expected to occur in the nine months period ended September 30, 2019 and 2020, whose minimum non-cancellable future payments amounts to approximately Euro 1,214,471 thousand as at September 30, 2019. This amount includes six of the aircraft contracted with Airbus, as mentioned above.

**35 Contingencies**

As at September 30, 2019 and December 31, 2018, the Company has no material contingent assets or liabilities for disclosure.

- **Guarantees**

As at September 30, 2019 and December 31, 2018, the pledged guarantees provided by the Company are detailed as follows:

| | 30-Sep-19 | 31-dec-18 |
|---|---|---|
| **Bank guarantees provided by Head office** | | |
| Aircrafts | 72,037,646 | 57,092,188 |
| INEA—"Spice" project | — | 2,625,993 |
| Fuel | 1,568,358 | 1,523,362 |
| Portuguese State—Operation of the Azores routes | 1,653,985 | 1,653,985 |
| Airports | 1,060,122 | — |
| Clean Sky—Investigation project—M&E | — | 1,612,116 |
| Labour Court | 418,946 | 374,530 |
| Natwest—*Acquiring* referente a cartões de crédito | — | — |
| Other | 6,098,452 | 6,463,628 |
| **Bank guarantees provided by Representations** | 2,131,566 | 1,969,596 |
| | **84,969,075** | **73,315,398** |

The reinforcement of the pledged guarantees provided by head office during 2019 is essentially related to the operating lease contracts.

The guarantees provided under loan agreements are disclosed in Note 16.

As mentioned in the Introductory Note, the General Meeting of TAP SGPS, on 8 March 2016, approved the recognition of the full effects of the bonds issuance by TAP SGPS as well as the effects of the guarantee agreement concluded within the scope of the aforementioned bond issuance, between TAP SGPS, TAP SA, Megasis—Sociedade de Serviços de Engenharia e Informática, SA, Azul SA and Bondholders, SL..

- **Other guarantees**

Financing entered with a branch in Portugal from a foreign bank: partial guarantee of credits being a percentage of the amount that is in debt at each moment; and

Bank guarantees for maintenance deposits: partial guarantee of credits, depending on the percentage of the amount that is in debt at each time

### 36 Related Parties

The balances and transactions with related parties as at September 30, 2019 and December 31, 2018 are as follows:

- **Balances**

| | 30-sep-19—Assets | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Trade receivables (Note 7) | Advances to suppliers (Note 7) | Accrued income (Note 7) | Deferred expenses (Note 10) | Income tax receivable (Note 9) | Other debtors non-current (Note 7) | Other debtors current (Note 7) | Total |
| TAP SGPS | 924 | — | 885 | — | 8,541,653 | — | 814,812,335 | **823,355,797** |
| Azul S.A. | 3,853,246 | — | — | — | — | — | 1,562 | **3,854,808** |
| TAPGER | — | — | 375,000 | — | — | — | — | **375,000** |
| PGA | — | — | 7,682,117 | — | — | — | 270,642 | **7,952,759** |
| SPdH | 437,641 | — | 2,893,000 | 1,471,775 | — | — | 192,505 | **4,994,921** |
| TAP ME Brasil | 15,375,341 | 2,750,090 | — | — | — | — | 7,316,468 | **25,441,899** |
| Cateringpor | 46,184 | — | — | 1,051,616 | — | — | 389,495 | **1,487,295** |
| UCS | 62,313 | 1,000 | — | 1,408,651 | — | — | 24,273 | **1,496,237** |
| Aigle Azur Compagnie de Transport Aérien | 598,414 | — | — | — | — | 392,139 | — | **990,553** |
| Barraqueiro Group | 2,175 | 1,119 | — | — | — | — | — | **3,294** |
| | **20,376,238** | **2,752,209** | **10,951,002** | **3,932,042** | **8,541,653** | **392,139** | **823,007,280** | **869,952,563** |

| | 30-sep-19—Liabilities | | | | | |
|---|---|---|---|---|---|---|
| | Suppliers (Note 18) | Advances from customers | Accrued expenses (Note 18) | Deferred income (Note 19) | Other current payables (Note 18) | Total |
| TAP SGPS | (613,561) | — | (2,483,200) | — | — | **(3,096,761)** |
| Azul S.A. | (42,449) | — | (195,610) | — | — | **(238,059)** |
| PGA | (9,230,074) | (1,189,543) | (15,800) | — | (1,002,335) | **(11,437,752)** |
| SPdH | (10,173,869) | — | (1,671,175) | (103,113) | (1,905) | **(11,950,062)** |
| TAP ME Brasil | (2,521,229) | — | (4,416) | — | — | **(2,525,645)** |
| Cateringpor | (6,304,483) | — | (2,670,137) | (203,675) | — | **(9,178,295)** |
| UCS | (1,475,658) | — | (152,795) | (28,836) | (17,640) | **(1,674,929)** |
| Aigle Azur Compagnie de Transport Aérien | (325,935) | — | — | — | — | **(325,935)** |
| Barraqueiro Group | — | — | — | — | — | **—** |
| | **(30,687,258)** | **(1,189,543)** | **(7,193,133)** | **(335,624)** | **(1,021,880)** | **(40,427,438)** |

| | 31-dec-18—Assets | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Trade receivables (Note 7) | Advances to suppliers (Note 7) | Accrued income (Note 7) | Deferred expenses (Note 10) | Income tax receivable (Note 9) | Other debtors non-current (Note 7) | Other debtors current (Note 7) | Total |
| TAP SGPS | 3,243 | — | 885 | — | 8,329,644 | — | 808,491,987 | **816,825,759** |
| Azul S.A. | 3,220,887 | — | — | — | — | — | 16,269 | **3,237,156** |
| TAPGER | 615,000 | — | — | — | — | — | 329 | **615,329** |
| PGA | 166,842 | — | 5,781,144 | 616,182 | — | — | 308,623 | **6,872,791** |
| SPdH | 983,757 | — | 2,760,000 | — | — | — | 655,665 | **4,399,422** |
| MEGASIS | 356,771 | — | — | — | — | — | 1,805,184 | **2,161,955** |
| TAP ME Brasil | 14,170,372 | 20,371,710 | — | — | — | — | 6,037,598 | **40,579,680** |
| Cateringpor | 42,780 | — | — | — | — | — | 404,156 | **446,936** |
| UCS | 295,942 | — | — | — | — | — | 2,009,972 | **2,305,914** |
| Aigle Azur Compagnie de Transport Aérien | 64,472 | — | — | 4,080,786 | — | 372,926 | — | **4,518,184** |
| Barraqueiro Group | 2,382 | — | — | — | — | — | — | **2,382** |
| | **19,922,448** | **20,371,710** | **8,542,029** | **4,696,968** | **8,329,644** | **372,926** | **819,729,783** | **881,965,508** |

## 36 Related Parties (Continued)

| | 31-dec-18—Liabilities | | | | |
|---|---|---|---|---|---|
| | Suppliers (Note 18) | Accrued expenses (Note 18) | Deferred income (Note 19) | Other current payables (Note 18) | Total |
| TAP SGPS | (362,279) | (2,483,200) | — | (30,581) | **(2,876,060)** |
| Azul S.A. | (36,681) | (152,838) | — | — | **(189,519)** |
| PGA | (9,659,422) | — | — | — | **(9,659,422)** |
| SPdH | (11,105,356) | (1,530,825) | (103,113) | — | **(12,739,294)** |
| MEGASIS | (6,337,242) | — | (16,368) | (2,540,663) | **(8,894,273)** |
| TAP ME Brasil | (24,533,545) | — | — | — | **(24,533,545)** |
| Cateringpor | (4,372,245) | (2,356,460) | (200,507) | — | **(6,929,212)** |
| UCS | (3,095,617) | — | (28,508) | (16,993) | **(3,141,118)** |
| Aigle Azur Compagnie de Transport Aérien | (502,183) | — | — | — | **(502,183)** |
| Barraqueiro Group | (1,953) | — | — | — | **(1,953)** |
| | **(60,006,523)** | **(6,523,323)** | **(348,496)** | **(2,588,237)** | **(69,466,579)** |

- **Transactions**

| | 30-Sep-19 | | | | | |
|---|---|---|---|---|---|---|
| | Operating income | Operating expenses | Interest income | Interest expense | Consolidated tax | Total |
| TAP SGPS | — | (4,500,060) | 22,893,083 | (4,734) | (96,330) | 18,291,959 |
| Azul S.A. | 793,292 | (261,809) | — | — | — | 531,483 |
| TAPGER | 375,000 | — | — | — | — | 375,000 |
| PGA | 1,628,509 | (10,797,742) | — | — | — | (9,169,233) |
| SPdH | 5,417,193 | (78,376,085) | — | — | — | (72,958,892) |
| TAP ME Brasil | 452,007 | (6,570,322) | — | — | — | (6,118,315) |
| Cateringpor | 1,241,553 | (40,582,350) | — | — | — | (39,340,797) |
| UCS | 727,651 | (3,799,585) | — | — | — | (3,071,934) |
| Aigle Azur Compagnie de Transport Aérien | 204,614 | (3,672,314) | — | — | — | (3,467,700) |
| Grupo Barraqueiro | 400 | (131,558) | — | — | — | (131,158) |
| | **10,840,219** | **(148,691,825)** | **22,893,083** | **(4,734)** | **(96,330)** | **(115,059,587)** |

| | 30-Sep-18 | | | | | |
|---|---|---|---|---|---|---|
| | Operating income | Operating expenses | Interest income | Interest expense | Consolidated tax | Total |
| TAP SGPS | — | (2,672,758) | 23,490,813 | — | (338,825) | 20,479,230 |
| Azul S.A. | 2,368,034 | (255,356) | — | — | — | 2,112,678 |
| TAPGER | 375,000 | — | — | — | — | 375,000 |
| PGA | 1,037,127 | (93,093,650) | — | — | — | (92,056,523) |
| SPdH | 4,646,465 | (78,848,472) | — | — | — | (74,202,007) |
| MEGASIS | 1,789,278 | (27,329,739) | — | — | — | (25,540,461) |
| TAP ME Brasil | 182,625 | (6,230,366) | — | — | — | (6,047,741) |
| Cateringpor | 1,431,273 | (32,946,397) | — | — | — | (31,515,124) |
| UCS | 555,077 | (3,117,200) | — | — | — | (2,562,123) |
| Aigle Azur Compagnie de Transport Aérien | 2,935,313 | (4,509,180) | — | — | — | (1,573,867) |
| Grupo Barraqueiro | 1,213 | (75,041) | — | — | — | (73,828) |
| | **15,321,405** | **(249,078,159)** | **23,490,813** | **—** | **(338,825)** | **(210,604,766)** |

**36 Related Parties (Continued)**

The transactions with SPdH, in the amount of Euro 78,376,085 (30 September 2018: Euro 78,848,472), refer essentially to services rendered on ground by SPdH, supporting aircraft, passengers, luggage, cargo and mail.

The terms and conditions enforced between the Company and the related parties are similar in substance to the terms, which would normally be contracted between independent entities in comparable operations.

In addition to the mentioned operations, the Company in the scope of the normal development of its air transport business, maintains code-share commercial relationships with Azul and Aigle Azur. These transactions are carried out on terms and conditions similar to those agreed with other airlines.

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

Members of the Board of Directors are remunerated exclusively by the functions performed at TAP SGPS, and are not remunerated by the functions performed at TAP S.A..

**37 Subsequent Events**

The Board of Directors is not aware of any subsequent events as at the reporting date that may have significant impact on the financial statements for the nine months period ended September 30, 2019.

**38 Note added for translation**

The accompanying financial statements are a translation of financial statements originally issued in Portuguese. In the event of any discrepancies, the Portuguese version prevails.

**CHARTERED ACCOUNTANT**

João Carlos da Silva Bernardes

**BOARD OF DIRECTORS**

Humberto Manuel dos Santos Pedrosa
*Chairman*

David Gary Neeleman
*Member*

Antonoaldo Grangeon Trancoso Neves
*Chairman of the Executive Committee*

David Humberto Canas Pedrosa
*Executive Committee Member*

Raffael Guarita Quintas Alves
*Executive Committee Member*

***Review Report on the Special Purpose Condensed Financial Statements***

***(Free translation from the original in Portuguese)***

***Introduction***

We have reviewed the accompanying special purpose condensed financial statements of Transportes Aéreos Portugueses, S.A. (the Entity), which comprise the statement of financial position as at September 30, 2019 (which shows total assets of Euros 4,663,665,182 and total shareholder's equity of Euros 99,744,747, including a net loss of Euros 110,830,879), the statements of income, comprehensive income, changes in equity and cash flows for the nine-month period then ended, and the accompanying explanatory notes to these special purpose condensed financial statements.

***Management's responsibility***

The Management is responsible for the preparation of the special purpose condensed financial statements in accordance with International Accounting Standard 34 — Interim Financial Reporting as adopted by the European Union, as well as to create and maintain appropriate systems of internal control to enable the preparation of special purpose condensed financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express a conclusion on the accompanying special purpose condensed financial statements. We conducted our review in accordance with ISRE 2410 — Review of Interim Financial Information Performed by the Independent Auditor of the Entity and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Those standards require that we conduct the review in order to conclude whether anything has come to our attention that causes us to believe that the special purpose condensed financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 — Interim Financial Reporting as adopted by the European Union.

A review of financial statements is a limited assurance engagement. The procedures performed mainly consist of making inquiries and applying analytical procedures, and evaluating the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (ISAs). Accordingly, we do not express an opinion on these financial statements.

***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that accompanying special purpose condensed financial statements of Transportes Aéreos Portugueses, S.A. as at September 30, 2019 are not prepared, in all material respects, in accordance with International Accounting Standard 34 — Interim Financial Reporting as adopted by the European Union.

*PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda.*
*Sede: Palácio Sottomayor, Rua Sousa Martins, 1 - 3º, 1069-316 Lisboa, Portugal*
*Tel +351 213 599 000, Fax +351 213 599 999, www.pwc.pt*
*Matriculada na CRC sob o NUPC 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*

***Emphasis***

Without qualifying our conclusion expressed in the previous paragraph, we draw attention to the fact that the accompanying financial statements have a special purpose as the Entity prepares the statutory financial statements in accordance with generally accepted accounting principles in Portugal, in order to comply with the applicable legal and regulatory requirements, as disclosed in the Introduction of the special purpose condensed financial statements explanatory notes.

November 18, 2019

PricewaterhouseCoopers & Associados
—Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

António Joaquim Brochado Correia, R.O.C.

**TRANSPORTES AÉREOS PORTUGUESES, S.A.**

SPECIAL PURPOSE FINANCIAL STATEMENTS

FINANCIAL YEAR OF 2018

# INDEX

STATEMENT OF FINANCIAL POSITION . . . F-55

INCOME STATEMENT . . . F-56

STATEMENT OF COMPREHENSIVE INCOME . . . F-57

STATEMENT OF CHANGES IN EQUITY . . . F-58

STATEMENT OF CASH FLOWS . . . F-59

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2018 . . . F-60

Introduction . . . F-60
1 Summary of the principal accounting policies . . . F-62
2 Important accounting estimates and judgements . . . F-78
3 Financial risk management policies . . . F-79
4 Financial assets and liabilities . . . F-87
5 Segment reporting . . . F-88
6 Tangible fixed assets . . . F-89
7 Investment properties . . . F-92
8 Intangible assets . . . F-92
9 Investments in associates . . . F-93
10 Other financial assets . . . F-93
11 Deferred tax assets and liabilities . . . F-94
12 Other receivables . . . F-96
13 Inventories . . . F-98
14 Income tax receivable/ payable . . . F-98
15 Other current assets . . . F-99
16 Cash and cash equivalents . . . F-100
17 Share Capital . . . F-100
18 Supplementary capital contributions and reserves . . . F-100
19 Post-employment benefits obligations . . . F-101
20 Provisions . . . F-108
21 Borrowings . . . F-109
22 Other payables . . . F-112
23 Other current liabilities . . . F-114
24 Liabilities from unused flight documents . . . F-114
25 Derivative financial instruments . . . F-115
26 Other operating income . . . F-115
27 Expenses by nature . . . F-116
28 Employee costs . . . F-118
29 Impairment losses in inventories, receivables and provisions . . . F-119
30 Other operating expenses . . . F-119
31 Restructuring . . . F-119
32 Other non-recurring items . . . F-120
33 Depreciation, amortisation and impairment losses . . . F-120
34 Finance results . . . F-121
35 Income tax for the year . . . F-121
36 Earnings per share . . . F-122
37 Commitments . . . F-122
38 Contingencies . . . F-123
39 Related Parties . . . F-124
40 Subsequent events . . . F-126
41 Note added for translation . . . F-126

## STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2018 AND 2017

| Amount stated in euros | Note | 2018 | 2017 restated |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Tangible fixed assets | 6 | 521.036.349 | 578.418.577 |
| Investment Properties | 7 | 1.925.764 | 883.849 |
| Intagible assets | 8 | 11.245.385 | 2.881.132 |
| Investments in associates | 9 | 172.310 | 172.310 |
| Other financial assets | 10 | 481.040 | 46.440.556 |
| Deferred tax assets | 11 | 91.040.705 | 52.868.997 |
| Other receivables | 12 | 61.136.878 | 52.704.912 |
| | | **687.038.431** | **734.370.333** |
| **Current Assets** | | | |
| Inventories | 13 | 63.944.563 | 50.327.278 |
| Other receivables | 12 | 1.154.621.266 | 1.193.367.958 |
| Income tax receivable | 14 | 8.329.644 | 1.391.197 |
| Other financial assets | 10 | 13.224.721 | 34.852.859 |
| Other current assests | 15 | 52.102.695 | 23.268.007 |
| Restricted cash | 16 | — | 82.818 |
| Cash and cash equivalents | 16 | 223.714.593 | 157.010.962 |
| | | **1.515.937.482** | **1.460.301.079** |
| **Total Assets** | | **2.202.975.913** | **2.194.671.412** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share Capital | 17 | 41.500.000 | 41.500.000 |
| Supplementary capital contributions | 18 | 154.353.400 | 154.353.400 |
| Legal reserves | 18 | 8.300.000 | 8.300.000 |
| Hedge reserves | 18 and 25 | (29.132.283) | — |
| Other reserves | 18 | (200.588) | (200.588) |
| Retained earnings | 18 | (11.956.732) | (70.390.762) |
| Net income/(loss) for the year | | (58.065.358) | 100.411.383 |
| **Total equity** | | **104.798.439** | **233.973.433** |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 11 | 18.760.179 | 19.691.715 |
| Post-employment benefits obligations | 19 | 86.212.751 | 55.335.013 |
| Provisions | 20 | 12.214.655 | 9.222.749 |
| Borrowings | 21 | 595.293.034 | 617.935.909 |
| Other payables | 22 | 49.741.211 | 112.353.793 |
| | | **762.221.830** | **814.539.179** |
| **Current Liabilities** | | | |
| Borrowings | 21 | 180.646.796 | 106.202.415 |
| Other payables | 22 | 667.492.728 | 530.884.213 |
| Income tax payable | 14 | 19.326 | 12.956.014 |
| Other current liabilities | 23 | 94.331.082 | 84.384.707 |
| Liabilities from unused flight documents | 24 | 393.465.712 | 411.731.451 |
| | | **1.335.955.644** | **1.146.158.800** |
| **Total liabilities** | | **2.098.177.474** | **1.960.697.979** |
| **Total equity and liabilities** | | **2.202.975.913** | **2.194.671.412** |

The accompanying notes form an integral part of the statement of financial position as at 31 December 2018.

## INCOME STATEMENT
## FOR 2018 AND 2017

| Amounts stated in euros | Note | 2018 | 2017 restated |
|---|---|---|---|
| Operating Income | | | |
| Passenger | 5 | 2.782.440.616 | 2.569.836.484 |
| Maintenance | 5 | 228.169.834 | 147.225.749 |
| Cargo and mail | 5 | 134.684.113 | 127.227.451 |
| Other operating income | 26 | 31.938.835 | 44.405.429 |
| | | **3.177.233.398** | **2.888.695.113** |
| Operating costs | | | |
| Aircraft fuel | 27 | (798.623.576) | (580.217.898) |
| Traffic operating costs | 27 | (939.590.284) | (840.271.817) |
| Aircraft rents | 27 | (151.978.065) | (140.476.927) |
| Aircraft maintenance costs | 27 | (89.930.145) | (176.540.246) |
| Cost of materials consumed | 27 | (166.035.350) | (102.248.214) |
| Comercial, communication and marketing costs | 27 | (186.503.880) | (185.277.043) |
| Employee costs | 28 | (607.776.723) | (494.321.249) |
| Impairment losses in inventories, receivables and provisions | 29 | (7.001.719) | 928.496 |
| Other operating expenses | 30 | (141.185.691) | (154.242.746) |
| Restructuring | 31 | (24.650.606) | (9.855.054) |
| Other non recurrent items | 32 | (20.140.374) | (4.993.512) |
| Depreciation, amortisation and impairment losses | 33 | (70.706.112) | (52.596.264) |
| **Operating income/(loss)** | | **(26.889.127)** | **148.582.639** |
| Interests and similar income | 34 | 36.911.444 | 44.603.650 |
| Interests and similar expenses | 34 | (43.222.335) | (34.353.445) |
| Net currency exchange | 34 | (49.073.869) | (27.754.822) |
| **Net income/(loss) before income tax** | | **(82.273.887)** | **131.078.022** |
| Income tax for the year | 35 | 24.208.529 | (30.666.639) |
| **Net income/(loss) for the year** | | **(58.065.358)** | **100.411.383** |
| **Results per share** | | | |
| Basic and diluted earnings per share | 36 | (7,0) | 12,1 |

The accompanying notes form an integral part of the income statement as at 31 December 2018.

## STATEMENT OF COMPREHENSIVE INCOME
## FOR 2018 AND 2017

| Amounts stated in euros | Note | 2018 | 2017 |
|---|---|---|---|
| **Net income/(loss) for the year** | | **(58,065,358)** | **100,411,383** |
| **Items that may be reclassified to income statement:** | | | |
| Gains and losses in derivate financial instruments—cash flow hedge | 25 | (41,322,387) | 635,848 |
| Deferred tax on derivative financial instruments—cash flow hedge | 11 | 12,190,104 | (174,858) |
| **Items that will not be reclassified to income statement:** | | | |
| Remeasurements of defined benefit plans | 19 | (16,989,154) | (5,376,263) |
| Deferred tax on remeasurements | 11 | 5,011,801 | 2,061,015 |
| **Other comprehensive income/(loss) net of tax** | | **(41,109,636)** | **(2,854,258)** |
| **Comprehensive income/(loss) for the year** | | **(99,174,994)** | **97,557,125** |

The accompanying notes form an integral part of the statement of comprehensive income as at 31 December 2018.

## STATEMENT OF CHANGES IN EQUITY
## FROM 1 JANUARY 2017 TO 31 DECEMBER 2018

| 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 1 January 2017** | | **41,500,000** | **154,353,400** | **8,300,000** | **(460,990)** | **(200,588)** | **(100,593,320)** | **33,517,806** | **136,416,308** |
| Application of net income/(loss) of the year 2017 | | — | — | — | — | — | 33,517,806 | (33,517,806) | — |
| Remeasurement* | 11 e 19 | — | — | — | — | — | (3,315,248) | — | (3,315,248) |
| Fair value of derivative financial instruments* | 11 e 25 | — | — | — | 460,990 | — | — | — | 460,990 |
| Net income/(loss) for the year | | — | — | — | — | — | — | 100,411,383 | 100,411,383 |
| **Equity as at 31 December 2017** | | **41,500,000** | **154,353,400** | **8,300,000** | **—** | **(200,588)** | **(70,390,762)** | **100,411,383** | **233,973,433** |
| Application of net income/(loss) of the year 2017 | | — | — | — | — | — | 100,411,383 | (100,411,383) | — |
| Dividends distribution | | — | — | — | — | — | (30,000,000) | — | (30,000,000) |
| Remeasurement* | 11 e 19 | — | — | — | — | — | (11,977,353) | — | (11,977,353) |
| Fair value of derivative financial instruments* | 11 e 25 | — | — | — | (29,132,283) | — | — | — | (29,132,283) |
| Net income/(loss) for the year | | — | — | — | — | — | — | (58,065,358) | (58,065,358) |
| **Equity as at 31 December 2018** | | **41,500,000** | **154,353,400** | **8,300,000** | **(29,132,283)** | **(200,588)** | **(11,956,732)** | **(58,065,358)** | **104,798,439** |

* net of deferred taxes, when applicable

The accompanying notes form an integral part of the statement of changes in equity as at 31 December 2018.

## STATEMENT OF CASH FLOWS
## FOR 2018 AND 2017

| Amounts stated in euros | Notes | 2018 | 2017 |
|---|---|---|---|
| **Operating activities:** | | | |
| Receipts from customers | | 3.364.357.295 | 3.001.973.424 |
| Payments to suppliers | | (2.766.811.521) | (2.356.287.771) |
| Payments to employees | | (567.176.507) | (463.596.825) |
| Cash generated from operations | | 30.369.267 | 182.088.828 |
| Income tax (payment)/receipt | | (14.903.006) | 5.999.876 |
| Other receipts/payments relating to operating activities | | (7.978.494) | (31.201.036) |
| **Cash flow from operating activities (1)** | | **7.487.767** | **156.887.668** |
| **Investment activities:** | | | |
| **Receipts from:** | | | |
| Financial investments | 10 | 66.543.254 | — |
| Tangible fixed assets | | 44.586.526 | 217.348.292 |
| Investment government grants | | 256.530 | — |
| Loans granted | | 793.950.596 | 770.491.647 |
| Interests and similar income | | 35.663.848 | 53.725.029 |
| Dividends | | — | 37.626 |
| | | 941.000.754 | 1.041.602.594 |
| **Payments relating to:** | | | |
| Financial investments | 10 | (7.497.818) | (47.132.951) |
| Tangible fixed assets | | (124.887.681) | (119.167.908) |
| Intangible assets | | (7.345.321) | — |
| Loans granted | | (793.835.000) | (792.590.024) |
| | | (933.565.820) | (958.890.883) |
| **Cash flow from investment activities (2)** | | **7.434.934** | **82.711.711** |
| **Financing activities:** | | | |
| **Receipts from:** | | | |
| Borrowings | 21 | 70.000.000 | — |
| Financial leases | 21 | 96.397.383 | 55.428.645 |
| | | 166.397.383 | 55.428.645 |
| **Payments relating to:** | | | |
| Borrowings | 21 | (7.500.000) | (55.566.605) |
| Payments of financial leases | 21 | (45.471.784) | (104.795.454) |
| Interests and similar costs | | (30.195.851) | (39.714.168) |
| Dividends | 18 | (30.000.000) | — |
| | | (113.167.635) | (200.076.227) |
| **Cash flow from financing activities (3)** | | **53.229.748** | **(144.647.582)** |
| **Net increase (decrease) in cash and cash equivalents (1)+(2)+(3)** | | 68.152.449 | 94.951.797 |
| Effects of currency exchange differences | | (11.891.274) | (13.179.683) |
| **Cash and cash equivalents at the beginning of the year** | 16 | 157.093.780 | 75.321.666 |
| **Cash and cash equivalents at the end of the year** | 16 | **213.354.955** | **157.093.780** |

The accompanying notes form an integral part of the statement of cash flows as at 31 December 2018.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2018

**Introduction**

TAP—Transportes Aéreos Portugueses, S.A. ("Company" or "TAP S.A.") is a public limited company with its head office in Lisbon, which is governed by Decree-Law no. 312/91, of 17 August, and which succeeded the public company Transportes Aéreos Portugueses, EP, continuing its legal personality and retaining all the rights and obligations that are part of its legal area at the time of its transformation into a public limited company.

The Company's core business consists in the air transport of passengers, cargo and mail, operating in Portugal, mainland and its Autonomous Regions, Europe, Africa, North Atlantic, Mid-Atlantic and South Atlantic. The Company has 21 representative offices in foreign countries and 4 in Portugal. Additionally, it carries out maintenance and engineering work for its fleet and for third parties.

**Head Office** Lisbon Airport, 25

**Share Capital** Euro 41,500,000

**Taxpayer Number** 500 278 725

The Company is affiliated to the IATA—International Air Transport Association.

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

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

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

With the transmission of 61% of the share capital of TAP SGPS to Atlantic Gateway on 12 November 2015, among other contractual instruments, it should be noted the "Agreement on Economic and Financial Stability of TAP" ("Acordo Relativo À Estabilidade Económica-Financeira"), between Parpública, Atlantic Gateway, TAP SGPS, TAP S.A. and Portugália, in which Atlantic Gateway, as buyer, and TAP S.A. and Portugália, as borrowers, assumed some obligations related to TAP Group financial debt and debt service.

As part of the process of notification to the Portuguese Civil Aviation Authority ("ANAC") of the transaction concluded on 12 November, 2015, which led to the acquisition by Atlantic Gateway of shares representing 61% of the share capital of TAP SGPS, should be noted that, by resolution of 19 February 2016, the Board of Directors of ANAC imposed a set of precautionary measures to the TAP Group. This proceeding with ANAC was, concluded favourably on 23 December 2016, at which date the Board of Directors of ANAC deliberated that TAP SA fulfilled the conditions set forth in Article 4 of Regulation (CE) n° 1008 / 2008 of the European Parliament and of the Council of 24 September 2008, on common rules for the operation of air services in the European Community.

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

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

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

The Resolution of the Council of Ministers n° 30/2016 of 19 May, which approved the minutes of the Share Purchase Agreement and the Shareholders Agreement and Strategic Commitments of TAP SGPS, also determined, among others, (i) the immediate cessation of the effects of the Strategic Commitment Agreement formalised on 24 June 2015, referred to above, on the date that the Shareholders Agreement and Strategic Commitments of TAP SGPS became effective, as well as (ii) the expiration of the unavailability scheme provided for in the specifications of the Reprivatization Process—with respect to the number of shares of TAP SGPS and TAP SA that are necessary to ensure the majority of the voting rights and effective control of mentioned companies—on the effective date of the transfer of the shares of TAP SGPS to Parbública.

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

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

Following the privatization of TAP SGPS, it was determined and concluded the public offering of shares available for TAP Group's employees, consisting on the sale of representative shares up to 5% of TAP SGPS' share capital, from Parpública, to the employees of TAP SGPS and other Group companies, as identified in Annex II of the Council of Ministers Resolution n.° 4-A/2015, from 20 January, amended by n° 7 of the Council of Ministers Resolution n.° 4-A/2015, from 23 March. This public offering of shares to employees was launched in 10 April 2017, in accordance with the Council of Ministers Resolution n.° 42-A/2017, from 23 March, TAP Group's employees acquired a total of 75,000 shares representing 5% of TAP SGPS' share capital and voting rights.

In accordance with the Council of Ministers Resolution n.° 95/2017, from 4 July, approved in 29 June 2017, with effects from that date, Parpública and Atlantic Gateway concluded on 30 June 2017 the transfer of shares established in the Share Purchase Agreement consequently ANAC has been notified under the terms and conditions legally foreseen. On 20 September 2018 was decided, by resolution of the board of directors of ANAC, that the operation complied with the requirements of Regulation (EC) n.° 1008/2008 of the European Parliament and of the Council of 24 September 2008, related to common rules for the operation of air services in the Community.

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

Therefore, TAP SGPS' share capital is as follows:

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

In accordance with the current TAP SGPS corporate structure, TAP SGPS still does not qualify as a public company of the Portuguese State's business public sector, under the terms and for the purposes of Decree-Law n° 133/2013 from 3 October and subsequent amendments.

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

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

These special purpose financial statements ("financial statements") for the year ended 31 December 2018, approved at the Board of Directors meeting on 20 March 2019, were prepared to be presented to the different *stakeholders*, given the relevance of the international standard used in the preparation of these financial statements (IAS/IFRS), when compared to the Portuguese GAAP which was applied to the statutory financial statements of the Company from the present year onwards, which were also approved at the Board of Directors meeting on 20 March 2019.

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

## 1 Summary of the significant accounting policies

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

### 1.1. Basis of preparation

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

The accompanying financial statements were prepared on a going concern basis from the accounting books and records of the Company based on historic cost, except for derivative financial instruments and investment properties, which are recorded at fair value.

The preparation of the financial statements, accordingly with IFRS, requires the use of important estimates and judgments in the application of the accounting policies. Despite the estimates used are based on the best information available during the preparation of these financial statements and best knowledge

**1 Summary of the significant accounting policies (Continued)**

of past and present events, we note that actual and future results may differ from these estimates. The principal assertions which involve a greater degree of judgment or complexity and the most significant assumptions and estimates used in the preparation of the aforesaid financial statements are disclosed in Note 2.

In the preparation and presentation of these financial statements, the Company declares that is in compliance with the IAS/IFRS and their interpretations SIC/IFRIC, as adopted by the European Union.

**1.2. Comparability of the financial statements**

In 2018, the Board of Directors revised the presentation format of the income statement, considering that this new model presents the Company's economic situation and performance in a more adequate, and thus increases the quality of information on its results. This change, which mostly resulted in the breakdown of operating expenses and income and introduction of non-recurring items as provided in IAS 1, maintaining the presentation by nature, introduced the need for restatement of the 2017 financial year, to ensure the proper comparability.

The impact of the restatement, on the revision of the income statement, is as follows:

| Amounts stated in euros | 2017 | Restatement | 2017 restated |
|---|---|---|---|
| Operating Income | | | |
| Sales and services rendered | 2,849,698,878 | (2,849,698,878) | — |
| Passenger | — | 2,569,836,484 | 2,569,836,484 |
| Maintenance | — | 147,225,749 | 147,225,749 |
| Cargo and mail | — | 127,227,451 | 127,227,451 |
| Gains and losses in associates | 37,626 | (37,626) | — |
| Other operating income | 38,084,826 | 6,320,603 | 44,405,429 |
| | **2,887,821,330** | **873,783** | **2,888,695,113** |
| Operating costs | | | |
| Consumed and sold inventories | (136,830,568) | 136,830,568 | — |
| Production variance | 2,090,030 | (2,090,030) | — |
| Cost of goods sold and materials consumed | (2,030,729,624) | 2,030,729,624 | — |
| Aircraft fuel | — | (580,217,898) | (580,217,898) |
| Traffic operating costs | — | (840,271,817) | (840,271,817) |
| Aircraft rents | — | (140,476,927) | (140,476,927) |
| Aircraft maintenance costs | — | (176,540,246) | (176,540,246) |
| Cost of materials consumed | — | (102,248,214) | (102,248,214) |
| Comercial, communication and marketing costs | — | (185,277,043) | (185,277,043) |
| Employee costs | (504,648,966) | 10,327,717 | (494,321,249) |
| Post-employment benefit obligations expenses | (4,520,849) | 4,520,849 | — |
| Impairment losses in inventory and receivables | (1,491,350) | 1,491,350 | — |
| Provisions (increases/decreases) | 2,419,846 | (2,419,846) | — |
| Impairment losses in inventories, receivables and provisions | — | 928,496 | 928,496 |
| Fair value increases/decreases | (121,748) | 121,748 | — |
| Other operating expenses | (12,809,198) | (141,433,548) | (154,242,746) |
| Restructuring | — | (9,855,054) | (9,855,054) |
| Other non recurrent items | — | (4,993,512) | (4,993,512) |
| Depreciation, amortisation and impairment losses | (52,596,264) | — | (52,596,264) |
| **Operating income/(loss)** | **148,582,639** | **—** | **148,582,639** |
| Net financial results | (17,504,617) | 17,504,617 | — |
| Interests and similar income | — | 44,603,650 | 44,603,650 |
| Interests and similar expenses | — | (34,353,445) | (34,353,445) |
| Net currency exchange | — | (27,754,822) | (27,754,822) |
| **Net income/(loss) before income tax** | **131,078,022** | **—** | **131,078,022** |
| Income tax for the year | (30,666,639) | — | (30,666,639) |
| **Net income/(loss) for the year** | **100,411,383** | **—** | **100,411,383** |

**1 Summary of the significant accounting policies (Continued)**

Addicionally, with reference to 1 January 2018, the accounting standards IFRS 9—Financial Instruments and IFRS 15—Revenue from contracts with customers were adopted by TAP S.A. in the preparation of its financial statements as of 31 December 2018.

The mentioned standards led to a number of changes to the Company's accounting policies, as follows, which also conducted to changes in accounting procedures and presentation.

Consult additionally Note 1.3.

**1.3. New standards, changes and interpretations of existing standards**

- **New standards, changes and interpretations of existing standards mandatory as at 31 December 2018**

The application of the new standards, interpretations and amendments to the standards mentioned below, are mandatory for the financial years beginning on or after 1 January 2018:

| Description | Changes | Effective Date* |
|---|---|---|
| **Standards:** | | |
| IFRS 15—Revenue from contracts with customers | Revenue recognition for the provision of goods or services, following a five step approach. | 1 January 2018 |
| IFRS 9—Financial instruments | New standard for the accounting of financial instruments. | 1 January 2018 |
| **Amendments:** | | |
| Amendments to IFRS 15—Revenue from contracts with customers | Identification of performance obligations, timing of revenue recognition from licenses of IP, change to principle versus agent guidance, and new practical expedients on transition. | 1 January 2018 |
| IFRS 4—Insurance contracts (applying IFRS 4 with IFRS 9) | Temporary exemption, for insurance companies only, from applying IFRS 9 for annual periods beginning before 1 January 2021. | |
| | Overlay approach for assets within IFRS 4 that qualify as fair value through profit and loss (FVTPL) under IFRS 9 and at amortised cost under IAS 39, being the measurement difference reclassified to other comprehensive income. | 1 January 2018 |
| IFRS 2—Share-based payments | Measurement of cash-settled share-based payments, accounting for modifications and classification as equity-settled share-based payments when employer withholds tax. | 1 January 2018 |
| IAS 40—Investment Property | Clarification that evidence of the change in use is required, when assets are transferred to, or from the investment properties category. | 1 January 2018 |
| Annual improvements to IFRS 2014 – 2016 | Clarifications: IFRS 1, IFRS 12 e IAS 28. | 1 January 2018 |
| **Interpretations** | | |
| IFRIC 22—Foreign currency transactions and advance consideration | Foreign exchange rate to apply when consideration is paid or received in advance. | 1 January 2018 |

* Financial years beginning on or after

**1 Summary of the significant accounting policies (Continued)**

With reference to 1 January 2018, the accounting standards presented above came into force, in particular IFRS 9—Financial Instruments and IFRS 15—Revenue from contracts with customers, which had minor impacts in the preparation of TAP S.A. financial statements mainly related to reclassifications.

**IFRS 9—Financial Instruments**

IFRS 9 was adopted by European Commission Regulation 2067/2016 of 22 November 2016, with effective application date for annual periods beginning on or after 1 January 2018. With the exception of hedge accounting, retrospective application is mandatory but without the obligation to restate comparative information. Regarding the hedge accounting, the requirements are generally applied prospectively, with some exceptions.

IFRS 9 incorporates four distinct strands: recognition and derecognition, classification and measurement of financial instruments, impairment of financial assets and hedge accounting. The Company adopted this standard on its mandatory application date and analysed the need to restate the comparative information as of 1 January 2017. It should be noted that no quantitative material impacts on financial assets and liabilities were identified from the application of the new standard, beyond the reclassifications aimed to clarify the presentation of financial assets and liabilities in the statement of financial position.

In qualitative terms, the main change resulting from IFRS 9 is related to the impairment of financial assets, namely accounts receivable, and a new impairment model based on "expected losses" has been established, replacing the previous model based on "incurred losses" provided for in IAS 39.

Thus, it is no longer necessary the loss event to occur for an impairment recognition. This new model results in the acceleration of the recognition of impairment losses on held debt instruments, which are measured at amortised cost or at fair value through equity (including loans granted, bank deposits, receivables and debt securities). If the credit risk of a financial asset has not increased significantly since its initial recognition, an accumulated impairment loss equal to the expectation of loss estimated to occur within the next 12 months should be recognised. If credit risk has increased significantly, an accumulated impairment equal to the expectation of loss estimated until maturity of the asset should be recognised. Once verified the loss event in accordance with IFRS 9, that is, an objective proof of impairment, the accumulated impairment is attributed directly to the instrument, and its accounting treatment is similar to that provided for in IAS 39.

**IFRS 15—Revenue from contracts with customers**

IFRS 15 was adopted by European Commission Regulation 1905/2016 of 22 September 2016, with an effective mandatory application date for years beginning on or after 1 January 2018.

TAP S.A. recognises revenue in accordance with the nuclear principle introduced by IFRS 15, that is, to reflect the transfer of goods and services contracted to customers, corresponding to the consideration that the entity expects to receive in return for the delivery of those goods or services, based on a five-stage model, namely: (i) identification of a contract with a customer; (ii) identification of performance obligations; (iii) determination of a transaction price; (iv) allocation of the transaction price to performance obligations and (v) recognition of revenue when or as the entity meets a performance obligation.

The Company analysed the changes arising from the adoption of IFRS 15 in order to identify and evaluate the qualitative and quantitative impacts of the adoption of the standard. In quantitative terms, no material adjustments were identified, taking into account the methodology already followed to calculate and recognise the Company's revenue.

The Company adopted IFRS 15 by applying the full retrospective method, with the impacts arising from the initial application of the standard recognised as of 1 January 2017, which resulted in the reclassification of balances. Therefore, the comparative information for the year ended 31 of December 2017 was restated in accordance.

## 1 Summary of the significant accounting policies (Continued)

The adjustments in the statement of financial position inherent to the adoption of IFRS 15 and IFRS 9 represent reclassifications and the comparative financial statements have been restated accordingly, as detailed below:

| | 31 December 2017 | | | | 1 January 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| **Amount stated in euros** | **31-Dec-2017** | **IFRS 15 adoption impact** | **IFRS 9 adoption impact** | **31-Dec-2017 restated** | **1-Jan-2017** | **IFRS 15 adoption impact** | **IFRS 9 adoption impact** | **1-Jan-2017 restated** |
| **Assets** | | | | | | | | |
| **Non-current assets** | | | | | | | | |
| Tangible fixed assets | 578,418,577 | — | — | 578,418,577 | 675,304,178 | — | — | 675,304,178 |
| Investment Properties | 883,849 | — | — | 883,849 | 1,005,597 | — | — | 1,005,597 |
| Intagible assets | 2,881,132 | — | — | 2,881,132 | 1,278,469 | — | — | 1,278,469 |
| Investments in associates | 172,310 | — | — | 172,310 | 172,310 | — | — | 172,310 |
| Other financial assets | 46,440,556 | — | — | 46,440,556 | 40,195,444 | — | — | 40,195,444 |
| Deferred tax assets | 52,868,997 | — | — | 52,868,997 | 65,515,522 | — | — | 65,515,522 |
| Other receivables | 52,704,912 | — | — | 52,704,912 | 37,543,557 | — | — | 37,543,557 |
| | **734,370,333** | **—** | **—** | **734,370,333** | **821,015,077** | **—** | **—** | **821,015,077** |
| **Current assets** | | | | | | | | |
| Inventories | 60,329,252 | (10,001,974) | — | 50,327,278 | 44,243,138 | (7,870,071) | — | 36,373,067 |
| Other receivables | 1,232,832,390 | (16,196,425) | (23,268,007) | 1,193,367,958 | 1,074,408,881 | (11,573,373) | (18,436,189) | 1,044,399,319 |
| Income tax receivable | 1,391,197 | — | — | 1,391,197 | 10,073,390 | — | — | 10,073,390 |
| Other financial assets | 34,852,859 | — | — | 34,852,859 | — | — | — | — |
| Other current assests | — | — | 23,268,007 | 23,268,007 | — | — | 18,436,189 | 18,436,189 |
| Restricted cash | 82,818 | — | — | 82,818 | 537,734 | — | — | 537,734 |
| Cash and cash equivalents | 157,010,962 | — | — | 157,010,962 | 75,063,582 | — | — | 75,063,582 |
| | **1,486,499,478** | **(26,198,399)** | **—** | **1,460,301,079** | **1,204,326,725** | **(19,443,444)** | **—** | **1,184,883,281** |
| **Total assets** | **2,220,869,811** | **(26,198,399)** | **—** | **2,194,671,412** | **2,025,341,802** | **(19,443,444)** | **—** | **2,005,898,358** |
| **EQUITY AND LIABILITIES** | | | | | | | | |
| **Equity** | | | | | | | | |
| Share Capital | 41,500,000 | — | — | 41,500,000 | 41,500,000 | — | — | 41,500,000 |
| Supplementary capital contribuitions | 154,353,400 | — | — | 154,353,400 | 154,353,400 | — | — | 154,353,400 |
| Legal reserves | 8,300,000 | — | — | 8,300,000 | 8,300,000 | — | — | 8,300,000 |
| Hedge reserves | — | — | — | — | (460,990) | — | — | (460,990) |
| Other reserves | (200,588) | — | — | (200,588) | (200,588) | — | — | (200,588) |
| Retained earnings | (70,390,762) | — | — | (70,390,762) | (100,593,320) | — | — | (100,593,320) |
| Net income/(loss) for the year | 100,411,383 | — | — | 100,411,383 | 33,517,806 | — | — | 33,517,806 |
| **Total equity** | **233,973,433** | **—** | **—** | **233,973,433** | **136,416,308** | **—** | **—** | **136,416,308** |
| **Non-current liabilities** | | | | | | | | |
| Deferred tax liabilities | 19,691,715 | — | — | 19,691,715 | 19,129,277 | — | — | 19,129,277 |
| Post-employment benefits obligations | 55,335,013 | — | — | 55,335,013 | 55,101,928 | — | — | 55,101,928 |
| Provisions | 9,222,749 | — | — | 9,222,749 | 11,642,595 | — | — | 11,642,595 |
| Borrowings | 617,935,909 | — | — | 617,935,909 | 527,618,616 | — | — | 527,618,616 |
| Other payables | 112,353,793 | | — | 112,353,793 | 105,478,689 | | — | 105,478,689 |
| | **814,539,179** | **—** | **—** | **814,539,179** | **718,971,105** | **—** | **—** | **718,971,105** |
| **Current liabilitities** | | | | | | | | |
| Borrowings | 106,202,415 | — | — | 106,202,415 | 307,467,147 | — | — | 307,467,147 |
| Other payables | 641,467,319 | (26,198,399) | (84,384,707) | 530,884,213 | 544,620,444 | (19,443,444) | (75,569,126) | 449,607,874 |
| Income tax payable | 12,956,014 | — | — | 12,956,014 | — | — | — | — |
| Other current liabilities | — | — | 84,384,707 | 84,384,707 | — | — | 75,569,126 | 75,569,126 |
| Liabilities from unused flight documents | 411,731,451 | — | — | 411,731,451 | 317,866,798 | — | — | 317,866,798 |
| | **1,172,357,199** | **(26,198,399)** | **—** | **1,146,158,800** | **1,169,954,389** | **(19,443,444)** | **—** | **1,150,510,945** |
| **Total Liabilities** | **1,986,896,378** | **(26,198,399)** | **—** | **1,960,697,979** | **1,888,925,494** | **(19,443,444)** | **—** | **1,869,482,050** |
| **Total equity and liabilities** | **2,220,869,811** | **(26,198,399)** | **—** | **2,194,671,412** | **2,025,341,802** | **(19,443,444)** | **—** | **2,005,898,358** |

The adjustments in the income statement resulting from the adoption of IFRS 15 and 9 are the reclassification of the amount presented in the caption Production variance, as observable in Note 1.2.

**1 Summary of the significant accounting policies (Continued)**

- **New standards, changes and interpretations not mandatory as at 31 December 2018**

The application of the new standards, interpretations and amendments to the standards mentioned below, which, although already published, are mandatory for annual periods beginning on or after 1 January 2019, as follows:

**Standards (new and amendments) and interpretations that will become effective, on or after 1 January 2019, endorsed by the EU:**

| Description | Changes | Effective Date* |
|---|---|---|
| IFRS 16—Leases | New definition of lease. New accounting of lease contracts by lessees. No major changes to lessor lease accounting. | 1 January 2019 |
| IFRS 9—Financial instruments | Accounting treatment options for financial assets with negative compensation features. | 1 January 2019 |
| IFRIC 23—Uncertainty over income tax treatments | Clarifies how the recognition and measurement requirements of IAS 12 'Income taxes' are applied where there is uncertainty over income tax treatments. | 1 January 2019 |

* Financial years beginning on or after

**Standards (new and amendments) that will become effective, on or after 1 January 2019, not yet endorsed by the EU:**

| Description | Changes | Effective Date* |
|---|---|---|
| IAS 19—Employee benefits | Requirement to use updated assumptions for the calculation of remaining responsibilities, with impact on income statement except for any reduced excess under "asset ceiling' accounting treatment. | 1 January 2019 |
| IAS 28—Investments in associates and joint ventures | Clarification regarding long-term investments in associates and joint ventures that are not being measured through the equity method. | 1 January 2019 |
| Annual improvements to IFRS 2015 – 2017 | Clarifications: IAS 23, IAS 12, IFRS 3 e IFRS 11. | 1 January 2019 |
| IFRS 3—Business combinations | Revision of the definition of business. | 1 January 2020 |
| IAS 1—Presentation of financial statements; IAS 8—Accounting policies, changes in accounting estimates and errors | Revision of the definition of material. | 1 January 2020 |
| Conceptual framework—Amendments to references to other IFRS | Amendments to some IFRS regarding cross reference and clarification about the application of the new definitions of asset / liability and expense / income. | 1 January 2020 |
| IFRS 17—Insurance contracts | New accounting for insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics. | 1 January 2021 |

* Financial years beginning on or after

**1 Summary of the significant accounting policies (Continued)**

With respect to the new standards that became effective in the financial year beginning on 1 January 2019, the Company analysed the potential impact of these on the financial statements, the most significant being IFRS 16—Leases.

IFRS 16 defines the new leases accounting, both in the view of the lessor and in the perspective of the lessee. For the lessee, IFRS 16 determines that leases should recognise in the balance sheet the right of use of the leased assets and a lease liability related to the contractual obligations assumed.

On the adoption date of IFRS 16, the Company decided to apply the retrospective modified approach, effective in 1 January 2019, considering the measurement of the right of use equal to the lease liability. Therefore, TAP S.A. analysed the existing leases at the date of adoption in order to identify the underlying conditions, the contract period, the nature of the rent payable, and the implicit interest rates.

Regarding aircraft lease agreements in force as at 31 December 2018, which represent almost all of the contracts impacted by IFRS 16, the Company essentially assumes contractual responsibilities for the payment of rents and maintenance costs, which are intended to ensure the correct operation of the equipments during the lease term and the fulfillment of the contractual technical return conditions.

As a result of the preliminary analyses performed of the potential impacts of IFRS 16 adoption, the Company concluded that the estimated impact of the adoption of IFRS 16 on its financial statements as at 1 January 2019, correspond to the recognition of the right of use assets and lease liabilities of some Euro 990 million. Regarding the contractual structural maintenance liabilities related to the aircraft in operating leases, the related expenses will be capitalised in the right of use subject to amortisation, instead of being recognised as maintenance expenses in the income statement.

**1.4. Investments in associates**

Investments in associates are recorded at the acquisition cost net of impairment losses, when applicable.

After the reduction of the investor interest to zero, TAP SA recognises a liability to cover additional liabilities related to (i) legal or constructive claims or payments in favour of subsidiaries or associates, (ii) expectation of insufficient cash flows to comply with incurred legal or constructive liabilities and (iii) inability to determine the fair value of these investments reliably.

Dividends received are recorded under the caption Gains and losses in associates, when attributed.

**1.5. Foreign currency translation**

- **Functional and presentation currency**

The items, included in the financial statements, are measured using the currency of the economic environment in which the entity operates (functional currency). These financial statements are presented in Euros, which is the Company functional and presentation currency.

- **Balances and transactions**

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

**1 Summary of the significant accounting policies (Continued)**

- **Exchange rates**

The exchange rates used to update balances expressed in a foreign currency, as at 31 December 2018 and 2017, were as follows:

| Currency | 2018 | 2017 |
|---|---|---|
| USD | 1.1450 | 1.1993 |
| CHF | 1.1269 | 1.1702 |
| GBP | 0.8945 | 0.8872 |
| BRL | 4.4440 | 3.9729 |
| VEF | — | 4,011.70 |
| VES | 730.10 | — |
| AOA | 353.02 | 185.40 |

**1.6. Tangible fixed assets**

Tangible fixed assets that were acquired prior to 1 January 2004 are recorded at their deemed cost, which is the book value under the accounting principles generally accepted in Portugal until 1 January 2004 (transition date to IFRS), including revaluations made in accordance with the prevailing legislation, deducted of depreciation and impairment losses. The fair value of these items of tangible fixed assets at that date was determined through an evaluation study performed by an independent expert, which also determined the remaining useful life of these assets, on transition date.

Tangible fixed assets that were acquired after the transition date are presented at cost, less accumulated depreciation and impairment losses. The acquisition cost includes all expenditure directly attributable to the acquisition of the assets.

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

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

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

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

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

**1 Summary of the significant accounting policies (Continued)**

**1.7. Investment properties**

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

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

**1.8. Intangible assets**

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

**1.9. Impairment of non-current assents**

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

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

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

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

The reversal of impairment losses recognised in previous periods is recorded when it can be concluded that the recognised impairment losses no longer exist or have decreased.

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

**1.10. Financial Instruments**

**Classification**

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

Financial assets and liabilities are offset and their net amount reported in the statement of financial position when: i) the Company has a legally enforceable right to offset the recognised amounts and ii) there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterpart.

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

IFRS 9 introduced a financial instrument classification model based on the business model for managing the financial instruments ("business model test") and the contractual cash flow characteristics of the financial instruments ("SPPI test"), which replaced the previous requirements of IAS 39 of classification of

**1 Summary of the significant accounting policies (Continued)**

the finacial instruments by categories. The Company classifies its financial instruments at the inicial recognition, into the applicable IFRS 9 categories as follows.

- **Debt instruments**

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

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

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

- **Equity instruments**

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

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

**Impairment of financial assets**

IFRS 9 replaces the previous "losses incurred" model set forth in IAS 39 and establishes a new impairment model based on "expected losses", according to which the impairment estimate is assessed from the initial recognition, taking into account the assessment of credit risk.

- **Other receivables**

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

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

- **Other financial assets**

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

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

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

**1 Summary of the significant accounting policies (Continued)**

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

**Derecognition of financial assets**

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

**1.11. Derivative financial instruments**

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

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

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is initially recognised in other comprehensive income. Subsequently, in their settlement date the derivatives are recognised in operating results ("Aircraft fuel") for jet fuel instruments, and in net financial results ("Interest and similar income / expenses") for the interest rate instruments. The ineffective part of the hedge is recorded in results at the time it occurs.

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

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

- **Hedge accounting**

The possibility of designating a derivative financial instrument as a hedging instrument complies with the provisions of IFRS 9—Financial Instruments.

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

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

It should be noted that there are no changes to the hedging strategies followed, as well as the accounting treatment adopted with respect to derivative financial instruments contracted by the Company.

**1 Summary of the significant accounting policies (Continued)**

### 1.12. Assets and liabilities fair value

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

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

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

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

### 1.13. Inventories

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

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

Material recovered internally is valued at cost.

The net realizable value corresponds to the estimated selling price less the estimated finishing and marketing costs. The difference between cost and net realizable value, if lower, is recorded under the caption Impairment losses in inventories, receivables ans provisions.

### 1.14. Trade and other receivables

Customer balances and other current accounts receivable are initially accounted for at the agreed consideration, unless they have a significant financing component, in which case they are recorded at fair value. The Company holds the balances of customers and other current accounts receivable in order to collect them, and are subsequently measured at amortised cost, less impairment losses (Note 12).

Impairment losses are recorded on the basis of the experience of actual losses over a period that was considered statistically significant and representative of the specific characteristics of the underlying credit risk.

### 1.15. Cash and cash equivalents

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

TAP S.A. records the cash and cash equivalents, whose repatriation is restricted, in the heading "Restricted cash" under current assets.

### 1.16. Share Capital

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

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

**1 Summary of the significant accounting policies (Continued)**

**1.17. Borrowings**

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

Borrowings are classified as a current liability, except when the Company has an unconditional right to defer the settlement of the liability for at least 12 months after the date of the statement of financial position (Note 21).

**1.18. Borrowing costs**

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

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

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

**1.19. Other payables**

Other payables balances are initially recorded at their fair value and subsequently at amortised cost (Note 22).

**1.20. Corporate income tax**

Income tax includes current and deferred tax. Current income tax is calculated based on net income, adjusted in conformity with tax legislation in place at the reporting date.

Deferred taxes liabilities are, usually, recognised for all temporary differences and deferred tax assets are recognised whenever there is a reasonable likelihood that future taxable profits will be generated or there are deferred taxes liabilities against which they can be offset. Deferred tax assets are revised periodically and decreased whenever it is likely they will not be used.

The income tax rate expected to be in force in the period in which the temporary differences will reverse is used in calculating deferred tax. Deferred taxes are recorded as a cost or income for the year, except where they result from amounts recorded directly under shareholders' equity, in which case deferred tax is also recorded under the same caption, ie, the amounts to be included in the current tax and in the deferred tax, resulting from transactions and events recognised in reserves, are recorded directly in these same captions. Therefore, the impact of changes in the tax rate is also recognised in net income, except when it refers to items recognised directly in equity, in which case this impact is also recorded directly in equity.

**1.21. Post-employment benefits**

As referred in Note 19, the Company have undertaken to make payments to its employees for complementary retirement pension, early retirement, health care and seniority bonuses.

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

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

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

**1 Summary of the significant accounting policies (Continued)**

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

Gains and losses generated on a curtailment or settlement of a defined benefit pension plan are recognised in the income statement when the curtailment or settlement occurs. A curtailment occurs when there is a material reduction in the number of employees.

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

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

The Company recognises a provision for restructuring costs when the general recognition criteria for provisions are met, namely when the Company has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. The restructuring expenses are recognised in the income statement in the caption "Restructuring" (Note 31).

**1.22. Provisions**

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

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

Provisions for future operating losses are not recognised. Provisions are reviewed on the date of the statement of financial position and are adjusted to reflect the best estimate at that date (Note 20).

**1.23. Contingent assets and liabilities**

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

Provisions are recognised for liabilities which meet the conditions described in note 1.22.

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

**1.24. Government grants**

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

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

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

**1 Summary of the significant accounting policies (Continued)**

**1.25. Leases**

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

According to this method, the asset's cost is recorded in Tangible fixed assets and the corresponding liability is recorded under liabilities as Borrowings, while the interest included in the instalments and the asset's depreciation, calculated as described in Note 1.6, are recorded as costs in the income statement of the period to which they relate.

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

In contractual position assignment operations with subsequent leasing of the aircraft, the classification of the lease is determined on the inception date, and recognition occurs on the commencement date.

**1.26. Revenue**

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

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

Commissions, attributed by the Company on ticket sales, are deferred and recorded as expenses for the year, according to the applicaton of the cut-off principle of the respective transport revenue.

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

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

The recognition of the revenue from maintenance contracts occurs when the maintenance is complete, when the performance obligation is satisfied. It should be noted that maintenance contracts generally have durations lower than 3 months.

**1 Summary of the significant accounting policies (Continued)**

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

The preliminary invoicing of maintenance work for third parties, which are still ongoing as of 31 December 2018, is accounted for under other current liabilities (Note 23).

The Company accruals the gains resultant from services provided for which no invoicing have occurred or is entitled to recognise the revenue during the performance of the contract. These balances are recorded under the caption “Other receivables”, as accrued income (Note 12).

Revenue is presented net of indirect taxes, returns, discounts and other costs inherent to its realization.

### 1.27. Cut-off

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

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

### 1.28. Non-recurring items

According to the provisions of IAS 1 paragraphs 85 and 86, non-recurring items reflect unusual items that must be reported separately from the usual income statement line items, given their magnitude and relevance to understanding the Company’s operations. The Company seeks to present an underlying performance measure that is not impacted by relevant non-recurring items, that are particularly significant or unusual, not directly related to the activity, particularly with regard to events intrinsic to its business, air transporte activity, as mentioned in Notes 31 and 32.

### 1.29. Segment reporting

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

Two operational segments were identified: Air transport, and Maintenance and engineering. Activities included in Others are not eligible to report separately.

All inter-segmental sales and services rendered are valued at market prices. Segmental information is disclosed in Note 5.

### 1.30. Statement of cash flows

Statement of cash flows is prepared in accordance IAS 7, through direct method. The Company classified under this caption cash and cash equivalents with an initial maturity of up to 3 months which can be mobilised immediately without any significant risk of fluctuations in value. For the purpose of the statement of cash flows, this caption also includes bank overdrafts, which are presented in the statement of financial position, under the caption “Borrowings”, as well as “Restricted cash”.

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

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

**1 Summary of the significant accounting policies (Continued)**

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

The cash flows from financing activities include, namely, the payments and receipts related to loans obtained, finance leases payments, payments related to interest and similar costs, own shares acquisition and payment of dividends.

**1.31. Subsequent events**

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

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

**2 Important accounting estimates and judgements**

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

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

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

- **Deferred tax (Note 11)**

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

- **Post-employment benefits (Note 19)**

Liabilities relating to defined-benefit plans are calculated based on actuarial assumptions. Changes to those assumptions can have a material impact on the aforesaid liabilities. The key demoghrafic and financial assumptions for pension obligations are detailed in Note 19. The Company's policy is to periodically review the main demographic and financial assumptions, when their impact on the financial statements is considered relevant.

- **Recognition of provisions and impairments (Notes 12, 13 and 20)**

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

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

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

**2 Important accounting estimates and judgements (Continued)**

- **Customer loyalty program (Note 23)**

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

- **Liabilities from unused flight documents (Note 24)**

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

- **Useful life and residual value of tangible fixed assets (Note 6)**

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

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

- **Structural maintenance of aircraft in operating lease (Note 22)**

TAP S.A., incurs in liabilities for maintenance costs in respect of aircraft operated under operating leases. These arise from legal and constructive contractual obligations relating to the condition of the aircraft when it is returned to the lessor. To fulfill these obligations, the Company will normally have to carry out structural maintenance interventions during the lease period. TAP S.A. recognises this liability based on the actual use of the aircraft, namely hours or cycles flown. In the measurement of this liability, several assumptions are considered, the most relevant of which are: i) the use and condition of the aircraft; ii) the expected costs of the structural maintenance interventions at the moment they are expected to occur; and iii) the discount rate used.

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

**3 Financial risk management policies**

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

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

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

**3 Financial risk management policies (Continued)**

- **Market risk**

Competition in commercial aviation has intensified in recent years as a result of several dynamics such as, the increase of low cost players in the sector and competition from large groups that concentrate activities that are gaining scale.

In Europe the level of competition has been particularly high in most markets, with low-cost operators having successively achieved a larger market share, a situation to which Portugal has not been exempted. However, TAP's growth in the last year has allowed the recovery of market share at Lisbon airport, following the loss of share in previous years.

Regarding the air transport, several markets contributed significantly to the overall growth in sales and revenues, namely the Brazilian, Portuguese and North American markets.

It should be noted that TAP SA has benefited from the growth of tourism in the Portuguese market, which has successively reached record levels in the various indicators, from the occupancy levels of hotel units, the number of overnight stays and number of foreign tourists, as well as the level of balance of travel and tourism in the country and the start-up of new hotels. The interest in Portugal has been a constant in the panorama of European and international tourism and the country has captivated a wide range of visitors in leisure and business.

Other markets also showed very positive developments when compared to the same period last year, namely in Europe, Austria, Germany, the United Kingdom and Spain. The increase of the available seats on some of the routes operated, improvement comfort provided by the new fleets, a significant increase in tourist demand for Portugal and intercontinental connections should have contributed to this increase.

Competition in aviation is very much based on the price factor but depending on the route and type of customer (leisure or corporate), competition and market risk also depend on the business models and route networks that companies present that enable them to meet the customer in the various aspects that it values. This differentiated product incorporates elements such as reliability, regularity, punctuality, diversity of schedules, frequency of flights, comfort of the equipment, in short, quality of the product and quality of the flight experience. Many of these aspects are inevitably linked to the aircraft characteristics, including the comfort, modern, technologically advanced and also economically efficient, low consumption, low noise, low emissions and flexible in terms of flight autonomy. Thus, a modern fleet is a fundamental asset to compete in this market.

Immediately after the reprivatization of the Group in November 2015, the Company began an ambitious strategic plan for the global fleet renewal, to be implemented in several stages. This cycle of substantial investments and deep renewal of the company will last for several years, including the renewal of most of the current fleet by replacing it with 53 new aircraft ordered to Airbus in 2015, to be delivered until 2025. Under this order, Airbus delivered 4 aircraft: two A330 NEO and two A321 NEO, all financed through operating leases.

Simultaneously with the arrival of new aircraft, TAP S.A. prepared an interim renewal program for the existing fleet, which includes upgrading the cabin interior of the aircraft (retrofit) in order to provide passengers with greater comfort and to the Company, greater flexibility in the commercial management of the space to be commercialised. This planned cabin modification program for 48 aircraft began in 2016 and ended in 2018, encompassing a substantial part of the aircraft, both the mid-course (41 narrowbodies) and the long-range (7 widebodies) fleet.

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

- **Fuel price risk**

Airlines are particularly subject to the impact of changes in international energy markets, namely the volatility of the fuel prices and its availability. The fuel cost is, for the Company, the component with the

**3 Financial risk management policies (Continued)**

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

The year of 2018 witnessed a sharp increase in the fuel price: the barrel of brent rose about 31.5% in 2018 with an average of USD 71.2 compared to USD 54.1 in 2017. The tonne average price of jet fuel stood at USD 687.5 in 2018, against USD 527 in 2017, up 30.5%.

During the year of 2018, TAP S.A. carried out fuel hedging operations that contributed to mitigate the impact of the increase of the fuel costs.

On 31 December 2018 a 10% change (positive or negative) in the jet fuel price would result in an impact on the results of the year of approximately Euro 77 million.

- **Currency risk**

TAP S.A.'s exposure to exchange rate changes results from its presence in several geographic markets, reflecting multiple relevant cost items and several of its assets and liabilities. In all the markets where TAP is present, the exchange exposure is significant due to the operation on more than 100 routes in three continents, and also given the prominent position in the routes between Europe and the American continent, in terms of air transport activity, in addition to its involvement in Brazil. The risks inherent to exchange rate fluctuations and exchange rate policy decisions of the monetary authorities of countries with controlled exchange rates add up to sovereign risks such as the one that materialised in Venezuela in recent years due to the economic collapse situation of that country.

Despite the strong geographic diversification of the commercial and operating activity of TAP S.A., a significative part of the sales occur in markets whose official currency is the euro, or whose currency has a fixed exchange rate with the euro zone, as is the case of some African countries where TAP S.A. operates.

In 2018, Brazil income remained at a similar level to that of the previous year (i.e. about 25%). Also with regard to the Brazilian market, its particularities with potential impact on the treasury by means of foreign exchange, favorable or unfavorable, should me mentioned, such as the practice of installment sales, as well as agreements established with the acquirers/banks, for anticipation of the receivables. The volatility that characterizes the Brazilian currency has consequences in terms of fare policy, requiring great flexibility in the capacity management and quick reaction in the pricing and network management in order to respond to the competition and maintain satisfactory loca factor rates. In order to minimize the exchange volatility impact, several BRL / EUR exchange hedging operations were carried out during this year.

At the end of 2018, the American market accounted for almost 10% of the total ticket sales of TAP S.A., similar to previous year. The resultant exposure to the dollar is important to counterbalance the net adverse exposure to the currency that TAP S.A. has in substantial part of its expenses. The prospects continue to be of grow and expansion in the North American market, since this is an element of the commercial strategy and a source of diversification that is relevant both economically and in exchange terms.

Another market that contributes to the exposure to the dollar, in termos of revenues, is the Angolan market, with a share of 2.7% in total ticket revenues, although a portion of this market is denominated in Kwanzas.

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

**3 Financial risk management policies (Continued)**

Also in the case of operating leases and wet leases the market operates predominantly in dollars from monthly rentals to maintenance reserve and security deposits. Aircraft maintenance is another source of dollar exposure that is not always passed on to the final customer in terms of billing in that currency. The various materials incorporated in the TAP fleet are also normally purchased in dollars. At the strictly financial level, some loans are denominated in dollars, therefore the respective interest and capital repayments result in an additional exposure to the American currency. At the end of 2018, 8% of the Company's debt was denominated in dollars, against 17% at the end of 2017.

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

The Company's exposure to currency risk as at 31 December 2018 and 2017, based on its financial position, from financial assets and liabilities converted into euro at the exchange rates at the reporting date, is presented as follows:

| | 2018 | | | | |
|---|---|---|---|---|---|
| | USD | BRL | AOA | OTHER | TOTAL |
| **ASSETS** | | | | | |
| Cash and cash equivalents | 87,049,145 | 5,869,911 | 5,187,861 | 14,389,643 | 112,496,560 |
| Other financial assets (Note 10) | 13,680,637 | — | — | — | 13,680,637 |
| Receivables—customers | 60,094,462 | 52,842,524 | 1,034,377 | 14,973,047 | 128,944,410 |
| Receivables—other | 141,581,648 | 20,925,845 | 548,689 | 6,000,003 | 169,056,185 |
| | **302,405,892** | **79,638,280** | **6,770,927** | **35,362,693** | **424,177,792** |
| **LIABILITIES** | | | | | |
| Borrowing (Note 21) | 62,446,843 | — | — | — | 62,446,843 |
| Payables—suppliers | 75,449,929 | 17,408,455 | 1,419,410 | 8,864,725 | 103,142,519 |
| Payables—other | 131,936,742 | 1,410,829 | 937,750 | 5,589,322 | 139,874,643 |
| | **269,833,514** | **18,819,284** | **2,357,160** | **14,454,047** | **305,464,005** |

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | USD | BRL | AOA | VEF | OTHER | TOTAL |
| **ASSETS** | | | | | | |
| Cash and cash equivalents | 91,134,409 | 547,509 | 33,669,427 | 79 | 15,545,674 | 140,897,098 |
| Other financial assets (Note 10) | 81,084,329 | — | — | — | — | 81,084,329 |
| Restricted cash (Note 16) | — | — | — | 82,818 | — | 82,818 |
| Receivables—customers | 35,509,799 | 154,589,805 | 1,463,754 | 6,683 | 19,233,436 | 210,803,477 |
| Receivables—other | 92,688,615 | 20,424,920 | 3,741,731 | 5 | 3,984,956 | 120,840,227 |
| | **300,417,152** | **175,562,234** | **38,874,912** | **89,585** | **38,764,066** | **553,707,949** |
| **PASSIVOS** | | | | | | |
| Borrowing (Note 21) | 121,265,739 | — | — | — | — | 121,265,739 |
| Payables—suppliers | 46,665,942 | 8,202,535 | 392,038 | 521,388 | 7,384,372 | 63,166,275 |
| Payables—other | 155,748,722 | 6,646,037 | 3,020,014 | 82,056 | 6,468,921 | 171,965,750 |
| | **323,680,403** | **14,848,572** | **3,412,052** | **603,444** | **13,853,293** | **356,397,764** |

**3 Financial risk management policies (Continued)**

It should be noted that, on 31 December 2018, the caption "Other financial assets" includes the amount of Euro 13,224,721 (2017: Euro 80,812,375), related to the "Angola's treasury bonds", subscribed in 2018 and 2017, indexed to the dollar. Additionally, the caption "Cash and cash equivalents", includes Euro 10,770,637 also indexed to the dollar and deposited in Angola (2017: Euro 7,928,054), which include Euro 10,359,638 of "Angola's treasury bonds" that mature in less than 3 months (Notes 10 and 16).

As at 31 December 2018, a 10% variation (positive or negative) of all the exchange rates with reference to the Euro would result in an impact on the results for the year of approximately, Euro 12 million (2017: Euro 20 million).

- **Interest rate risk**

At the end of 2015, coinciding with the reprivatization of the TAP Group, there were several changes in the debt operations in force, including a deep restructuring of short-term debt with national entities. On 30 June 2017, agreements were signed regarding the financing of the TAP Group with eight financial institutions, which had previously participated in the 2015 renegotiation, which allowed the Group to defer repayment terms, as well as to standardise and generally reduce the applied spreads to all loans granted by these financial institutions.

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

In addition, at the beginning of 2019 a financing agreement was signed with a group of institutional investors amounting to Euro 137 million at a fixed rate.

The amount of fixed-rate financing in TAP S.A.'s total debt increased from 8% of the total in 2017 to 11% of the total in 2018 at the end of the year. The majority of the floating financing rate, corresponding to 89% of the total debt, bear interest at Euribor, plus the contractual spread and, having been indexed in negative values, for all the terms, throughout 2018, the value applied in the respective operations was zero, according to the floor imposed by the financing entities. In practice, all variable-rate euro-denominated loans have only the contractual spread as cost.

Interest rate risk has not materialised significantly in recent years, given the long period of interest rates close to zero that occurred in Europe. However, during 2018 has have occurred in 2017, there was a gradual rise in interest rates in dollars. The future impacts of a rise in the general interest level, either in US Dollar or possibly in Euro, are relevant to the TAP S.A, not only in relation to the existing debt but also to future debt.

Interest rates are also a factor of cost increase in operating leases, transactions in which the risk of long-term interest rates is usually included in the aircrafts rents.

**3 Financial risk management policies (Continued)**

As at 31 December 2018 and 2017, financial liabilities with interest rate exposure, by type of interest rate, is as follows:

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

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | < 1 year | 1 – 2 years | 3 – 5 years | 6 – 10 years | > 10 years | Total |
| **Variable Rate** | | | | | | |
| Loans | — | 120,976,550 | 367,118,732 | 37,090,867 | 7,500,000 | 532,686,149 |
| Finance leases | 94,366,478 | 30,214,740 | 7,695,993 | — | — | 132,277,211 |
| | **94,366,478** | **151,191,290** | **374,814,725** | **37,090,867** | **7,500,000** | **664,963,360** |
| **Fixed Rate** | | | | | | |
| Loans | 8,216,842 | 7,310,180 | 30,258,897 | 2,082,547 | — | 47,868,466 |
| Finance leases | 3,619,095 | 3,761,911 | 3,925,492 | — | — | 11,306,498 |
| | **11,835,937** | **11,072,091** | **34,184,389** | **2,082,547** | **—** | **59,174,964** |
| **Total** | **106,202,415** | **162,263,381** | **408,999,114** | **39,173,414** | **7,500,000** | **724,138,324** |
| **% fixed rate** | **11%** | **7%** | **8%** | **5%** | **0%** | **8%** |

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

The sensitivity analysis is based on the following assumptions:

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

Under these assumptions and considering also: (i) theoretical assumptions for the market interest rate and for euro-dollar exchange rate (ii) that the intra-annual amortisation is linear for purposes of future interest calculation (simplifying assumption). An increase or decrease of 0.5% in market interest rates regarding loans with a variable interest rate, as at 31 December 2017 and 2018, would result in a decrease or increase of the future interest expense of approximately Euro 8 million (2017: 10 million Euros).

- **Liquidity risk**

The Company's liquidity risk is made up of a combination of factors that result from the operation, the existent debt and its repayment schedule, the negotiations conditions for new transactions, of the intra-

**3 Financial risk management policies (Continued)**

group liquidity concession, currency conversion gains or losses, and investment activities, when significant. The Company has to ensure, annually, the repayment of its debt, although properly planned and scheduled over time, has an impact on the Company´s treasury and has to be continuously evaluated in accordance with the events occurred during financial years. Any turbulence in financial markets, such as those that occurred during the sovereign debt crisis, or any market changes in terms of the Company current costs or revenues, restricts the treasury, liquidity, economic and financial balance and the prosperity of the Company.

Another situation that affects the Company's liquidity risk are the difficulties to expatriate cash from international markets where the Company operates due to currency shortages, as for example Angola. In 2018, TAP S.A. was able to expatriate most of the cash value in Angola.

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

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

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | < 6 months | 6 months – 1 year | 1 – 2 years | 3 – 5 years | 6 – 10 years | > 10 anos | Total |
| Loans | 19,382,358 | 11,694,155 | 157,871,438 | 425,535,944 | 42,693,500 | 7,648,688 | 664,826,083 |
| Finance leases | 74,222,722 | 27,726,139 | 35,357,807 | 11,902,431 | — | — | 149,209,099 |
| **Total** | **93,605,080** | **39,420,294** | **193,229,245** | **437,438,375** | **42,693,500** | **7,648,688** | **814,035,182** |

- **Credit risk**

The following table presents elements relative to the Company's assets as at 31 December 2018 and 2017, as well as other receivables, which reflect the credit risk on those dates:

| | 2018 | 2017 |
|---|---|---|
| **Non-current assets** | | |
| Other financial assets and receivables | 61,617,918 | 99,145,468 |
| **Current assets** | | |
| Cash and cash equivalents | 223,714,593 | 157,010,962 |
| Restricted cash | — | 82,818 |
| Other receivables—Customers (Note 12) | 169,279,011 | 280,484,345 |
| Other financial assets and receivables (Notes 12 and 15) | 996,789,467 | 947,736,472 |
| | **1,451,400,989** | **1,484,460,065** |

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

**3 Financial risk management policies (Continued)**

From the total amount of receivables from customers, the balances of the airlines and travel agencies, as identified in Note 12, are settled mainly through the IATA Billing and Settlement Plan ("BSP") and IATA Clearing House ("ICH"), which substantially minimizes the Company's credit risk.

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

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

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

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

- **Capital management**

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

Regarding current and non-current interest-bearing liabilities, there was an increase of around 7% compared to 2017. However, TAP SA's debt has a strict accounting policy, which can be analysed and measured in a more comprehensive and substantial manner, encompassing aggregates whose behavior is, in some respects, similar to financing. This is the case of operating leases, to which are also linked several risk factors similar to those of financing. The increase in the set of charges for aircraft under operating lease corresponds to an increase in significant future liabilities, since these are medium and long-term contracts, which are similar to the debt payment in installements, although there is no risk of residual value of the aircraft at the end of the respective lease. In addition, renewal and expansion of the fleet, under leasing, it will be relevant for risk management, and for the return on invested capital, future debt increase that will occur in the coming years in the form of financing, or in the form of operating leasing, associated with the investment cycle in the Company's new fleet.

Gearing ratios as of 31 December 2018 and 2017 were as follows:

| | 2018 | 2017 |
|---|---|---|
| Total borrowings (Nota 21) | 775,939,830 | 724,138,324 |
| Cash and cash equivalents (Nota 16) | (223,714,593) | (157,010,962) |
| Net debt | 552,225,237 | 567,127,362 |
| Equity | 104,798,439 | 233,973,433 |
| Total equity | 657,023,676 | 801,100,795 |
| ***Gearing*** | **84%** | **71%** |

## 4 Financial assets and liabilities

The accounting policy described in Note 1.10 was applied according to the categories presented below:

| | 2018 | | | | |
|---|---|---|---|---|---|
| | **Financial assets and liabilities at amortised cost** | **Financial assets and liabilities at fair value through other comprehensive income** | **Financial assets and liabilities at fair value through profit or loss** | **Financial assets and liabilities out of IFRS 9 scope** | **Total** |
| **Assets** | | | | | |
| Other financial assets | 13,705,761 | — | — | — | 13,705,761 |
| Other receivables | 1,190,896,707 | — | — | 24,861,437 | 1,215,758,144 |
| Cash and cash equivalents | 223,714,593 | — | — | — | 223,714,593 |
| **Total Assets** | **1,428,317,061** | **—** | **—** | **24,861,437** | **1,453,178,498** |
| **Liabilities** | | | | | |
| Borrowings | (775,939,830) | — | — | — | (775,939,830) |
| Other payables | (675,075,865) | (41,322,387) | — | (835,687) | (717,233,939) |
| **Total Liabilities** | **(1,451,015,695)** | **(41,322,387)** | **—** | **(835,687)** | **(1,493,173,769)** |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | **Financial assets and liabilities at amortised cost** | **Financial assets and liabilities at fair value through other comprehensive income** | **Financial assets and liabilities at fair value through profit or loss** | **Financial assets and liabilities out of IFRS 9 scope** | **Total** |
| **Assets** | | | | | |
| Other financial assets | 81,293,415 | — | — | — | 81,293,415 |
| Other receivables | 1,236,879,299 | — | — | 9,193,571 | 1,246,072,870 |
| Restricted cash | 82,818 | — | — | — | 82,818 |
| Cash and cash equivalents | 157,010,962 | — | — | — | 157,010,962 |
| **Total Assets** | **1,475,266,494** | **—** | **—** | **9,193,571** | **1,484,460,065** |
| **Liabillities** | | | | | |
| Borrowings | (724,138,324) | — | — | — | (724,138,324) |
| Other payables | (642,314,067) | — | — | (923,939) | (643,238,006) |
| **Total Liabilities** | **(1,366,452,391)** | **—** | **—** | **(923,939)** | **(1,367,376,330)** |

The following tables present the assets and liabilities measured at fair value as at 31 December 2018 and 2017, according to the following fair value hierarchical levels established in IFRS 13:

| | 2018 | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| **Non-financial assets** | | | |
| Investment Properties | — | 1,925,764 | — |
| **Financial liability** | | | |
| Derivate financial instruments | — | (41,322,387) | — |

| | 2017 | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| **Non-financial assets** | | | |
| Investment Properties | — | 883,849 | — |
| **Financial liability** | | | |
| Derivate financial instruments | — | — | — |

**4 Financial assets and liabilities (Continued)**

**Level 1:** the fair value of financial instruments is based on prices available on active, liquid markets at the date of the financial position;

**Level 2:** the fair value of financial instruments is not determined based on active market prices, but rather through valuation models. The main inputs of these models are observable on the market; and

**Level 3:** the fair value of financial instruments is not determined based on active market prices, but rather through valuation models, whose main inputs are not observable on the market.

**Derivative financial instruments**

The fair value of the derivative financial instruments is recorded under the caption of other payables when negative, and under the caption of other receivables when positive.

During 2018 and 2017, the variation of derivative financial instruments fair value was recognised in equity, which are reclassified to the income statement in its maturity.

The breakdown of the derivate financial instruments fair value is detailed in Note 25.

**5 Segment reporting**

The following business segments have been identified: air transport e maintenance and engeneering. The net income/(loss) of each segment correspond to those directly allocated to them, as well as to those that can be reasonable attributed to those segments. The activities aggregated in "Other" do not qualify to report separately.

The financial information by operational segment for 2018 and 2017 is detailed as follows:

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Air Transport | Maintenance and engeneering | Other | Total | Air Transport | Maintenance and engeneering | Other | Total |
| Operating Income | 2,919,997,369 | 234,240,567 | 22,995,462 | 3,177,233,398 | 2,698,300,532 | 151,030,915 | 39,363,666 | 2,888,695,113 |
| Operating results | (39,359,671) | 29,135,902 | (16,665,358) | (26,889,127) | 153,665,154 | 17,471,408 | (22,553,923) | 148,582,639 |
| External net financial results | (55,737,596) | 352,836 | — | (55,384,760) | (19,630,639) | 2,126,022 | — | (17,504,617) |
| Share of relative net profits to shares of capital | — | — | — | — | — | — | 37,626 | 37,626 |
| Income tax | 27,981,720 | (8,676,859) | 4,903,668 | 24,208,529 | (31,358,332) | (4,584,959) | 5,276,652 | (30,666,639) |
| **Net Income** | **(67,115,547)** | **20,811,879** | **(11,761,690)** | **(58,065,358)** | **102,676,183** | **15,012,471** | **(17,277,271)** | **100,411,383** |

The operating revenues of passenger, maintenance and cargo and mail by geographic market are detailed as follows:

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Air Transport | Maintenance | Cargo and Mail | Total | Air Transport | Maintenance | Cargo and Mail | Total |
| Mainland and islands | 182,593,433 | 3,782,078 | 7,555,526 | 193,931,037 | 157,842,899 | 17,713,839 | 8,792,094 | 184,348,832 |
| Europe | 1,097,242,084 | 200,497,680 | 13,463,776 | 1,311,203,540 | 980,584,379 | 99,147,081 | 11,571,423 | 1,091,302,883 |
| South Atlantic | 851,745,626 | 94,510 | 76,946,368 | 928,786,504 | 816,805,535 | 9,982,001 | 71,584,775 | 898,372,311 |
| North Atlantic | 318,149,242 | 2,300,528 | 20,118,551 | 340,568,321 | 275,160,043 | 12,834,161 | 17,100,450 | 305,094,654 |
| Mid Atlantic | 21,971,576 | 7 | 1,331,729 | 23,303,312 | 26,327,630 | — | 1,742,458 | 28,070,088 |
| Africa | 310,709,531 | 12,401,473 | 15,268,163 | 338,379,167 | 313,103,584 | 2,085,936 | 16,436,251 | 331,625,771 |
| Other | 29,124 | 9,093,558 | — | 9,122,682 | 12,414 | 5,462,731 | — | 5,475,145 |
| | **2,782,440,616** | **228,169,834** | **134,684,113** | **3,145,294,563** | **2,569,836,484** | **147,225,749** | **127,227,451** | **2,844,289,684** |

The allocation is defined based on the destination country of the goods and services sold by the Company, which in the case of air transport is understood as the destination country of the flight.

## 6 Tangible fixed assets

During the years ended 31 December 2018 and 2017, changes in tangible fixed assets, as well as the accumulated depreciation and impairment losses, were as follows:

| | Land and natural resources | Buildings and other constructions | Basic equipment | Transport equipment | Tools and utensils | Administrative equipment | Other tangible fixed assets | Other assets in progress | Advances to suppliers of tangible assets | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Acquisition Cost** | | | | | | | | | | |
| **1 January 2017** | **41,168,153** | **154,800,985** | **1,523,858,243** | **2,486,039** | **22,008,593** | **54,772,576** | **11,361,028** | **20,721,376** | **166,791,408** | **1,997,968,401** |
| Acquisitions | — | 1,323,695 | 67,335,993 | 110,356 | 1,982,619 | 1,949,013 | 832,886 | 32,351,385 | 126,557,857 | 232,443,804 |
| Disposals | — | — | (305,128,334) | (130,406) | — | (369,736) | — | — | — | (305,628,476) |
| Regularisation, transfer and write-off | — | 48,001 | 2,745,869 | (60,515) | (166,418) | (130,995) | (50,336) | (6,081,432) | (112,499,495) | (116,195,321) |
| **31 December 2017** | **41,168,153** | **156,172,681** | **1,288,811,771** | **2,405,474** | **23,824,794** | **56,220,858** | **12,143,578** | **46,991,329** | **180,849,770** | **1,808,588,408** |
| Acquisitions | — | 293,361 | 86,484,187 | 12,457 | 1,624,264 | 999,719 | 417,598 | 37,011,066 | 42,366,558 | 169,209,210 |
| Disposals | (25,346) | (127,557) | (821,449) | (154,465) | — | (429,269) | — | (27,237,795) | — | (28,795,881) |
| Regularisation, transfer and write-off | (17,210) | (1,013,611) | 6,411,642 | (86,542) | (12,490) | (434,939) | (140,111) | (17,719,460) | (126,301,735) | (139,314,456) |
| **31 December 2018** | **41,125,597** | **155,324,874** | **1,380,886,151** | **2,176,924** | **25,436,568** | **56,356,369** | **12,421,065** | **39,045,140** | **96,914,593** | **1,809,687,281** |
| **Accumulated deprec. and impairment losses** | | | | | | | | | | |
| **1 January 2017** | **—** | **69,045,162** | **1,171,694,372** | **2,269,773** | **15,582,461** | **53,724,550** | **10,347,905** | **—** | **—** | **1,322,664,223** |
| Depreciations (Note 33) | — | 5,284,038 | 44,689,799 | 110,975 | 627,449 | 1,189,799 | 390,867 | — | — | 52,292,927 |
| Disposals | — | — | (142,332,517) | (130,406) | — | (360,840) | — | — | — | (142,823,763) |
| Regularisation, transfer and write-off | — | — | (1,646,713) | (60,515) | (74,997) | (130,995) | (50,336) | — | — | (1,963,556) |
| **31 December 2017** | **—** | **74,329,200** | **1,072,404,941** | **2,189,827** | **16,134,913** | **54,422,514** | **10,688,436** | **—** | **—** | **1,230,169,831** |
| Depreciations (Note 33) | — | 5,409,679 | 56,639,172 | 91,089 | 674,540 | 880,014 | 332,964 | — | — | 64,027,458 |
| Impairment losses (Note 33) | — | — | 4,186,407 | — | — | — | — | — | — | 4,186,407 |
| Disposals | — | (51,792) | (778,643) | (104,693) | — | (428,602) | — | — | — | (1,363,730) |
| Regularisation, transfer and write-off | — | (920,709) | (6,790,784) | (86,542) | (11,488) | (419,400) | (140,111) | — | — | (8,369,034) |
| **31 December 2018** | **—** | **78,766,378** | **1,125,661,093** | **2,089,681** | **16,797,965** | **54,454,526** | **10,881,289** | **—** | **—** | **1,288,650,932** |
| **Carrying amount as at 31 December 2017** | **41,168,153** | **81,843,481** | **216,406,830** | **215,647** | **7,689,881** | **1,798,344** | **1,455,142** | **46,991,329** | **180,849,770** | **578,418,577** |
| **Carrying amount as at 31 December 2018** | **41,125,597** | **76,558,496** | **255,225,058** | **87,243** | **8,638,603** | **1,901,843** | **1,539,776** | **39,045,140** | **96,914,593** | **521,036,349** |

**6 Tangible fixed assets (Continued)**

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

To assure the payments of the amounts due under a loan agreement with a national institution, in the amount of Euro 75 million, a mortgage was established on an urban building owned by TAP S.A., consisting of twenty-nine office buildings, workshops for construction materials and others, located at the Lisbon Airport (Note 21).

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

- The additions basic equipment in the amount of Euro 86,484,187, mainly relate to: (i) capitalization of expenses with structural maintenance of aircraft owned or under financial leasing in the amount of approximately Euro 37,876,377 and (ii) acquisition of two engines under financial leasing arrangements amounting to Euro 33,907,632.
- Transfers and write-offs of basic equipment refer, essentially, to the write-off of spare parts as scrap and other miscellaneous maintenance equipment.
- The additions of other assets in progress in the amount of Euro 37,011,066, refers essentially to equipment for the future NEO fleet in the amount of Euro 31,465,316.
- Disposals of other assets in progress amounting to Euro 27,237,795 relate mainly to equipment acquired initially by the Company for incorporation in the new aircraft included in the Purchase Agreement with Airbus, which were sold to the manufacturer at the acquisition cost.
- The increase verified in the item "Advances to suppliers of tangible assets" in the amount of Euro 42,366,558 refers to: (i) predelivery payments for the future acquisition of aircraft in the amount of Euro 25,690,457; (ii) advances to suppliers related investment projects in medium and long-haul fleet equipment in the amount of Euro 13,170,404 and (iii) advances made for the acquisition of a engines in the amount of Euro 3,505,697.
- The amount of Euro 126,301,735 of regularisation, transfer and write-off in the item "Advances to suppliers of tangible assets" refers, mainly, to the transfer of the Company's contractual position in relation to predelivery payments of 12 aircraft to the lessors in the amount of Euro 122,674,687.

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

- The additions of basic equipment in the amount of Euro 67,335,993, essentially refer to: (i) investment projects in fleet equipment, namely cabin modification (Cabin Retrofit), in the amount of Euro 28,942,212 and the amount of Euro 2,443,971 related to the life extension of A319/A320/A321 fleet (Extended Service Goal—ESG) and (ii) capitalization of maintenance costs of own aircraft or under finance lease in the amount of Euro 28,619,333.
- Basic equipment disposals, in the net amount of Euro 162,795,817, are mainly related to disposal of five aircraft A330, resulting from a sale and leaseback operation, having originated a net gain of Euro 17.856,440 (Note 26).
- Transfers and write-offs of basic equipment refer, essentially, to the write-off of spare parts as scrap and other miscellaneous maintenance equipment.
- The additions of other assets in progress, in the amount of Euro 32,351,385, refers essentially to: (i) equipment for the future aircraft NEO A330/A320F, in the amount of Euro 19,764,969; (ii) project of the cabins modification (Cabin Retrofit), in the amount of Euro 5,335,804 and (iii) capitalization of maintenance cost of own aircraft or under finance lease in the amount of Euro 4,796,686.
- The increase recorded in the heading "Advances to suppliers of tangible fixed assets", of Euro 126,557,857, refers, essentially, to the pre delivery payments made for future aircraft acquisition.
- The disposals, regularization and write-offs in "Advances to suppliers of tangible assets", of Euro 112,499,495 includes the amount of Euro 107,541,050 related to: (i) transfer of the responsibility on the predelivery payments of 8 aircraft to lessors (Euro 97,491,239) and (ii) modification of the equipment type of 2 aircraft (Euro 10,049,811), within the process of acquisition of the new fleet,

**6 Tangible fixed assets (Continued)**

through credit granted by Airbus. As at 31 December 2017 there is an amount of Euro 5,062,512 thousand to be used, which is recorded under "Other receivables" (Note 12), and will be used in future predelivery payments.

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

As at 31 December 2018 and 2017, the heading "Basic equipment" is detailed, as follows:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Carrying amount | Acquisition cost | Accumulated depreciation | Carrying amount |
| Flight equipment | | | | | | |
| Aircraft | 605,358,303 | (526,441,146) | 78,917,157 | 467,678,451 | (399,309,143) | 68,369,308 |
| Spare engines | 11,483,714 | (7,811,898) | 3,671,816 | 11,116,927 | (7,373,149) | 3,743,778 |
| Spare parts | 109,178,704 | (76,666,174) | 32,512,530 | 103,500,923 | (76,627,379) | 26,873,544 |
| | 726,020,721 | (610,919,218) | 115,101,503 | 582,296,301 | (483,309,671) | 98,986,630 |
| Flight equipment under financial leases | | | | | | |
| Aircraft | 538,555,849 | (446,427,835) | 92,128,014 | 626,145,590 | (522,563,808) | 103,581,782 |
| Reserve reactors | 33,907,632 | (524,284) | 33,383,348 | — | — | — |
| | 572,463,481 | (446,952,119) | 125,511,362 | 626,145,590 | (522,563,808) | 103,581,782 |
| Machinery and equipment | 82,401,949 | (67,789,756) | 14,612,193 | 80,369,880 | (66,531,461) | 13,838,419 |
| | **1,380,886,151** | **(1,125,661,093)** | **255,225,058** | **1,288,811,771** | **(1,072,404,941)** | **216,406,830** |

As at 31 December 2018 and 2017, the aircraft fleet operated by the Company is detailed, as follows:

| | 2018 | | | | | 2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Owned by TAP Group | Finance leases | Operating leases | ACMI | Total | Owned by TAP Group | Finance leases | Operating leases | ACMI | Total |
| Airbus A340 | 4 | — | — | — | **4** | 4 | — | — | — | **4** |
| Airbus A330 | 3 | — | 14 | — | **17** | — | 3 | 15 | — | **18** |
| Airbus A330 NEO | — | — | 3 | — | **3** | — | — | — | — | **—** |
| Airbus A319 | — | 9 | 12 | — | **21** | — | 9 | 12 | — | **21** |
| Airbus A320 | — | 5 | 16 | — | **21** | 1 | 4 | 15 | — | **20** |
| Airbus A320 NEO | — | — | 1 | — | **1** | — | — | — | — | **—** |
| Airbus A321 | — | 2 | 2 | — | **4** | — | 2 | 2 | — | **4** |
| Airbus A321 NEO | — | — | 4 | — | **4** | — | — | — | — | **—** |
| Embraer 190 | — | — | — | 9 | **9** | — | — | — | 9 | **9** |
| Embraer 195 | — | — | — | 4 | **4** | — | — | — | 4 | **4** |
| ATR 72 | — | — | — | 8 | **8** | — | — | — | 8 | **8** |
| | **7** | **16** | **52** | **21** | **96** | **5** | **18** | **44** | **21** | **88** |

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

- Phase-in of the first four aircraft of the NEO fleet contracted previously with Airbus, two A321 NEO and two A330 NEO. Should be noted that one of the Airbus A330 started its operation in 2019;
- Phase-in of four placement aircraft (one A320 NEO, two A321 NEO and one A330 NEO). Should be noted that one of the Airbus A330 started its operation in 2019;
- Phase-in of two Aigle Azur aircraft, one A319 and one A320;
- Phase-out of one aircraft A319 in November 2018;
- Phase-out of one aircraft A330 in June 2018; and
- Maturity of 3 A330 financial leases, becoming TAP property.

**7 Investment properties**

As at 31 December 2017 the caption "Investment properties" refers to a property in Maputo (Mozambique).

During 2018, two properties were transferred to this caption, one in Faro and another in Rome (Italy). The last property was sold in the second half of 2018.

During the year ended 31 December 2018 and 2017, the movements recorded in investment properties were as follows:

| | 2018 | 2017 |
|---|---|---|
| **Opening Value** | **883,849** | **1,005,597** |
| Transfers | 110,111 | — |
| Disposals | (361,000) | — |
| Fair value adjustments (Notes 26 and 30) | 1,292,804 | (121,748) |
| **Closing Balance** | **1,925,764** | **883,849** |

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

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

**8 Intangible assets**

During 2018 and 2017, changes in intangible assets were as follows:

| | Industrial property and other rights | Computer programmes | Assets in progress | Advances to suppliers of in tangible assets | Total |
|---|---|---|---|---|---|
| **Acquisition cost** | | | | | |
| **Balance as at 1 January 2017** | **11,951,704** | **1,460,402** | **—** | **—** | **13,412,106** |
| Acquisitions | — | 421,032 | 1,484,968 | — | 1,906,000 |
| Regularisation, transfer and write-off | — | — | — | — | — |
| **Balance as at 31 December 2017** | **11,951,704** | **1,881,434** | **1,484,968** | **—** | **15,318,106** |
| Acquisitions | — | 6,085,323 | 3,555,255 | 1,215,922 | **10,856,500** |
| Regularisation, transfer and write-off | — | 380,060 | (380,060) | — | — |
| **Balance as at 31 December 2018** | **11,951,704** | **8,346,817** | **4,660,163** | **1,215,922** | **26,174,606** |
| **Accumulated amort. and impairment losses** | | | | | |
| **Balance as at 1 January 2017** | **(11,951,704)** | **(181,933)** | **—** | **—** | **(12,133,637)** |
| Amortisations and impairment losses (Note 33) | — | (303,337) | — | — | (303,337) |
| **Balance as at 31 December 2017** | **(11,951,704)** | **(485,270)** | **—** | **—** | **(12,436,974)** |
| Amortisations and impairment losses (Note 33) | — | (2,492,247) | — | — | (2,492,247) |
| **Balance as at 31 December 2018** | **(11,951,704)** | **(2,977,517)** | **—** | **—** | **(14,929,221)** |
| **Carrying amount as at 31 December 2017** | **—** | **1,396,164** | **1,484,968** | **—** | **2,881,132** |
| **Carrying amount as at 31 December 2018** | **—** | **5,369,300** | **4,660,163** | **1,215,922** | **11,245,385** |

The acquisitions during the year of 2018, amounting to Euro 10,856,500, mainly concern the "Apolo" crew management system in the amount of Euro 7,503,942.

## 9 Investments in associates

As at 31 December 2018 and 2017, the assets recognised in this caption are detailed as follows:

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

| | 2017 | | | |
|---|---|---|---|---|
| | % Owned | Opening Balance | Increases/ Decreases | Closing Balance |
| IC TAP Limited | 100% | 143,592 | — | 143,592 |
| IC SAFIT Limited | 20% | 28,718 | — | 28,718 |
| | | **172,310** | **—** | **172,310** |

## 10 Other financial assets

As at 31 December 2018 and 2017, the caption "Other financial assets" details as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Current | Non-Current | Current | Non-Current |
| Angola's treasury bonds | 13,224,721 | — | 34,852,859 | 45,959,516 |
| Bank deposits in Guinea Bissau | — | 1,727,665 | — | 1,683,005 |
| SITA Group Foundation | — | 455,915 | — | 455,915 |
| Other | — | 39,684 | — | 39,684 |
| | **13,224,721** | **2,223,264** | **34,852,859** | **48,138,120** |
| Impairment losses | — | (1,742,224) | — | (1,697,564) |
| | **13,224,721** | **481,040** | **34,852,859** | **46,440,556** |

During 2016, Angola's Treasury bonds were subscribed for a total amount of Kwanza 6,899,934 thousand (Euro 34,853 thousand), corresponding to the original exchange rate of 165,074 kwanzas per dollar. These bonds were partially sold during 2018 (Kwanzas 3,347,292 thousand), and the remaining was repaid on the maturity date (6 December 2018).

During 2017, it were subscribed Angola's Treasury bonds in the total amount of Kwanza 9,099,958 thousand (Euro 45,960 thousand), corresponding to the original exchange rate of 165,095 kwanzas per dollar (subscription of Kwanza 6,599,993 thousand) and 165,098 kwanzas per dollar (subscription of Kwanza 2,499,965 thousand), with a maturity date of 19 February 2019 and 5 December 2019, respectively, being also indexed to the US dollar. In 2018, some of the referred bonds were sold in the amount corresponding to Kwanzas 4,641,672 thousand (Euro 24,555 thousand) which had as maturity date 19 February 2019.

During 2018, Angola's Treasury bonds were subscribed in the total amount of Kwanza 2,000,032 thousand (Euro 7,533 thousand), corresponding to the original exchange rate of 214,829 kwanzas per dollar with a maturity date of 12 April 2021 being indexed to the US dollar. However, these bonds were fully sold between April and May 2018.

In November 2018, the "Angola's Treasury Bonds" with maturity of less than 3 months in the amount of Kwanzas 1,958,321 thousand (Euro 10,336 thousand) were transferred to the caption Cash and cash equivalents, which amount to Euro 10,360 thousand as at 31 December 2018 (Note 16).

**10 Other financial assets (Continued)**

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

The movement verified in this caption in 2018 and 2017 is as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Current | Non-Current | Current | Non-Current |
| **As at 1 January** | 34,852,859 | 46,440,556 | — | 40,195,444 |
| Increases | 7,497,818 | — | | 47,272,685 |
| Decreases | (66,543,254) | — | — | (60,639) |
| Transfers | 47,272,685 | (47,272,685) | 39,653,765 | (39,653,765) |
| Currency translation differences | 480,690 | 1,313,169 | (4,800,906) | (1,313,169) |
| Other movements | (10,336,077) | — | — | — |
| **As at 31 December** | **13,224,721** | **481,040** | **34,852,859** | **46,440,556** |

The movement in impairment of other financial assets in 2018 and 2017 is as follows:

| | 2018 | 2017 |
|---|---|---|
| **As at 1 January** | 1,697,564 | 1,827,285 |
| Currency translation differences | 44,660 | (129,721) |
| **As at 31 December** | **1,742,224** | **1,697,564** |

**11 Deferred tax assets and liabilities**

As mentioned in Note 1.20, the Company recorded deferred taxes related to the temporary differences between assets and liabilities for tax and accounting purposes, as well as existing tax losses carried forward as at the date of the statement of financial position.

The TAP, S.A believes that the deferred tax assets recognised in the statement of financial position are recoverable, both through their use in reducing future taxable profits, based on the net income of TAP S.A. budgeted for 2019 on net income projections for subsequent years, adjusted by differences between the accounting and tax results, and through the reversal of deferred tax liabilities.

As at 31 December 2018 and 2017 the tax rate used to calculate the deferred tax assets relating to tax losses carried forward was 21%. In the case of temporary differences, the rate used was 29.5%, when it was deemed that the taxation of temporary differences in the estimated period of application of the aforesaid rate was probable.

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

**11 Deferred tax assets and liabilities (Continued)**

The main temporary differences between accounting and taxable amounts as at 31 December 2018 and 2017, the corresponding deferred tax assets and liabilities and the respective effect on the results for 2018 and 2017 are as follows:

| | 2018 | | | |
|---|---|---|---|---|
| | Opening balance | Effect in results (Note 35) | Effect in other comprehensive income | Closing balance |
| **Deferred tax assets** | | | | |
| Tax losses carried forward | 20,750,265 | 16,413,063 | — | 37,163,328 |
| Post-employment benefits obligations | 16,323,829 | 4,097,132 | 5,011,801 | 25,432,762 |
| Impairment losses in inventories | 8,318,398 | (1,486,514) | — | 6,831,884 |
| Impairment losses of receivables | 6,872,114 | 148,261 | — | 7,020,375 |
| Tax benefits | — | 442,275 | — | 442,275 |
| Other provisions and adjustments not accepted for tax purposes | 133,103 | (10,154) | — | 122,949 |
| Impairment losses in fixed assets | 471,288 | 1,365,740 | — | 1,837,028 |
| Derivative financial instruments (Note 25) | — | — | 12,190,104 | 12,190,104 |
| | **52,868,997** | **20,969,803** | **17,201,905** | **91,040,705** |
| **Deferred tax liabilities** | | | | |
| Revaluation of tangible fixed assets | 19,691,715 | (931,536) | — | 18,760,179 |
| | **19,691,715** | **(931,536)** | **—** | **18,760,179** |
| | | **21,901,339** | **17,201,905** | |

| | 2017 | | | |
|---|---|---|---|---|
| | Opening balance | Effect in results (Note 35) | Effect in other comprehensive income | Closing balance |
| **Deferred tax assets** | | | | |
| Tax losses carried forward | 35,461,077 | (14,710,812) | — | 20,750,265 |
| Post-employment benefits obligations | 15,153,031 | (890,217) | 2,061,015 | 16,323,829 |
| Impairment losses in inventories | 7,665,788 | 652,610 | — | 8,318,398 |
| Impairment losses of receivables | 6,796,990 | 75,124 | — | 6,872,114 |
| Tax benefits | 136,302 | (136,302) | — | — |
| Other provisions and adjustments not accepted for tax purposes | 127,476 | 5,627 | — | 133,103 |
| Impairment losses in fixed assets | — | 471,288 | — | 471,288 |
| Derivative financial instruments (Note 25) | 174,858 | — | (174,858) | — |
| | **65,515,522** | **(14,532,682)** | **1,886,157** | **52,868,997** |
| **Deferred tax liabilities** | | | | |
| Revaluation of tangible fixed assets | 19,129,277 | 562,438 | — | 19,691,715 |
| | **19,129,277** | **562,438** | **—** | **19,691,715** |
| | | **(15,095,120)** | **1,886,157** | |

- **Tax losses carried forward**

Under the terms of current tax legislation in Portugal, tax losses generated in 2014 and 2015 can be carried forward for a period of twelve years after their occurrence, and the tax losses of 2018 can be reported for a periord of five years after their occurance, and susceptible to deduction against tax profits generated during that period, until the limit of 70% of taxable income.

### 11 Deferred tax assets and liabilities (Continued)

The Company considers that part of the tax losses carryforward are recoverable through its use in reducing future taxable income, and as such, recorded the corresponding deferred tax asset. It should be noted that, despite the Company having exercised its legitimate right of challenge, no deferred tax assets were recorded related to the tax losses carried forward resulting from the securitization operation in the years 2014 and 2015 amounting to Euro 99 million, currently under discussion in a tax court.

The tax losses carried forward as of 31 December 2018 are detailed as follows:

| Year | Tax losses 31 December 2018 | Deduction year deadline |
|---|---|---|
| 2014 | 31,071,827 | 2026 |
| 2015 | 169,238,722 | 2027 |
| 2018 (estimative) | 79,971,030 | 2023 |
| | **280,281,579** | |

### 12 Other receivables

As at 31 December 2018 and 2017, the breakdown of other receivables is as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Current | current | Current | Non-current |
| Customers | 230,470,984 | — | 340,599,646 | — |
| Security deposits of lease contracts (Note 21) | 6,030,928 | 53,749,191 | — | 45,635,232 |
| Accrued income | 24,861,437 | — | 9,193,571 | — |
| Advances to suppliers | 35,761,944 | — | 38,232,424 | — |
| Other debtors | 922,878,956 | 7,387,687 | 869,656,552 | 7,069,680 |
| | **1,220,004,249** | **61,136,878** | **1,257,682,193** | **52,704,912** |
| Receivables impairment losses | (65,382,983) | — | (64,314,235) | — |
| | **1,154,621,266** | **61,136,878** | **1,193,367,958** | **52,704,912** |

For the years presented there are no differences between the carrying amount and fair value.

- **Customers**

As at 31 December 2018 and 2017, the caption "Customers" is detailed as follows:

| | 2018 | 2017 |
|---|---|---|
| Private entities | 77,527,813 | 182,018,650 |
| Travel agency | 49,498,969 | 68,056,066 |
| Related parties (Note 39) | 19,922,448 | 15,999,800 |
| Airlines | 22,904,051 | 21,499,291 |
| Other | 7,644,151 | 568,569 |
| Doubtful customers | 52,973,552 | 52,457,270 |
| | **230,470,984** | **340,599,646** |
| Impairment | (61,191,973) | (60,115,301) |
| | **169,279,011** | **280,484,345** |

The decrease in the balance of customers is mainly due to the impact of the anticipation of installment receivables of credit cards in Brazil, without recourse, in the amount of Euro 66,381 thousand, which occurred in December 2018.

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

**12 Other receivables (Continued)**

- **Security deposits of lease contracts**

The security deposits are constituted under the operating lease contracts for aircraft and engines, and will be returned, without interests, when the aircraft and engines are returned to their lessors. The increase verified is related to the security deposits associated with the new operating lease contracts carried out in 2018 for aircraft and engines that entered into the operation in the current year, and for those that will phase-in in the future.

- **Accrued income**

As at 31 December 2018 and 2017, the amount recorded under the caption "Accrued income" is detailed as follows:

| | 2018 | 2017 |
|---|---|---|
| Work for aviation companies | 9,893,975 | 2,871,647 |
| Airport facilities—incentives | 3,796,633 | — |
| Related parties (Note 39) | 8,542,029 | 208,177 |
| Fuel | — | 3,200,936 |
| Other | 2,628,800 | 2,912,811 |
| | **24,861,437** | **9,193,571** |

The caption "work for aviation companies" corresponds to customer contract assets, as provided by IFRS 15.

As at 31 December 2017, the caption fuel is composed by the effective gains of derivative financial instruments ended on 31 December 2017, which was received in early 2018.

- **Advances to suppliers**

As at 31 December 2018 and 2017, the caption "Advances to suppliers" is detailed as follows:

| | 2018 | 2017 |
|---|---|---|
| Related Parties (Note 39) | 20,371,710 | 20,855,702 |
| Other | 15,390,234 | 17,376,722 |
| | **35,761,944** | **38,232,424** |

- **Other debtors**

As at 31 December 2018 and 2017, the caption "Other debtors" is detailed as follows:

| | 2018 | 2017 |
|---|---|---|
| Related parties (Note 39) | 819,729,783 | 818,280,646 |
| Advances related to lease contracts | 45,366,677 | — |
| Suppliers receivables | 16,357,029 | 6,691,931 |
| Employees | 12,674,574 | 11,433,117 |
| Interline and other invoicing | 8,828,410 | 10,924,277 |
| Doubtful accounts | 4,191,009 | 4,198,934 |
| Deposits and guarantees | 2,126,622 | 1,719,062 |
| Representations VAT | 2,285,775 | 2,460,567 |
| Airbus (Note 6) | — | 5,062,512 |
| Other | 11,319,077 | 8,885,506 |
| | **922,878,956** | **869,656,552** |
| Impairment | (4,191,010) | (4,198,934) |
| | **918,687,946** | **865,457,618** |

**12 Other receivables (Continued)**

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

- **Impairment losses on receivables**

The movement in receivables impairment losses in 2018 and 2017 is as follows:

| | 2018 | 2017 |
|---|---|---|
| **Opening balance as at 1 January** | 64,314,235 | 67,408,327 |
| Increases (Note 29) | 2,422,962 | 3,305,464 |
| Reversals (Note 29) | (1,350,689) | (2,225,593) |
| Utilisation | (3,525) | (4,173,963) |
| **Closing balance as at 31 December** | **65,382,983** | **64,314,235** |

**13 Inventories**

As at 31 December 2018 and 2017, the detail of the inventories is as follows:

| | 2018 | 2017 |
|---|---|---|
| Raw material, inputs and consumables | 87,103,493 | 78,525,239 |
| Inventory impairment losses | (23,158,930) | (28,197,961) |
| | **63,944,563** | **50,327,278** |

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

During 2018, the inventories sold and consumed were recognised in the captions aircraft maintenance costs and cost of materials consumed in the income statement in the amount of Euro 63,471,139 and Euro 139,407,195, respectively (2017: Euro 58,600,825 and Euro 77,013,496, respectively) (Note 27).

The movement of Inventory impairment losses in 2018 and 2017 is as follows:

| | 2018 | 2017 |
|---|---|---|
| **Opening balance as at 1 January** | 28,197,961 | 27,875,592 |
| Increases (Note 29) | 1,402,836 | 450,918 |
| Decreases (Note 29) | (499,964) | (39,439) |
| Utilisation | (5,941,903) | (89,110) |
| **Closing balance as at 31 December** | **23,158,930** | **28,197,961** |

The utilisation of inventory impairment losses results from the disposal of several items, which were obsolete and fully provisioned, in the amount of Euro 289 thousand.

**14 Income tax receivable/ payable**

Since 2017, the Company started to be taxed through the Special Taxation Regime for Groups of Companies ("RETGS"), being the tax result determined in TAP SGPS. However, the Company's income tax estimate is recorded based on its taxable income.

**14 Income tax receivable/ payable (Continued)**

For the years ended 31 December 2018 and 2017 the balance relating income tax receivable or payable is detailed as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Current assets | Current liabilities | Current assets | Current liabilities |
| **RETGS: Related Parties (Note 39)** | | | | |
| Payments on account | 7,889,280 | — | — | 928,718 |
| Withholding taxes | 639,653 | — | — | 3,059,552 |
| Current income tax (Note 35) | (199,289) | — | — | (16,944,284) |
| | **8,329,644** | **—** | **—** | **(12,956,014)** |
| **State and Other Public Entities** | | | | |
| Other | — | (19,326) | 1,391,197 | — |
| | **—** | **(19,326)** | **1,391,197** | **—** |
| | **8,329,644** | **(19,326)** | **1,391,197** | **(12,956,014)** |

**15 Other current assets**

Other current assets as of 31 December 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Deferred expenses | 47,472,655 | 15,986,117 |
| State | 4,630,040 | 7,281,890 |
| | **53,880,204** | **23,268,007** |

- **Deferred expenses**

As of 31 December 2018 and 2017, deferred expenses details as follows:

| | 2018 | 2017 |
|---|---|---|
| Aircrafts and engines leases | 34,227,664 | 10,420,265 |
| Other rents | 4,310,856 | 1,027,479 |
| Commissions | 1,871,632 | 2,753,123 |
| Related Parties (Note 39) | 4,696,968 | — |
| Other | 2,365,535 | 1,785,250 |
| | **47,472,655** | **15,986,117** |

The increase in deferred expenses, related to the aircraft and engines leases is due to the increase in the number of aircraft under operating leases.

Additionally, this caption includes the amount of Euro 5,335,963 related to initial expenses with aircraft leases corresponds to expenses incurred with contracts already signed for the leasing of aircraft, which are not yet in operation.

The commissions refer to amounts paid to agents for tickets sold, but not yet flown and not expired, until 31 December 2018 and 2017.

**15 Other current assets (Continued)**

- **State**

For the years ended 31 December 2018 and 2017, the balance of this caption is detailed as follows:

| | 2018 | 2017 |
|---|---|---|
| VAT | 3,918,899 | 6,859,575 |
| Other | 711,141 | 422,315 |
| | **4,630,040** | **7,281,890** |

As at 31 December 2018, the outstanding balance of the VAT refers to requests for reimbursements, not yet received, for the months of November and December 2018.

**16 Cash and cash equivalents**

As at 31 December 2018 and 2017, the detail of cash and cash equivalents is as follows:

| | 2018 | 2017 |
|---|---|---|
| Bank deposits available on demand | 54,940,178 | 52,876,555 |
| Term deposits | 158,227,412 | 103,907,848 |
| Other deposits | 10,488,153 | 133,011 |
| Cash | 58,850 | 93,548 |
| **Cash and cash equivalent in the statement of financial position** | **223,714,593** | **157,010,962** |
| **Restricted cash** | **—** | **82,818** |
| Other deposits | (10,359,638) | — |
| **Cash and cash equivalents in the cash flow statement** | **213,354,955** | **157,093,780** |

The amount of other deposits corresponds essentially to "Treasury Bonds of Angola", which have a maturity of less than 3 months in the amount of Euro 10,359,638 (Note 10).

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

**Restricted cash**

During 2018 and 2017 financial years, the continued deterioration of Venezuela's economic situation led to a significant depreciation of the SIMADI rate. Although the difficulties of repatriation of the retained holdings in Venezuela remain, given the fact that cash and cash equivalents are being consumed to cover local expenses and the immateriality of the amount, it has been reclassified as at 31 December 2018 to the caption "Cash and cash equivalents" in the amount of Euro 14,205.

**17 Share Capital**

As at 31 December 2018 and 2017, the share capital of TAP S.A. was fully underwritten and paid up, represented by 8,300,000 shares with a nominal value of Euro 5, fully owned by TAP—Transportes Aéreos Portugueses, SGPS, S.A..

**18 Supplementary capital contributions and reserves**

**Supplementary capital contributions**

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

**18 Supplementary capital contributions and reserves (Continued)**

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

**Reserves**

- **Legal reserve**

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

This reserve cannot be distributed, except in the case of the Company's liquidation, but can be incorporated into the share capital or used to absorb losses after all other reserves have been depleted.

As at 31 December 2018 and 2017, the legal reserve was fully constituted in accordance with the commercial legislation in force.

- **Hedge reserves**

As at 31 December 2018, the negative amount of Euro 29,132,283, presented under the heading "Hedge reserves", corresponds to the fair value of the financial instruments classified as hedging accounting (Euro 41,322,387), accounted for in accordance with the policy described in Note 1.11., net of tax, in the amount of Euro 12,190,104 (Notes 11 and 25). As at 31 December 2017, there were no outstanding derivative financial instruments.

- **Other reserves**

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

**Retained earnings**

In accordance with the resolution of the General Shareholders' meeting held on 9 May 2018, it was deliberated to apply the 2017 net income in the distribution of dividends in the amount of Euro 30,000,000 and transfer of Euro 70,411,383 to retained earnings.

**19 Post-employment benefits obligations**

As mentioned in Note 1.21., TAP S.A. is responsible for the payment of post-employment benefits to retired, early retired and still in active employees.

- **Complements of retirement pensions and early retirement benefits (VIVA)**

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

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

In addition, the Company 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 Labor Agreement with the Civil Aviation Pilots Union (SPAC) was amended, with the following main changes:

- Pilots recruited before 31 May 2007: the pension plan includes the seniority bonus guaranteed by the State (of 15% or 10%, according to the starting date of the contributory career) and the possibility of

**19 Post-employment benefits obligations (Continued)**

an additional bonus (up to 25% or 30%) as an option for the beneficiary upon retirement (this additional bonus of up to 25% will be paid by the Company);

- Pilots recruited as of 1 June 2007: the pension plan consists of a defined contribution scheme of 7.5% of the base remuneration effectively earned (14 times a year), of which 80% is paid by the Company. 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 Company has recorded all its liabilities related to past services for the payment of pension supplements and early retirement benefits relative to the defined benefit plan.

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

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

- **Retirement bonus—PNT**

The Company Agreement concluded between TAP S.A. and SPAC establishes that the Company 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 the Company on behalf of the pilots. The main conditions of the collective retirement policy agreed with the insurance company, describing this Retirement Benefits Plan for Pilots, are as follows:

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

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

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

- Pilots recruited before 31 May 2007: the one-off seniority bonus is maintained, but shall only be paid if, on the retirement date, the person is entitled to the full pension, with the possibility of increasing the capital for every additional year of service after the full pension age has been reached;
- Pilots recruited as of 1 June 2007: there is no entitlement to seniority bonus.

**19 Post-employment benefits obligations (Continued)**

- **Health care**

The Company ensures that both pre-retired and early-retired employees, below the age of 65, are provided with a health care plan providing access to medical care at reduced prices. In addition, the Company provides its retired employees with access to medical services of 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 the Company.

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

**Assumptions used in the assessment of liabilities**

The Company's liabilities were determined by actuarial studies, reported as of 31 December 2018 and 2017, prepared by independent entities, using the "Projected Credit Unit Method" and essentially using the following financial and demographic assumptions:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Portugal VIVA | Portugal Jubileu | Portugal VIVA | Portugal Jubileu |
| Mortality table | TV 88/90 | TV 88/90 | TV 88/90 | TV 88/90 |
| Invalidity table | EKV1980 | EKV1980 | EKV1980 | EKV1980 |
| Discount rate | 2.00% | 2.00% | 2.00% | 2.00% |
| Fund yield rate | 2.00% | 2.00% | 2.00% | 2.00% |
| Growth rate | | | | |
| Wages | [1,5% – 5%] | 2.00% | 1.50% | 1.50% |
| Pensions | 1.00% | 1.00% | 1.00% | 1.00% |
| Trend of medical costs | 1.50% | — | 1.50% | — |
| Regular retirement age | 66 | 65 | 65 | 65 |

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

Net liabilities for 2018 and 2017 are detailed as follows:

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

### 19 Post-employment benefits obligations (Continued)

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | VIVA Fund | VIVA Pensions | Medical Acts | Jubileu Bonus | England Representation | Total |
| Liabilities from past services | | | | | | |
| —Active employees | 239,658 | 1,655,514 | — | 70,210,638 | — | 72,105,810 |
| —Early retirement | 60,154 | 344,866 | 19,214 | — | — | 424,234 |
| —Retired | 10,292,051 | 33,020,465 | 2,753,887 | — | 17,058,710 | 63,125,113 |
| Fair value of the fund | (16,398,887) | — | — | (48,296,222) | (15,625,035) | (80,320,144) |
| **Defit/(surplus)** | **(5,807,024)** | **35,020,845** | **2,773,101** | **21,914,416** | **1,433,675** | **55,335,013** |

At 31 December 2018, the Company's defined benefit plans in Portugal (excluding the England Representation) comprised 1,883 active beneficiaries (2017: 1,973), 72 early retired employees (2017: 1) and 614 retired employees with pension complement (2017: 646).

As at 31 December 2018 and 2017, the average maturity of the liabilities for the defined benefit plans "VIVA" is 10 and 12 years, respectively, and for the "Jubileu Bonus" plan is 12 years.

According to the actuarial study carried out by an independent entity, the best estimate of contributions to the pension benefit plans, for the following financial year, is about Euro 6 million.

**Sensitivity analysis**

- **Annual discount rate**

The increase (decrease) of 0.25% in the annual discount rate of the defined benefit plans "VIVA Pensions" and "Jubileu Bonus" would correspond to an impact on the Company's liabilities as at 31 December 2018 and 2017 as follows:

| 2018 | Rate | VIVA Plan* | Jubileu Bonus |
|---|---|---|---|
| **Annual discount rate of pensions** | 2.00% | 61,987,497 | 83,939,828 |
| 0,25% increase in the discount rate | 2.25% | 60,911,890 | 80,916,095 |
| 0,25% decrease in the discount rate | 1.75% | 63,102,227 | 87,107,688 |

* Includes "VIVA Pensions" and "VIVA Fund"

| 2017 | Taxa | Plano VIVA* | Jubileu Bonus |
|---|---|---|---|
| **Annual discount rate of pensions** | 2.00% | 45,612,708 | 70,210,638 |
| 0,25% increase in the discount rate | 2.25% | 44,663,885 | 67,693,018 |
| 0,25% decrease in the discount rate | 1.75% | 46,598,951 | 72,848,728 |

* Includes "VIVA Pensions" and "VIVA Fund"

- **Growth rate of medical costs**

If the growth rate of medical care costs increases or decreases by one percentage point, the respective impact on TAP S.A.'s liabilities as at 31 December 2018 and 2017 is as follows:

| | Rate | 2018 | 2017 |
|---|---|---|---|
| **Annual growth rate of medical costs** | 1.50% | 3,036,709 | 2,773,101 |
| 1% increase in the growth rate of medical costs | 2.50% | 3,264,603 | 3,001,103 |
| 1% decrease in the growth rate of medical costs | 0.50% | 2,833,677 | 2,570,747 |

**19 Post-employment benefits obligations (Continued)**

**Evolution of liabilities from past services**

The movement of the liabilities from past services, reflected in the statement of financial position, as at 31 December 2018 and 2017, is as follows:

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | VIVA Fund | VIVA Pensions | Medical Acts | Jubileu Bonus | England Representation | Total |
| Liabilities at the beginning of the year | 10,591,863 | 35,020,845 | 2,773,101 | 70,210,638 | 17,058,710 | 135,655,157 |
| Currency translation differences | — | — | — | — | (456,065) | (456,065) |
| Values recorded through profit or loss for the year: | | | | | | |
| Current services | 21,891 | — | — | 4,437,586 | — | 4,459,477 |
| Net interest | 211,837 | 700,417 | 55,461 | 1,535,840 | 316,854 | 2,820,409 |
| Reestructuring—early retairment (Note 31) | — | 17,305,876 | — | — | — | 17,305,876 |
| Remeasurements | 867,369 | 1,967,522 | 208,147 | 13,822,725 | — | 16,865,763 |
| Benefits paid | (737,135) | (3,962,988) | — | (6,066,961) | — | (10,767,084) |
| **Liabilities at the end of the year** | **10,955,825** | **51,031,672** | **3,036,709** | **83,939,828** | **16,919,499** | **165,883,533** |

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | VIVA Fund | VIVA Pensions | Medical Acts | Jubileu Bonus | England Representation | Total |
| Liabilities at the beginning of the year | 10,378,927 | 38,104,074 | 2,940,532 | 67,776,644 | 16,133,290 | 135,333,467 |
| Currency translation differences | — | — | — | — | (602,248) | (602,248) |
| Values recorded through profit or loss for the year: | | | | | | |
| Current services | 31,214 | — | — | 3,740,374 | — | 3,771,588 |
| Net interest | 207,552 | 762,083 | 58,811 | 1,363,859 | 934,237 | 3,326,542 |
| Remeasurements | 721,796 | (259,022) | (226,242) | 3,091,965 | 1,778,315 | 5,106,812 |
| Benefits paid | (747,626) | (3,586,290) | — | (5,762,204) | (1,184,884) | (11,281,004) |
| **Liabilities at the end of the year** | **10,591,863** | **35,020,845** | **2,773,101** | **70,210,638** | **17,058,710** | **135,655,157** |

**19 Post-employment benefits obligations (Continued)**

**Evolution of funds allocated to pensions benefit schemes**

In the 2018 and 2017 financial years, the fund assets evolution is as follows:

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

| | 2017 | | | |
|---|---|---|---|---|
| | VIVA Fund | Jubileu Bonus | England Representation | Total |
| Opening balance | 16,280,096 | 49,144,977 | 14,806,466 | 80,231,539 |
| Contributions in the year | — | 4,200,000 | 222,897 | 4,422,897 |
| Net interest | 866,444 | 982,900 | 2,297,213 | 4,146,557 |
| Benefits paid | (747,653) | (5,762,204) | (1,184,884) | (7,694,741) |
| Remeasurements | — | (269,451) | — | (269,451) |
| Currency translation differences | — | — | (516,657) | (516,657) |
| **Closing Balance** | **16,398,887** | **48,296,222** | **15,625,035** | **80,320,144** |

The composition of the funds and its category as at 31 December 2018 and 2017 is as follows:

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

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Fair value level | VIVA Fund | Jubileu Bonus | England Representation | Total |
| Shares | 1 | 5,514,150 | — | 13,730,375 | 19,244,525 |
| Bonds | 1 | 5,854,344 | 47,909,852 | 1,680,511 | 55,444,707 |
| Public debt | 1 | 4,017,956 | — | — | 4,017,956 |
| Real estate | 2 | 483,269 | 309,096 | — | 792,365 |
| Liquidity | 1 | 529,168 | 77,274 | — | 606,442 |
| Other current investments | 1 | — | — | 214,149 | 214,149 |
| | | **16,398,887** | **48,296,222** | **15,625,035** | **80,320,144** |

## 19 Post-employment benefits obligations (Continued)

### Expenses related to pensions and other post-employment benefits

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

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | VIVA Fund | VIVA Pensions | Medical Acts | Jubileu Bonus | England Representation | Total |
| Current Services | 21,891 | — | — | 4,437,586 | — | 4,459,477 |
| Net interest | 643,124 | 700,417 | 55,461 | 569,916 | 316,854 | 2,285,772 |
| | **665,015** | **700,417** | **55,461** | **5,007,502** | **316,854** | **6,745,249** |
| Reestructuring—early retairment (Note 31) | — | 17,305,876 | — | — | — | 17,305,876 |
| | **665,015** | **18,006,293** | **55,461** | **5,007,502** | **316,854** | **24,051,125** |

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | VIVA Fund | VIVA Pensions | Medical Acts | Jubileu Bonus | England Representation | Total |
| Current Services | 31,214 | — | — | 3,740,374 | — | 3,771,588 |
| Net interest | (658,892) | 762,083 | 58,811 | 380,959 | (1,362,976) | (820,015) |
| | **(627,678)** | **762,083** | **58,811** | **4,121,333** | **(1,362,976)** | **2,951,573** |

The pilots of the Company, admitted after 1 June 2007, benefit from a defined contribution plan. In 2018, a cost was recognised in the heading Employee costs—expenses related to post-employment benefits obligation" in the amount of Euro 1,818,426 (2017: Euro 1,569,276), relative to the contributions made during the year in favour of its employees (Note 28).

The expenses relative to pensions and other post-employment benefits are recorded under the caption "Employee costs" (Note 28).

### Remeasurement gains/losses

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

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

**19 Post-employment benefits obligations (Continued)**

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | VIVA Fund | VIVA Pensons | Medical Acts | Jubileu Bonus | England Representation | Total |
| **Remeasurements** | | | | | | |
| Return of assets, excluding amounts included in net income | — | — | — | 269,451 | — | 269,451 |
| | **—** | **—** | **—** | **269,451** | **—** | **269,451** |
| (Gains)/losses due to demographics | — | — | — | — | — | — |
| (Gains)/losses due to changes in financial assumptions | — | — | | — | — | — |
| (Gains)/losses due to experience | 721,796 | (259,022) | (226,242) | 3,091,965 | 1,778,315 | 5,106,812 |
| | **721,796** | **(259,022)** | **(226,242)** | **3,091,965** | **1,778,315** | **5,106,812** |
| **Total remeasurements** | **721,796** | **(259,022)** | **(226,242)** | **3,361,416** | **1,778,315** | **5,376,263** |

The actuarial gains / losses due to changes in financial assumptions recognised in 2018, amounting to Euro 12,819,605, result from the salary review and agreements established in 2018 with technical navigation personnel.

The remeasurement gains/losses were recognised directly in the Company's comprehensive income.

**20 Provisions**

During the 2018 and 2017 financial years, the following movements were recorded in the items of provisions:

| | Provision for legal claims | Other | Total |
|---|---|---|---|
| **1 January 2017** | **11,179,046** | **463,549** | **11,642,595** |
| Increases | — | — | — |
| Reversals | (2,407,494) | (12,352) | (2,419,846) |
| **31 December 2017** | **8,771,552** | **451,197** | **9,222,749** |
| Increases (Note 29) | 3,438,992 | 1,877,168 | 5,316,160 |
| Reversals (Note 29) | (255,166) | (34,420) | (289,586) |
| Utilisation | (157,500) | (1,877,168) | (2,034,668) |
| **31 December 2018** | **11,797,878** | **416,777** | **12,214,655** |

From these movements, resulted losses in the net amount of Euro 5,026,574 in 2018 and gains of Euro 2,419,846 in 2017, which were recorded in the caption Impairment losses in inventories, receivables ans provisions in the income statement (Note 29).

- **Provision for legal claims**

Provisions for legal claims are recognised in accordance with the Company's and its legal advisors risk assessments, based on historical success rates by type of legal action and probability of unfavourable outcomes for the Company. As at 31 December 2018, the existing provision, amounting to Euro 11,797,878, is intended to cover the risk of several legal proceedings against the Company, in Portugal and foreign countries.

The increase in the provision for legal claims in 2018 refers essentially to the increase of indemnity claims arising from operational irregularities in Brazil.

## 21 Borrowings

- **Current and non-current borrowings**

As of 31 December 2018 and 2017, the borrowings are detailed as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Current | Current | Current | Current |
| Bank loans | 150,628,347 | 498,485,039 | 7,500,000 | 579,113,386 |
| Interest accrued | 3,621,389 | — | 3,935,341 | — |
| Initial expenses | (3,952,807) | (4,811,843) | (3,218,499) | (6,775,613) |
| **Remunerated bank debt** | **150,296,929** | **493,673,196** | **8,216,842** | **572,337,773** |
| Leasing liabilities | 30,045,208 | 102,050,837 | 98,104,982 | 45,817,152 |
| Interest accrued | 562,988 | — | 441,603 | — |
| Initial expenses | (258,329) | (430,999) | (561,012) | (219,016) |
| **Finance leases** | **30,349,867** | **101,619,838** | **97,985,573** | **45,598,136** |
| **Total Borrowings** | **180,646,796** | **595,293,034** | **106,202,415** | **617,935,909** |

- **Net debt**

As of 31 December 2018 and 2017 net debt is detailed as follows:

| | 2018 | 2017 |
|---|---|---|
| **Borrowings** | | |
| Non-Current | 595,293,034 | 617,935,909 |
| Current | 180,646,796 | 106,202,415 |
| | **775,939,830** | **724,138,324** |
| **Cash and Cash Equivalents (Nota 16)** | | |
| Cash | 58,850 | 93,548 |
| Bank deposits available on demand | 54,940,178 | 52,876,555 |
| Other deposits | 168,715,565 | 104,040,859 |
| | **223,714,593** | **157,010,962** |
| **Net debt** | **552,225,237** | **567,127,362** |

- **Remunerated bank debt**

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

The remunerated bank loans (including interests accrued and inicial expenses), by maturity and type of interest rate, as at 31 December 2018 and 2017, are detailed as follows:

| | 2018 | 2017 |
|---|---|---|
| Up to 1 year | 150,296,929 | 8,216,842 |
| 1 to 2 years | 168,278,793 | 128,286,730 |
| 2 to 3 years | 147,356,452 | 135,338,254 |
| 3 to 4 years | 131,364,538 | 130,665,282 |
| 4 to 5 years | 9,455,222 | 131,374,093 |
| Over 5 years | 37,218,191 | 46,673,414 |
| | **643,970,125** | **580,554,615** |

**21 Borrowings (Continued)**

| | 2018 | 2017 |
|---|---|---|
| **Variable rate** | | |
| Up to 1 year | 142,201,343 | — |
| 1 to 2 years | 154,619,470 | 120,976,550 |
| 2 to 3 years | 139,070,304 | 121,678,931 |
| Over 3 years | 167,641,979 | 290,030,668 |
| | **603,533,096** | **532,686,149** |
| **Fixed rate** | | |
| Up to 1 year | 8,095,586 | 8,216,842 |
| 1 to 2 years | 13,659,323 | 7,310,180 |
| 2 to 3 years | 8,286,148 | 13,659,323 |
| Over 3 years | 10,395,972 | 18,682,121 |
| | **40,437,029** | **47,868,466** |
| | **643,970,125** | **580,554,615** |

As at 31 December 2018 and 2017, the currency of all remunerated bank debt is Euro.

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

- **Finance Leases**

The finance leases (including interests accrued and inicial expenses), by maturity and type of interest rate, at 31 December 2018 and 2017, are detailed as follows:

| | 2018 | 2017 |
|---|---|---|
| Up to 1 year | 30,349,867 | 97,985,573 |
| 1 to 2 years | 24,566,397 | 33,976,651 |
| 2 to 3 years | 12,862,853 | 11,621,485 |
| 3 to 4 years | 13,361,832 | — |
| 4 to 5 years | 13,879,617 | — |
| More than 5 years | 36,949,139 | — |
| | **131,969,705** | **143,583,709** |

| | 2018 | 2017 |
|---|---|---|
| **Variable rate** | | |
| Up to 1 year | 24,538,558 | 94,366,478 |
| 1 to 2 years | 18,479,660 | 30,214,740 |
| 2 to 3 years | 10,763,414 | 7,695,993 |
| More than 3 years | 31,980,028 | — |
| | **85,761,660** | **132,277,211** |
| **Fixed rate** | | |
| Up to 1 year | 5,811,309 | 3,619,095 |
| 1 to 2 years | 6,086,737 | 3,761,911 |
| 2 to 3 years | 2,099,439 | 3,925,492 |
| Over 3 years | 32,210,560 | — |
| | **46,208,045** | **11,306,498** |
| | **131,969,705** | **143,583,709** |

**21 Borrowings (Continued)**

The finance leases, by currency, are as follows:

| | 2018 | 2017 |
|---|---|---|
| Finance leases in EUR | 69,522,862 | 22,317,970 |
| Finance leases in USD | 62,446,843 | 121,265,739 |
| | **131,969,705** | **143,583,709** |

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

**Operating leases**

As referred to in Note 1.25., these liabilities are not recorded in the Company's statement of financial position. Operating leases contracts have different periods, which may reach up to 12 years that may be extended through the explicit consent of the contracting parties.

As at 31 December 2018, 52 aircraft and 13 engines were under operating lease contracts and 21 aircraft under ACMI contracts, as detailed in Note 6.

The minimum payment schedule under non-cancellable operating leases and ACMI agreements for the fleet in operation is detailed as follows:

| | 2018 | 2017 |
|---|---|---|
| Up to 1 year | 218,110,312 | 170,371,425 |
| 1 to 2 years | 179,667,954 | 142,630,565 |
| 2 to 3 years | 156,909,429 | 109,308,002 |
| 3 to 4 years | 127,928,712 | 86,104,149 |
| More than 4 years | 487,594,526 | 116,178,136 |
| | **1,170,210,933** | **624,592,277** |

These contracts require security deposits which, as at 31 December 2018 and 2017, reached a total of Euro 59,780,119 and Euro 45,635,232, respectively (Note 12). These deposits shall be returned when each of the leased aircraft is handed back to its lessor.

Under IFRS 16 and as mentioned in Note 1.3., the present value of the minimum non-cancellable lease payments for operating leases and ACMI agreements will be recognised on 1 January 2019 as assets and liabilities.

- **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 finance leases, operating duties relative to registrations at official entities, information relative to leased aircraft, strict compliance with all the regulations, and procedures defined by the authorities, amongst others.

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

As at 31 December 2018, the Company and TAP Group comply with all the financial covenants.

**21 Borrowings (Continued)**

- **Reconciliation of cash flows from borrowings**

The evolution of borrowings and their reconciliation to the statement of cash flows is as follows:

| | Remunerated bank debt | Finance leases |
|---|---|---|
| **Borrowings as at 1 January 2017** | **641,254,138** | **193,831,625** |
| Receipts | — | 55,428,645 |
| Payments | (55,566,605) | (104,795,454) |
| Changes in bank overdrafts | (279,650) | — |
| Currency translation differences | — | (90,842) |
| Other | (4,853,268) | (790,265) |
| **Borrowings as at 31 December 2017** | **580,554,615** | **143,583,709** |
| Receipts | 70,000,000 | 96,397,383 |
| Payments | (7,500,000) | (45,471,784) |
| Contractual assignment of lease contracts | — | (65,795,822) |
| Currency translation differences | — | 3,044,134 |
| Other | 915,510 | 212,085 |
| **Borrowings as at 31 December 2018** | **643,970,125** | **131,969,705** |

The receipts in the amount of Euro 70 million, refer to a variable rate loan entered into in 2018 with the Portuguese branch of a foreign financial institution.

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

Some borrowings have real guarantees, namely finance leases and one of the loans obtained from a national institution (Note 6). The loan entered into in 2018 has a partial guarantee, of receivables outstanding.

**22 Other payables**

As of 31 December 2018 and 2017, the breakdown of other payables is as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Current | Non-Current | Current | Non-Current |
| Suppliers | 236,954,507 | — | 199,597,865 | — |
| Accrued expenses | 308,895,811 | 49,741,211 | 210,839,095 | 112,353,793 |
| Advances from customers | 835,687 | — | 923,939 | — |
| Other | 120,806,723 | — | 119,523,314 | — |
| | **667,492,728** | **49,741,211** | **530,884,213** | **112,353,793** |

- **Suppliers**

The balance of the caption of suppliers is as follows:

| | 2018 | 2017 |
|---|---|---|
| Suppliers—current account | 92,617,537 | 78,558,546 |
| Suppliers—related parties (Note 39) | 60,006,523 | 52,976,672 |
| Suppliers—pending invoices | 84,330,447 | 68,062,647 |
| | **236,954,507** | **199,597,865** |

**22 Other payables (Continued)**

- **Accrued expenses**

As at 31 December 2018 and 2017, the caption of accrued expenses is detailed as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Current | Non-Current | Current | Non-Current |
| Remunerations | 93,556,918 | — | 80,289,409 | — |
| Maintenance—operating leases | 54,197,716 | 49,741,211 | 16,929,186 | 112,353,793 |
| Aircraft fuel and CO2 emission licences | 49,429,139 | — | 25,695,606 | — |
| *Swaps jet fuel* (Note 25) | 41,322,387 | — | — | — |
| Remuneration—air crew | 18,799,079 | — | 15,709,636 | — |
| Special sales charges | 10,002,238 | — | 15,053,884 | — |
| Related parties (Note 39) | 6,523,323 | — | 7,153,498 | — |
| Handling services | 5,693,489 | — | 4,870,871 | — |
| Other accrued expenses | 29,371,522 | — | 45,137,005 | — |
| | **308,895,811** | **49,741,211** | **210,839,095** | **112,353,793** |

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

The increase recorded in remunerations is related to the average salary and employees increase in 2018 (Note 28).

The caption maintenance—operating lease corresponds to the estimated structural maintenance costs of the aircraft in operating lease, taking into account the existing contractual responsibility with lessors, deducted from the maintenance reserves paid that are estimated to be recoverable, considering the current contractual conditions established with the lessors and the estimation of the respective charges for the structural maintenance of these aircraft.

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

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

- **Other payables—current**

As of 31 December 2018 and 2017, the caption other payable—current—is detailed as follows:

| | 2018 | 2017 |
|---|---|---|
| Taxes and fees | 88,733,129 | 90,619,218 |
| Fixed assets suppliers | 16,283,365 | 14,456,543 |
| Customers payables | 3,057,731 | 3,113,822 |
| Related Parties (Note 39) | 2,588,237 | 446,904 |
| Indemnities | 937,034 | 989,533 |
| Other | 9,207,227 | 9,897,294 |
| | **120,806,723** | **119,523,314** |

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

## 23 Other current liabilities

As at 31 December 2018 and 2017, the caption other current liabilities refers essentially to:

| | 2018 | 2017 |
|---|---|---|
| Deferred income | 58,594,413 | 55,501,207 |
| State | 35,736,669 | 28,883,500 |
| | **94,331,082** | **84,384,707** |

- **Deferred income**

As at 31 December 2018 and 2017, the caption deferred income is detailed as follows:

| | 2018 | 2017 |
|---|---|---|
| Customer loyalty program | 52,035,848 | 50,399,075 |
| Investment grants | 2,882,523 | 2,625,993 |
| Work for aviation companies | — | 1,864,903 |
| Related Parties (Note 39) | 348,496 | 345,467 |
| Other deferred revenue | 3,327,546 | 265,769 |
| | **58,594,413** | **55,501,207** |

In the scope of application of IFRS 15—Revenue from contracts with customers, at the initial miles allocation to customers adhering to the loyalty program called "TAP Miles & Go", a contractual obligation is recognised based on the unit value of the mile (Note 1.26).

The caption "work for aviation companies" corresponds to customer contract liabilities, as provided by IFRS 15.

- **State**

For the years ended 31 December 2018 and 2017, the balance of this caption is detailed as follows:

| | 2018 | 2017 |
|---|---|---|
| Social security contribution | 18,867,431 | 15,380,108 |
| Personal income tax | 16,832,098 | 13,469,858 |
| Corporate income tax | 37,140 | 33,534 |
| | **35,736,669** | **28,883,500** |

## 24 Liabilities from unused flight documents

As at 31 December 2018 and 2017, the Company's liabilities relative to unused flight documents were as follows:

| | 2018 | 2017 |
|---|---|---|
| Passengers | 393,260,983 | 411,131,420 |
| Cargo | 204,729 | 600,031 |
| | **393,465,712** | **411,731,451** |

**25 Derivative financial instruments**

As of 31 December 2018 and 2017, the Company had negotiated the following derivative financial instruments related to jet fuel swaps classified as hedge instruments:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Assets | Liabilitites | Assets | Liabilities |
| Jet fuel swaps—current (Notes 4 and 22) | — | 41,322,387 | — | — |
| | **—** | **41,322,387** | **—** | **—** |

The jet fuel derivative financial instruments, classified as hedging instruments, presented the following evolution during the years ended 31 December 2018 and 2017:

| | Current | Non-Current |
|---|---|---|
| **Fair value 1 January 2017** | — | (635,848) |
| Acquisitions during the year—payment/(receipt) | 9,523,059 | — |
| Payment/(receipt) of swaps during the year | — | 609,021 |
| Receipt/(payment) of swaps retained through profit or loss | (9,523,059) | (609,021) |
| Increase/(decrease) of fair value reflected in equity | — | 635,848 |
| **Fair value 31 December 2017** | **—** | **—** |
| Acquisitions during the year—payment/(receipt) | (4,109,128) | — |
| Payment/(receipt) of swaps during the year | — | — |
| Receipt/(payment) of swaps retained through profit or loss | 4,109,128 | — |
| Increase/(decrease) of fair value reflected in equity | (41,322,387) | — |
| **Fair value 31 December 2018** | **(41,322,387)** | **—** |

As at 31 December 2018, the Company had contracted jet fuel derivative financial instruments whose fair value amounts to Euro 41,322 thousand, which maturity is between January and December 2019, covering approximately 50% of the estimated monthly consumption, in the total of 618,000 tons.

**26 Other operating income**

During 2018 and 2017, this caption is presented as follows:

| | 2018 | 2017 |
|---|---|---|
| Recovered warehouse material | 5,951,797 | 3,580,775 |
| Shared Services | 5,240,731 | 5,465,699 |
| Rents and Subleases | 4,157,589 | 4,486,418 |
| Publicity | 2,401,635 | 2,104,351 |
| Gains from tangible fixed assets | 1,768,730 | 17,982,828 |
| Other commissions | 1,730,804 | 1,075,240 |
| Other grants | 1,582,435 | 2,234,430 |
| Fair value variation (Note 7) | 1,292,804 | — |
| Commissions | 1,288,065 | 1,875,934 |
| Services rendered to third parties | 1,230,381 | 1,490,437 |
| Other supplemental operating income | 5,293,864 | 4,109,317 |
| | **31,938,835** | **44,405,429** |

The gains recorded in 2017, in the caption gains from tangible fixed assets refer essentially to the added value resulting from the disposal of five A330 aircraft in a sale and leaseback operation in the amount of Euro 17,856 thousand (Note 6).

## 27 Expenses by nature

During 2018 and 2017, the operating expenses by nature are as follows:

| | 2018 | 2017 |
|---|---|---|
| Aircraft fuel | 798,623,576 | 580,217,898 |
| Traffic operating costs | 939,590,284 | 840,271,817 |
| Aircraft rents | 151,978,065 | 140,476,927 |
| Aircraft maintenance costs | 89,930,145 | 176,540,246 |
| Cost of materials consumed | 166,035,350 | 102,248,214 |
| Comercial, communication and marketing costs | 186,503,880 | 185,277,043 |
| | **2,332,661,300** | **2,025,032,145** |

- **Aircraft fuel**

The caption aircraft fuel is as follows for the years ended 31 December 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Aircraft fuel | 768,910,594 | 574,633,567 |
| CO2 emission licences | 29,712,982 | 5,584,331 |
| | **798,623,576** | **580,217,898** |

The increase in 2018 in aircraft fuel costs is due to the combined effect of the increase in the quantities consumed and the average price of jet fuel.

The increase in CO2 emission licences is mainly due to the increase in the CO2 price, accompanied by an increase in the quantities issued.

- **Traffic operating costs**

The caption traffic operating costs has the following composition for the years ended 31 December 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Aircraft charters | 205,302,804 | 175,847,701 |
| Handling services | 200,796,482 | 176,772,952 |
| Navigation fees | 166,416,066 | 153,779,488 |
| In-flight expenses | 97,291,540 | 92,690,517 |
| Landing charges | 95,866,749 | 89,038,146 |
| Operational irregularities | 57,188,290 | 34,008,451 |
| Accommodation and meals during stopovers | 30,406,522 | 28,418,677 |
| Facilities at airports | 25,228,802 | 29,103,173 |
| Baggage, cargo and mail charges | 23,076,866 | 17,952,350 |
| Air traffic control charges | 17,104,761 | 26,389,276 |
| Ground costs related to executive class passengers | 12,337,959 | 11,708,563 |
| Passenger, cargo and mail insurance | 2,352,231 | 2,049,423 |
| Other traffic operating costs | 6,221,212 | 2,513,100 |
| | **939,590,284** | **840,271,817** |

The increase of the traffic operating costs, namely handling, navigation fees, in.flight expenses and landing charges, results from the increase of the operacional activity. The increase in 2018 of the operational irregularities is related mainly to the impact of the crew staff strikes during the first semester of 2018.

**27 Expenses by nature (Continued)**

- **Aircraft rents**

The item aircraft rents is as follows for the years ended 31 December 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Aircraft operating leases | 139,024,066 | 129,772,709 |
| Spare parts operating leases | 12,953,999 | 10,704,218 |
| | **151,978,065** | **140,476,927** |

The increase in aircraft rents is directly related to the increase in air transport activity, as well as the appreciation of the dollar.

- **Aircraft maintenance costs**

The caption aircraft maintenance costs is related to structural and recurrent maintence of TAP's aircraft, including line maintenance.

The variation observed in aircraft maintenance costs is due to the effect of fleet renewal and consequent reduction in the average age of aircraft fleet, and from the reassessment of the main assumptions considered to estimate the structural maintenance costs of the aircraft in operating lease, in the terms mentioned in Note 2.

- **Costs of materials consumed**

The costs of materials consumed in rendering maintenance services to third parties for the years ended 31 December 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Sold and consumed inventories | 139,407,195 | 77,013,496 |
| Maintenance subcontracting for third parties flight equipment | 26,628,155 | 25,234,718 |
| | **166,035,350** | **102,248,214** |

The variation observed in 2018 in costs of materials consumed is directly related to the increase of maintenance and engineering services rendered to third parties (Note 5).

- **Commercial, communication and marketing costs**

The items for commercial, communication and marketing costs are as follows for the years ended 31 December 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| *Booking fees* | 69,938,630 | 68,002,642 |
| Commissions | 47,041,052 | 46,921,709 |
| Special sales charges—air transport | 36,753,361 | 38,055,175 |
| Publicity | 21,849,170 | 23,082,330 |
| Specialised work | 10,468,679 | 8,789,097 |
| Other commercial, communication and marketing expeses | 452,988 | 426,090 |
| | **186,503,880** | **185,277,043** |

**28 Employee costs**

Employee costs incurred during 2018 and 2017 were as follows:

| | 2018 | 2017 |
|---|---|---|
| Remunerations | | |
| Employees | 607,727,723 | 494,321,249 |
| Statutory Bodies | 49,000 | — |
| | **607,776,723** | **494,321,249** |
| Fixed remuneration | 305,266,113 | 268,743,832 |
| Variable remuneration | 153,783,708 | 106,838,848 |
| Social security contributions | 95,978,215 | 79,221,160 |
| Insurance | 11,462,251 | 11,598,572 |
| Social action costs | 10,719,570 | 10,512,948 |
| Post-employment benefits (Note 19) | 8,563,675 | 4,520,849 |
| Training and recruitment | 7,136,407 | 1,466,279 |
| Work accident insurance | 6,989,374 | 4,975,192 |
| Meals allowance | 4,820,842 | 3,521,970 |
| Uniform and work clothes | 1,674,218 | 1,513,052 |
| Other expenses with employees | 1,382,350 | 1,408,547 |
| | **607,776,723** | **494,321,249** |

The increase in employee expenses is due to the headcount variation, and related training expenses, the average salary increase and the increase in variable remuneration, as a result of the strong growth of the operation and of the agreements established with the employees and their representants in 2018.

As at 31 December 2018 and 2017, the average number of employees divided between Headoffice and Representations, is as follows:

| | 2018 | 2017 |
|---|---|---|
| **Head office** | | |
| Cabin Crew employees | 3,181 | 2,681 |
| Maintenance and engineering employees | 1,843 | 1,864 |
| Ground employees | 1,618 | 1,494 |
| Technical flight employees | 1,063 | 968 |
| **Representations** | | |
| Brazil | 102 | 116 |
| USA | 38 | 41 |
| Spain | 32 | 43 |
| France | 32 | 40 |
| Angola | 27 | 29 |
| Germany | 25 | 27 |
| Italy | 23 | 28 |
| UK/Ireland | 21 | 24 |
| Venezuela | 11 | 25 |
| Switzerland | 9 | 10 |
| Belgium / Luxembourg | 3 | 13 |
| Other | 53 | 62 |
| | **8,081** | **7,465** |

**29 Impairment losses in inventories, receivables and provisions**

As at 31 December 2018 and 2017, this caption is detailed as follows:

| | 2018 | 2017 |
|---|---|---|
| Inventory impairment (Note 13) | (902,872) | (411,479) |
| Receivables impairment (Note 12) | (1,072,273) | (1,079,871) |
| Provisions (Nota 20) | (5,026,574) | 2,419,846 |
| | **(7,001,719)** | **928,496** |

**30 Other operating expenses**

The caption other operating expenses is detailed as follows:

| | 2018 | 2017 |
|---|---|---|
| Specialised work | 93,495,554 | 96,974,224 |
| Conservation and repair of other assets | 9,061,732 | 7,657,211 |
| Rents | 6,682,876 | 6,282,765 |
| Transportation | 4,171,750 | 5,008,830 |
| Comunication | 3,962,278 | 4,670,945 |
| Travel costs | 3,050,352 | 3,231,299 |
| Insurance | 3,042,832 | 3,083,944 |
| Surveillance and security | 3,014,966 | 2,455,227 |
| Fees | 2,621,340 | 2,941,588 |
| Books and technical documentation | 1,897,721 | 1,819,596 |
| Taxes | 1,856,074 | 4,747,426 |
| Electricity | 1,758,363 | 1,637,098 |
| Cleaning, hygiene and comfort | 1,758,258 | 1,660,228 |
| Fair value variation (Note 7) | — | 121,748 |
| Other operating expenses | 4,811,595 | 11,950,617 |
| | **141,185,691** | **154,242,746** |

**31 Restructuring**

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

| | 2018 | 2017 |
|---|---|---|
| Early retirements (Note 19) | 17,305,876 | — |
| Employee indemnities | 7,344,730 | 9,855,054 |
| | **24,650,606** | **9,855,054** |

In 2017, the Company implemented a restructuring programme. This program joined 133 employees in 2018 (2017: 245 employees), resulting in an indemnity expense of some Euro 7,345 thousand (2017: Euro 9,855 thousand).

In addition, as a result of the ongoing transformation process in the Company, an early retirement programme was launched in July 2018 for cabin crew and ground employees and / or situations duly approved by the Executive Committee. The Company signed 71 early retirement agreements, corresponding to a total liability of Euro 17,306 thousand, as presented in Note 19.

### 32 Other non-recurring items

The detail of the caption other non-recurring items, in addition to the reestructuring costs (Note 31), results mainly from agreements celebrated with labor unions as follows:

| | 2018 | 2017 |
|---|---|---|
| Pilots special payment | 12,715,749 | — |
| Seniority—compensatory benefits to crew employees | 4,737,860 | 4,993,512 |
| SNPVAC—Pregnancy Complement | 2,686,765 | — |
| | **20,140,374** | **4,993,512** |

Following the Regulation of Recourse to Outsourcing ("RRCE"—"Regulamento de Recurso à Contratação Externa") celebrated on 14 May 2018 with the Civil Aviation Pilots Union ("SPAC"—"Sindicato dos Pilotos da Aviação Civil)", which replaced the Regulation of Internal Employees and Recourse to Outsourcing ("RERCE"—"Regulamento de Efetivos e de Recurso à Contratação Externa)" from 30 July 1998, that establishes new conditions for outsourcing, it has been agreed the payment of extraordinary benefits for the years 2017 and 2018 in the total amount of Euro 12,716 thousand.

The Company signed on 17 May 2016 a memorandum of understanding on the seniority attribution model to TAP pilots. Within the scope of this memorandum, it was defined that TAP S.A. will reinstate until 2019, without any retroactive effects, the seniorities for the years 2011 to 2016, included in the scope of the prohibition of salaries increase imposed by the budgetary regimes in force at that date. This measure generated a total cost of Euro 4,738 thousand in 2018 and Euro 4,994 thousand in 2017.

Whithin the scope of the agreement signed on 30 January 2018 with the Civil Aviation Flight Personnel Union ("SNPVAC"—"Sindicato Nacional do Pessoal de Voo da Aviação Civil"), the payment of pregnancy supplement was agreed in situations previously not covered, referring to previous years, in the total amount of Euro 2,687 thousand.

Due to their nature, these situations were considered by the Board of Directors to be non-recurring in the context of these financial statements.

### 33 Depreciation, amortisation and impairment losses

As at 31 December 2018 and 2017, the caption depreciation, amortisation and impairment losses is detailed as follows:

| | 2018 | 2017 |
|---|---|---|
| Depreciation of Tangible Fixed Assets (Note 6) | | |
| Buildings and other constructions | 5,409,679 | 5,284,038 |
| Basic equipment | 56,639,172 | 44,689,799 |
| Transport equipment | 91,089 | 110,975 |
| Tools and utensils | 674,540 | 627,449 |
| Administrative equipment | 880,014 | 1,189,799 |
| Other tangible fixed assets | 332,964 | 390,867 |
| | **64,027,458** | **52,292,927** |
| Amortisation of Intangible Assets (Note 8) | | |
| Computer Programs | 2,492,247 | 303,337 |
| | **2,492,247** | **303,337** |
| Impairment losses in tangible assets (Note 6) | | |
| Basic equipment | 4,186,407 | — |
| Total | **70,706,112** | **52,596,264** |

The impairment losses recognised in tangible fixed assets in 2018, in the amount of Euro 4,186,407, is mainly due to spare parts and other equipment related with the aircraft phase-in and phase-out.

### 34 Finance results

The detail of the finance results for the years 2018 and 2017 is as follows:

| | 2018 | 2017 |
|---|---|---|
| Interest expenses | (31,723,072) | (28,764,426) |
| Other financial expenses | (11,499,263) | (5,589,019) |
| **Interests and similar expenses** | **(43,222,335)** | **(34,353,445)** |
| Interest income | 36,911,444 | 44,603,650 |
| **Interests and similar income** | **(6,310,891)** | **10,250,205** |
| Net foreign exchange differences | (49,073,869) | (27,754,822) |
| **Net currency exchange** | **(49,073,869)** | **(27,754,822)** |
| | **(98,607,095)** | **(51,858,062)** |

The unfavorable foreign exchange differences occurred in 2018, were mainly due to the devaluation of the real and the kwanza, as well as the appreciation of the dollar, taking into account the amount of debt in this currency.

The variation in other financial expenses is mainly due to the effect of the financial discount of the maintenance reserves estimated to be recoverable in the future in the amount of Euro 5 million, which hasn't occurred in 2017 given its immateriality in context of the net impact of the financial discount on the comparative financial statements.

### 35 Income tax for the year

From 2017 onwards, the Company is taxed throught the special regime for the taxation groups of companies ("RETGS"), and the tax result was determined in TAP SGPS. However, the Company's income tax accrual is recorded based on its individual taxable income.

The Company is subject to Corporate Income Tax (IRC) based on its individual net income, at the rate of 21% plus a surcharge at the maximum rate of 1.5% on taxable profit, thus reaching an aggregate rate of 22.5%. This rate is increased by 3% on the portion of taxable profit which is greater than Euro 1.5 million and less than Euro 7.5 million, by 5% on the portion of taxable profit which is greater than Euro 7.5 million and less than Euro 35 million, and by 9% on the portion of taxable profit which is greater than Euro 35 million, giving rise to an aggregate maximum tax rate of 31.5% .

In the calculation of the taxable profits, to which the tax rates referred to above are applied, the amounts not accepted for tax purposes are added and subtracted to the accounting results. These differences between the results for accounting and tax purposes may have a temporary or permanent nature.

Under the terms of article 88 of the Corporate Income Tax Code, the Company is subject to autonomous taxation on some expenses, at the tax rates listed therein.

In accordance with legislation in force, the Company income tax returns are subject to review and correction by the tax authorities for a period of four years (social security can be reviewed for five years), except when there are tax losses carried forward, tax benefits have been granted or there are claims or appeals in progress where, depending on the circumstances, the period can be extended or suspended. The Board of Directors believes that any corrections resulting from reviews / inspections by the tax authorities of these tax returns will not have a significant effect on the financial statements as at 31 December 2018 and 2017.

**35 Income tax for the year (Continued)**

As at 31 December 2018 and 2017, the detail of the tax for the year, recognised in the financial statements, is as follows:

| | 2018 | 2017 |
|---|---|---|
| Deferred taxes (Note 11) | (21,901,339) | 15,095,120 |
| Current taxes | 199,289 | 16,944,284 |
| Differences from tax estimates | (2,506,479) | (1,372,765) |
| | **(24,208,529)** | **30,666,639** |

The reconciliation of the tax amount for the year is as follows:

| | 2018 | 2017 |
|---|---|---|
| Net income/(loss) before income tax | (82,273,887) | 131,078,022 |
| Nominal tax rate | 21.0% | 29.5% |
| Expected tax | (17,277,516) | 38,668,016 |
| Permanent differences | (4,623,823) | (6,769,731) |
| Autonomous taxation | 199,289 | 141,119 |
| Differences from tax estimates for the previous year | (2,506,479) | (1,372,765) |
| | **(24,208,529)** | **30,666,639** |
| Effective tax rate | 29% | 23% |

**36 Earnings per share**

There are no convertible financial instruments on the shares of TAP S.A., therefore there is no dilution of results.

| | 2018 | 2017 |
|---|---|---|
| Net income/(loss) for the year | (58,065,358) | 100,411,383 |
| Wheighted average number of shares | 8,300,000 | 8,300,000 |
| Basic and diluted earnings per share | (7.0) | 12.1 |

**37 Commitments**

- **Purchase commitments**

The acquisition of 53 aircraft (39 A320 NEO Family and 14 A330 NEO) to be received between 2018 and 2025 is contracted with Airbus SAS ("Airbus"). This order is due to the novation to TAP S.A. of the previously negotiated acquisition agreement signed between Airbus and DGN Corporation. Until the present date, 17 of the referred aircraft were assigned to lessors with subsequent leaseback contracts (8 A320 NEO Family and 9 A330 NEO), from which two A321 NEO and two A330 NEO were received during 2018.

A contract is also in force with CFM International Inc., S.A., for the purchase of 83 LEAP-A1 engines, including 5 reserve engines, which will equip and serve the new fleet of A320 NEO Family aircraft. Highlighting that these reactors will be acquired directly by Airbus, with the exception of the reserve engines.

Additionally the Company signed contracts with Rolls-Royce, which include maintenance support for all TRENT 7000 engines, which equip the aircraft A330 NEO, as well as the acquisition of 3 reserve engines.

**37 Commitments (Continued)**

- **Other commitments**

As at 31 December 2018, there were financial commitments, assumed by the Company, related to operating leases of aircraft and engines in operation (including ACMI), as mentioned in Note 21.

In addition, operating lease contracts were also signed in respect to aircraft whose phase-in is expected to occur between 2019 and 2020, whose minimum non-cancellable future payments amounts to approximately Euro 2,368,969 thousand as at 31 December 2018.

**38 Contingencies**

As at 31 December 2018 and 2017, the Company has no contingent assets or liabilities for dosclosure.

TAP SGPS and TAP SA were notified on 10 November 2016 by a "Notice of Objections" issued by the European Commission—Directorate General for Competition, concerning the fares charged by TAP SA and SN Brussels on the Lisbon-Brussels route, considering the existing code-share agreements. The European Commission informed the Company by letter dated 30 October 2018, that it had decided to conclude the process whithout any penalties.

- **Guarantees**

As at 31 December 2018 and 2017, the pledged guarantees provided by the Company are detailed as follows:

| | 2018 | 2017 |
|---|---|---|
| **Bank guarantees provided by Head Office** | | |
| Aircrafts | 57,092,188 | 41,616,218 |
| INEA—"Spice" project | 2,625,993 | 2,625,993 |
| Fuel | 1,523,362 | 1,733,820 |
| Portuguese State—Operation of the Azores routes | 1,653,985 | 1,653,985 |
| Clean Sky—Investigation project—M&E | 1,612,116 | 1,612,116 |
| Labour Court | 374,530 | 680,954 |
| Other | 6,463,628 | 6,503,628 |
| **Bank guarantees provided by Representations** | 1,969,596 | 4,024,259 |
| | **73,315,398** | **60,450,973** |

The reinforcement pledged guarantees provided by head office during the current year is essentially related to the operating lease contracts.

The guarantees provided under loan agreements are disclosed in Note 21.

As mentioned in the Introductory Note, the General Meeting of TAP SGPS, on 8 March 2016, approved the recognition of the full effects of the bonds issuance by TAP SGPS as well as the effects of the guarantee agreement concluded within the scope of the aforementioned bond issuance, between TAP SGPS, TAP SA, Megasis—Sociedade de Serviços de Engenharia e Informática, SA, Azul SA and Bondholders, SL.

## 39 Related Parties

The balances and transactions with related parties as at 31 December 2018 and 2017 are as follows:

**2018—Assets**

| | Customers (Note 12) | Advances to suppliers (Note 12) | Accrued income (Note 12) | Deferred expenses (Note 15) | Income tax receivable (Note 14) | Other receivables non current (Note 12) | Other receivables current (Note 12) | Total |
|---|---|---|---|---|---|---|---|---|
| TAP SGPS | 3,243 | — | 885 | — | 8,329,644 | — | 808,491,987 | **816,825,759** |
| Azul S.A. | 3,220,887 | — | — | — | — | — | 16,269 | **3,237,156** |
| TAPGER | 615,000 | — | — | — | — | — | 329 | **615,329** |
| PGA | 166,842 | — | 5,781,144 | 616,182 | — | — | 308,623 | **6,872,791** |
| SPdH | 983,757 | — | 2,760,000 | — | — | — | 655,665 | **4,399,422** |
| MEGASIS | 356,771 | — | — | — | — | — | 1,805,184 | **2,161,955** |
| TAP ME Brasil | 14,170,372 | 20,371,710 | — | — | — | — | 6,037,598 | **40,579,680** |
| Cateringpor | 42,780 | — | — | — | — | — | 404,156 | **446,936** |
| UCS | 295,942 | — | — | — | — | — | 2,009,972 | **2,305,914** |
| Aigle Azur Compagnie de Transport Aérien | 64,472 | — | — | 4,080,786 | — | 372,926 | — | **4,518,184** |
| Barraqueiro Group | 2,382 | — | — | — | — | — | — | **2,382** |
| | **19,922,448** | **20,371,710** | **8,542,029** | **4,696,968** | **8,329,644** | **372,926** | **819,729,783** | **881,965,508** |

**2018—Liabilities**

| | Suppliers (Note 22) | Accrued expenses (Note 22) | Deferred income (Note 23) | Income tax payable (Note 14) | Other payables current (Note 22) | Total |
|---|---|---|---|---|---|---|
| TAP SGPS | (362,279) | (2,483,200) | — | — | (30,581) | **(2,876,060)** |
| Azul S.A. | (36,681) | (152,838) | — | — | — | **(189,519)** |
| PGA | (9,659,422) | — | — | — | — | **(9,659,422)** |
| SPdH | (11,105,356) | (1,530,825) | (103,113) | — | — | **(12,739,294)** |
| MEGASIS | (6,337,242) | — | (16,368) | — | (2,540,663) | **(8,894,273)** |
| TAP ME Brasil | (24,533,545) | — | — | — | — | **(24,533,545)** |
| Cateringpor | (4,372,245) | (2,356,460) | (200,507) | — | — | **(6,929,212)** |
| UCS | (3,095,617) | — | (28,508) | — | (16,993) | **(3,141,118)** |
| Aigle Azur Compagnie de Transport Aérien | (502,183) | — | — | — | — | **(502,183)** |
| Barraqueiro Group | (1,953) | — | — | — | — | **(1,953)** |
| | **(60,006,523)** | **(6,523,323)** | **(348,496)** | **—** | **(2,588,237)** | **(69,466,579)** |

**2017—Assets**

| | Customers (Note 12) | Advances to suppliers (Note 12) | Accrued income (Note 12) | Deferred expenses (Note 15) | Income tax receivable (Note 14) | Other receivables non current (Note 12) | Other receivables current (Note 12) | Total |
|---|---|---|---|---|---|---|---|---|
| TAP SGPS | — | — | 885 | — | — | — | 809,914,844 | **809,915,729** |
| Azul S.A. | 396,953 | — | — | — | — | 8 | 1,562 | **398,523** |
| TAPGER | 615,000 | — | — | — | — | — | 329 | **615,329** |
| PGA | 907,039 | — | 207,282 | — | — | — | 357,470 | **1,471,791** |
| SPdH | 123,948 | — | — | — | — | — | 602,906 | **726,854** |
| MEGASIS | 324,619 | — | 10 | — | — | — | 1,465,781 | **1,790,410** |
| TAP ME Brasil | 13,350,575 | 20,855,702 | — | — | — | — | 5,047,926 | **39,254,203** |
| Cateringpor | 80,667 | — | — | — | — | — | 452,259 | **532,926** |
| UCS | 193,909 | — | — | — | — | — | 437,569 | **631,478** |
| Aigle Azur Compagnie de Transport Aérien | 5,637 | — | — | — | — | — | — | **5,637** |
| Barraqueiro Group | 1,453 | — | — | — | — | — | — | **1,453** |
| | **15,999,800** | **20,855,702** | **208,177** | **—** | **—** | **8** | **818,280,646** | **855,344,333** |

**39 Related Parties (Continued)**

| | 2017—Liabilities | | | | | |
|---|---|---|---|---|---|---|
| | Suppliers (Note 22) | Accrued expenses (Note 22) | Deferred income (Note 23) | Income tax payable (Note 14) | Other payables current (Note 22) | Total |
| TAP SGPS | (6,331,523) | (1,041,900) | — | (12,956,014) | (193,378) | **(20,522,815)** |
| Azul S.A. | (35,020) | (68,373) | — | — | — | **(103,393)** |
| PGA | (9,872,738) | (5,100,011) | — | — | — | **(14,972,749)** |
| SPdH | (8,309,975) | (623,253) | (102,847) | — | (796) | **(9,036,871)** |
| MEGASIS | (4,928,378) | — | (15,710) | — | (238,651) | **(5,182,739)** |
| TAP ME Brasil | (17,030,296) | (5,034) | — | — | — | **(17,035,330)** |
| Cateringpor | (5,568,793) | (314,927) | (198,718) | — | — | **(6,082,438)** |
| UCS | (886,526) | — | (28,192) | — | (14,079) | **(928,797)** |
| Barraqueiro Group | (13,423) | — | — | — | — | **(13,423)** |
| | **(52,976,672)** | **(7,153,498)** | **(345,467)** | **(12,956,014)** | **(446,904)** | **(73,878,555)** |

| | 2018—Transactions | | | |
|---|---|---|---|---|
| | Operating income | Operating expenses | Interest income | Total |
| TAP SGPS | — | (6,039,157) | 31,247,064 | 25,207,907 |
| Azul S.A. | 2,964,409 | (416,531) | — | 2,547,878 |
| TAPGER | 500,000 | — | — | 500,000 |
| PGA | 1,460,097 | (118,906,588) | — | (117,446,491) |
| SPdH | 6,203,652 | (104,470,969) | — | (98,267,317) |
| MEGASIS | 2,509,084 | (35,730,977) | — | (33,221,893) |
| TAP ME Brasil | 202,671 | (8,780,289) | — | (8,577,618) |
| Cateringpor | 1,878,587 | (44,799,821) | — | (42,921,234) |
| UCS | 743,293 | (4,284,286) | — | (3,540,993) |
| Aigle Azur Compagnie de Transport Aérien | 2,949,591 | (6,712,591) | — | (3,763,000) |
| Barraqueiro Group | 561 | (83,921) | — | (83,360) |
| | **19,411,945** | **(330,225,130)** | **31,247,064** | **(279,566,121)** |

| | 2017—Transactions | | | |
|---|---|---|---|---|
| | Operating income | Operating expenses | Interest income | Total |
| TAP SGPS | — | (5,970,948) | 38,341,118 | 32,370,170 |
| Azul S.A. | (99,770) | (7,958,788) | — | (8,058,558) |
| TAPGER | 500,000 | — | 70,753 | 570,753 |
| PGA | 1,378,167 | (108,391,977) | — | (107,013,810) |
| SPdH | 6,228,910 | (91,692,917) | — | (85,464,007) |
| MEGASIS | 2,498,811 | (36,206,608) | — | (33,707,797) |
| TAP ME Brasil | 484,761 | (9,624,060) | — | (9,139,299) |
| Cateringpor | 1,570,063 | (40,066,400) | — | (38,496,337) |
| UCS | 808,763 | (4,057,319) | — | (3,248,556) |
| Aigle Azur Compagnie de Transport Aérien | 39,053 | (5,075) | — | 33,978 |
| Barraqueiro Group | 406 | (43,328) | — | (42,922) |
| | **13,409,164** | **(304,017,420)** | **38,411,871** | **(252,196,385)** |

The terms and conditions enforced between the Company and the related parties are similar in substance to the terms, which would normally be contracted between independent entities in comparable operations.

In addition to the mentioned operations, the Company in the scope of the normal development of its air transport business, maintains code-share commercial relationships with Azul and Aigle Azur. These transactions are carried out on terms and conditions similar to those agreed with other airlines.

**39 Related Parties (Continued)**

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

Members of the Board of Directors are remunerated exclusively by the functions performed at TAP SGPS, and are not remunerated by the functions performed at TAP S.A.

**40 Subsequent events**

The Board of Directors is not aware of any subsequent events as at the reporting date that may have significant impact on the financial statements for the year ended as at 31 December 2018.

**41 Note added for translation**

The accompanying financial statements are a translation of financial statements originally issued in Portuguese. In the event of any discrepancies, the Portuguese version prevails.

**CHARTERED ACCOUNTANT**

Sandra Candeias Matos da Luz

**BOARD OF DIRECTORS**

Humberto Manuel dos Santos Pedrosa
*Chairman*

David Gary Neeleman
*Member*

Antonoaldo Grangeon Trancoso Neves
*Chairman of the Executive Committee*

David Humberto Canas Pedrosa
*Executive Committee Member*

Raffael Guarita Quintas Alves
*Executive Committee Member*

***Auditors' Report***

***(Free translation from the original in Portuguese)***

***Report on the audit of the special purposed financial statements***

***Opinion***

We have audited the accompanying special purposed financial statements of Transportes Aéreos Portugueses, S.A. (the Entity), which comprise the statement of financial position as at December 31, 2018 (which shows total assets of Euros 2,202,975,913 and total shareholders' equity of Euros 104,798,439 including a net loss of Euros 58,065,358), the statement of income, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the special purposed financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying special purposed financial statements present fairly in all material respects, the financial position of Transportes Aéreos Portugueses, S.A. as at December 31, 2018, and its financial performance and its 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 special purposed financial statements" section below. In accordance with the law we are independent of the Entity 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***

As disclosed in the Introduction of the special purpose financial statements explanatory notes, we draw attention to the fact that the accompanying special purposed financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, for the purposed of presenting to the various stakeholders of the Entity, given its greater relevance in the air transport sector when compare with the generally accepted accounting principles in Portugal.

Our opinion is not modified in respect of this matter.

***Other matter***

The Entity prepared the statutory financial statements for the year ended at December 31, 2018 in accordance with generally accepted accounting principles in Portugal, in order to comply with the applicable legal and regulatory requirements, for which we issued our Auditors' Report on March 21, 2019.

*PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda.*
*Sede: Palácio Sottomayor, Rua Sousa Martins, 1 - 3º, 1069-316 Lisboa, Portugal*
*Tel +351 213 599 000, Fax +351 213 599 999, www.pwc.pt*
*Matriculada na CRC sob o NUPC 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*

*Responsibilities of management for the special purposed financial statements*

Management is responsible for:

a) the preparation of the special purposed financial statements, which present fairly the financial position, the financial performance and the cash flows of the Entity in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the creation and maintenance of an appropriate system of internal control to enable the preparation of special purposed financial statements that are free from material misstatement, whether due to fraud or error;

c) the adoption of appropriate accounting policies and criteria; and

d) the assessment of the Entity's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Entity's ability to continue its activities.

*Auditor's responsibilities for the audit of the special purposed financial statements*

Our responsibility is to obtain reasonable assurance about whether the special purposed 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 special purposed 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 special purposed 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 Entity'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 Entity'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 special purposed 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 Entity to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the special purposed financial statements, including the disclosures, and whether the special purposed financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and

f) communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

March 21, 2019

PricewaterhouseCoopers & Associados
—Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

Hugo Miguel Patrício Dias, R.O.C.

AIR PORTUGAL

**TRANSPORTES AÉREOS PORTUGUESES, S.A.**

FINANCIAL STATEMENTS

FINANCIAL YEAR OF 2017

## INDEX


STATEMENT OF FINANCIAL POSITION ..... F-131
INCOME STATEMENT ..... F-132
STATEMENT OF COMPREHENSIVE INCOME ..... F-133
STATEMENT OF CHANGES IN EQUITY ..... F-134
STATEMENT OF CASH FLOWS ..... F-135
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ..... F-136
Introduction ..... F-136
1 Summary of the principal accounting policies ..... F-138
2 Important accounting estimates and judgements ..... F-150
3 Financial risk management policies ..... F-152
4 Financial assets and liabilities ..... F-160
5 Segment reporting ..... F-161
6 Tangible fixed assets ..... F-163
7 Investment properties ..... F-165
8 Intangible assets ..... F-166
9 Investments in subsidiaries and associates ..... F-166
10 Other financial assets ..... F-167
11 Deferred tax assets and liabilities ..... F-168
12 Other non-current receivables ..... F-169
13 Inventories ..... F-170
14 Other current receivables ..... F-170
15 Income tax receivable/ payable ..... F-173
16 Cash and cash equivalents ..... F-174
17 Share Capital ..... F-174
18 Supplementary capital contributions and reserves ..... F-174
19 Post-employment benefits obligations ..... F-175
20 Provisions ..... F-182
21 Borrowings ..... F-182
22 Other payables ..... F-185
23 Derivative financial instruments ..... F-188
24 Liabilities from unused flight documents ..... F-188
25 Gains and losses in associates ..... F-189
26 Other operating income ..... F-189
27 Cost of goods sold and materials consumed ..... F-189
28 Variation in production ..... F-190
29 External supplies and services ..... F-190
30 Employee costs ..... F-191
31 Impairment in inventory and receivables ..... F-192
32 Other operating expenses ..... F-192
33 Depreciation, amortisation and impairment losses ..... F-192
34 Finance income and expenses ..... F-192
35 Income tax for the year ..... F-193
36 Earnings per share ..... F-194
37 Commitments ..... F-194
38 Contingencies ..... F-194
39 Related Parties ..... F-195
40 Costs with audit and statutory audit ..... F-196
41 Subsequent events ..... F-196
42 Note added for translation ..... F-197

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

| Amounts stated in euros | Note | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Tangible fixed assets | 6 | 578,418,577 | 675,304,178 |
| Investment properties | 7 | 883,849 | 1,005,597 |
| Intangible assets | 8 | 2,881,132 | 1,278,469 |
| Investments in subsidiaries and associates | 9 | 172,310 | 172,310 |
| Other financial assets | 10 | 46,440,556 | 40,195,444 |
| Deferred tax assets | 11 | 52,868,997 | 65,515,522 |
| Other receivables | 12 | 52,704,912 | 37,543,557 |
| | | **734,370,333** | **821,015,077** |
| **Current assets** | | | |
| Inventories | 13 | 60,329,252 | 44,243,138 |
| Other receivables | 14 | 1,232,832,390 | 1,074,408,881 |
| Income tax receivable | 15 | 1,391,197 | 10,073,390 |
| Other financial assets | 10 | 34,852,859 | — |
| Restricted cash | 16 | 82,818 | 537,734 |
| Cash and cash equivalents | 16 | 157,010,962 | 75,063,582 |
| | | **1,486,499,478** | **1,204,326,725** |
| **Total assets** | | **2,220,869,811** | **2,025,341,802** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 17 | 41,500,000 | 41,500,000 |
| Supplementary capital contributions | 18 | 154,353,400 | 154,353,400 |
| Legal reserves | 18 | 8,300,000 | 8,300,000 |
| Hedge reserves | 18 and 23 | — | (460,990) |
| Other reserves | 18 | (200,588) | (200,588) |
| Retained earnings | | (70,390,762) | (100,593,320) |
| Net income/(loss) for the year | | 100,411,383 | 33,517,806 |
| **Total equity** | | **233,973,433** | **136,416,308** |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 11 | 19,691,715 | 19,129,277 |
| Post-employment benefits obligations | 19 | 55,335,013 | 55,101,928 |
| Provisions | 20 | 9,222,749 | 11,642,595 |
| Borrowings | 21 | 617,935,909 | 527,618,616 |
| Other payables | 22 | 112,353,793 | 105,478,689 |
| | | **814,539,179** | **718,971,105** |
| **Current liabilities** | | | |
| Borrowings | 21 | 106,202,415 | 307,467,147 |
| Other payables | 22 | 641,467,319 | 544,620,444 |
| Income tax payable | 15 | 12,956,014 | — |
| Liabilities from unused flight documents | 24 | 411,731,451 | 317,866,798 |
| | | **1,172,357,199** | **1,169,954,389** |
| **Total liabilities** | | **1,986,896,378** | **1,888,925,494** |
| **Total equity and liabilities** | | **2,220,869,811** | **2,025,341,802** |

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

## INCOME STATEMENT
## FOR 2017 AND 2016

| Amounts stated in euros | Note | 2017 | 2016 |
|---|---|---|---|
| Operating income | | | |
| Sales and services rendered | 5 | 2,849,698,878 | 2,197,631,797 |
| Gains and losses in associates | 25 | 37,626 | 26,772 |
| Other operating income | 26 | 38,084,826 | 44,050,345 |
| | | **2,887,821,330** | **2,241,708,914** |
| Operating costs | | | |
| Cost of goods sold and materials consumed | 27 | (136,830,568) | (98,176,127) |
| Variation in production | 28 | 2,090,030 | 2,319,847 |
| External supplies and services | 29 | (2,030,729,624) | (1,583,553,634) |
| Employee costs | 30 | (504,648,966) | (468,265,997) |
| Post-employment benefit obligations expenses | 19 | (4,520,849) | (5,836,108) |
| Impairment in inventory and receivables | 31 | (1,491,350) | (2,069,610) |
| Provisions (increases/decreases) | 20 | 2,419,846 | 899,456 |
| Fair value increases/decreases | 7 | (121,748) | 31,959 |
| Other operating expenses | 32 | (12,809,198) | (11,810,443) |
| | | **201,178,903** | **75,248,257** |
| Depreciation, amortisation and impairment losses | 33 | (52,596,264) | (51,267,996) |
| **Operating income/(loss) (earnings before interests and taxes)** | | **148,582,639** | **23,980,261** |
| Finance Income/expenses | 34 | (17,504,617) | 13,354,133 |
| **Net income/(loss) before income tax** | | **131,078,022** | **37,334,394** |
| Income tax for the year | 35 | (30,666,639) | (3,816,588) |
| **Net income/(loss) for the year** | | **100,411,383** | **33,517,806** |
| **Results per share** | | | |
| Basic and diluted earnings per share | 36 | 12.1 | 4.0 |

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

## STATEMENT OF COMPREHENSIVE INCOME
## FOR 2017 AND 2016

| Amounts stated in euros | Note | 2017 | 2016 |
|---|---|---|---|
| **Net income/(loss) for the year** | | **100,411,383** | **33,517,806** |
| **Items that may be reclassified to income statement:** | | | |
| Gains and losses in derivate financial instruments—cash flow hedge | 23 | 635,848 | 402,141 |
| Deferred tax on derivative financial instruments—cash flow hedge | 11 | (174,858) | (110,589) |
| **Items that will not be reclassified to income statement:** | | | |
| Remeasurements of defined benefit plans | 19 | (5,376,263) | (7,896,195) |
| Deferred tax on remeasurements | 11 | 2,061,015 | 2,171,454 |
| **Other comprehensive income/(loss) net of tax** | | **(2,854,258)** | **(5,433,189)** |
| **Comprehensive income/(loss) for the year** | | **97,557,125** | **28,084,617** |

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

## STATEMENT OF CHANGES IN EQUITY

## FROM 1 JANUARY 2016 TO 31 DECEMBER 2017

| Amounts stated in euros | Note | Share Capital | Supplementary capital contributions | Legal reserves | Hedge reserves | Other reserves | Retained earnings | Net income/(loss) for the year | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Equity as at 1 January 2016** | | **41,500,000** | **154,353,400** | **8,300,000** | **(752,542)** | **(200,588)** | **4,138,041** | **(99,006,620)** | **108,331,691** |
| Application of net income/(loss) of the year 2015 | | — | — | — | — | — | (99,006,620) | 99,006,620 | — |
| Remeasurement* | 11 e 19 | — | — | — | — | — | (5,724,741) | — | (5,724,741) |
| Fair value of financial instruments* | 11 e 23 | — | — | — | 291,552 | — | — | — | 291,552 |
| Net income/(loss) for the year | | — | — | — | — | — | — | 33,517,806 | 33,517,806 |
| **Equity as at 31 December 2016** | | **41,500,000** | **154,353,400** | **8,300,000** | **(460,990)** | **(200,588)** | **(100,593,320)** | **33,517,806** | **136,416,308** |
| Application of net income/(loss) of the year 2016 | | — | — | — | — | — | 33,517,806 | (33,517,806) | — |
| Remeasurement* | 11 e 19 | — | — | — | — | — | (3,315,248) | — | (3,315,248) |
| Fair value of financial instruments* | 11 e 23 | — | — | — | 460,990 | — | — | — | 460,990 |
| Net income/(loss) for the year | | — | — | — | — | — | — | 100,411,383 | 100,411,383 |
| **Equity as at 31 December 2017** | | **41,500,000** | **154,353,400** | **8,300,000** | **—** | **(200,588)** | **(70,390,762)** | **100,411,383** | **233,973,433** |

* net of deferred taxes, when applicable

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

## STATEMENT OF CASH FLOWS
## FOR 2017 AND 2016

| Amounts stated in euros | Note | 2017 | 2016 |
|---|---|---|---|
| **Operating activities:** | | | |
| Receipts from customers | | 3,001,973,424 | 2,075,984,073 |
| Payments to suppliers | | (2,427,191,595) | (1,891,718,818) |
| Payments to employees | | (392,693,001) | (345,683,551) |
| Cash generated from operations | | 182,088,828 | (161,418,296) |
| Income tax (payment)/receipt | | 5,999,876 | (5,634,446) |
| Other receipts/payments relating to operating activities | | (31,201,036) | 239,023,947 |
| **Cash flow from operating activities (1)** | | **156,887,668** | **71,971,205** |
| **Investment activities:** | | | |
| **Receipts from:** | | | |
| Financial investments | | — | 115,852 |
| Tangible fixed assets | 6 | 217,348,292 | 64,665,603 |
| Loans granted | | 770,491,647 | 835,199,182 |
| Interests and similar income | | 53,725,029 | 41,594,871 |
| Dividends | | 37,626 | 26,772 |
| | | 1,041,602,594 | 941,602,280 |
| **Payments relating to:** | | | |
| Financial investments | | (47,132,951) | (39,276,010) |
| Tangible fixed assets | | (119,167,908) | (134,895,179) |
| Loans granted | | (792,590,024) | (804,670,000) |
| | | (958,890,883) | (978,841,189) |
| **Cash flow from investment activities (2)** | | **82,711,711** | **(37,238,909)** |
| **Financing activities:** | | | |
| **Receipts from:** | | | |
| Borrowings | | 55,428,645 | 100,000,277 |
| | | 55,428,645 | 100,000,277 |
| **Payments relating to:** | | | |
| Borrowings | | (55,566,605) | (71,460,469) |
| Financial leasing contracts | | (104,795,454) | (69,988,513) |
| Interests and similar costs | | (39,714,168) | (41,513,128) |
| | | (200,076,227) | (182,962,110) |
| **Cash flow from financing activities (3)** | | **(144,647,582)** | **(82,961,833)** |
| **Net increase (decrease) in cash and cash equivalents (1)+(2)+(3)** | | 94,951,797 | (48,229,537) |
| Effects of exchange rate changes | | (13,179,683) | (11,270,920) |
| **Cash and cash equivalents at the beginning of the year** | | 75,321,666 | 134,822,123 |
| **Cash and cash equivalents at the end of the year** | 16 | **157,093,780** | **75,321,666** |

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR**

**Introduction**

TAP—Transportes Aéreos Portugueses, S.A. ("Company" or "TAP S.A.") is a public limited company with its head office in Lisbon, which is governed by Decree-Law no. 312/91, of 17 August, and which succeeded the public company Transportes Aéreos Portugueses, EP, continuing its legal personality and retaining all the rights and obligations that are part of its legal area at the time of its transformation into a public limited company.

The Company's core business consists in the air transport of passengers, cargo and mail, operating in Portugal, mainland and its Autonomous Regions, Europe, Africa, North Atlantic, Mid-Atlantic and South Atlantic. The Company has 24 representative offices in foreign countries and 4 in Portugal. Additionally, it carries out maintenance and engineering work for its fleet and for third parties.

**Head Office:** Lisbon Airport, Edifício 25

**Share Capital:** Euro 41,500,000

**Taxpayer Number:** 500 278 725

The Company is affiliated to the IATA—International Air Transport Association.

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

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

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

With the transmission of 61% of the share capital of TAP SGPS to Atlantic Gateway on 12 November 2015, among other contractual instruments, it should be noted the "Agreement on Economic and Financial Stability of TAP" ("Acordo Relativo À Estabilidade Económica-Financeira"), between Parpública, Atlantic Gateway, TAP SGPS, TAP S.A. and Portugália, in which Atlantic Gateway, as buyer, and TAP S.A. and Portugália, as borrowers, assumed some obligations related to TAP Group financial debt and debt service.

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

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

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

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

The Resolution of the Council of Ministers n° 30/2016 of 19 May, which approved the minutes of the Share Purchase Agreement and the Shareholders Agreement and Strategic Commitments of TAP SGPS, also determined, among others, (i) the immediate cessation of the effects of the Strategic Commitment Agreement formalised on 24 June 2015, referred to above, on the date that the Shareholders Agreement and Strategic Commitments of TAP SGPS became effective, as well as (ii) the expiration of the unavailability scheme provided for in the specifications of the Reprivatization Process—with respect to the number of shares of TAP SGPS and TAP SA that are necessary to ensure the majority of the voting rights and effective control of mentioned companies—on the effective date of the transfer of the shares of TAP SGPS to Parbública.

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

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

Following the privatization of TAP SGPS, it was determined and concluded the public offering of shares available for TAP Group's employes, consisting on the sale of representative shares up to 5% of TAP SGPS' share capital, from Parpública, to the employes of TAP SGPS and other Group companies, as identified in Annex II of the Council of Ministers Resolution n.° 4-A/2015, from 20 January, amended by n° 7 of the Council of Ministers Resolution n.° 4-A/2015, from 23 March. This public offering of shares to employees was launched in 10 April 2017, in accordance with the Council of Ministers Resolution n.º 42-A/2017, from 23 March, TAP Group's employees acquired a total of 75,000 shares representing 5% of TAP SGPS' share capital and voting rights.

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

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

Therefore, TAP SGPS' share capital is as follows:

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

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

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

These financial statements were approved by the Board of Directors on 21 February 2018. However, they are still subject to approval by the General Meeting of Shareholders, under the terms of the commercial legislation in force.

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

## 1 Summary of the principal accounting policies

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

### 1.1. Basis of preparation

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

The accompanying financial statements were prepared on a going concern basis from the accounting books and records of the Company based on historic cost, except for derivative financial instruments, investment properties and customer loyalty programs, which are recorded at fair value.

The preparation of the financial statements, accordingly with IFRS, requires the use of important estimates and judgments in the application of the accounting policies. Despite the estimates used are based on the best information available during the preparation of these financial statements and best knowledge of past and present events, we note that actual and future results may differ from these estimates. The principal assertions which involve a greater degree of judgment or complexity and the most significant assumptions and estimates used in the preparation of the aforesaid financial statements are disclosed in Note 2.

**1 Summary of the principal accounting policies (Continued)**

In the preparation and presentation of these financial statements, the Company declares that is in compliance with the IAS/IFRS and their interpretations SIC/IFRIC, as adopted by the European Union.

**1.2. Comparability of the financial statements**

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

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

The Company considers that this accounting classification amendment reflects, currently, in a more adequate way its business and its operational and financial events. According to its immateriality in the context of financial statements for the year ended 31 December 2016 (Euro 2,071 thousand according to Note 26), the comparative figures were not restated.

**1.3. New standards, changes and interpretations of existing standards**

- **New standards, changes and interpretations of existing standards mandatory as at 31 December 2017**

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

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

* Financial years beggining on or after

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

**1 Summary of the principal accounting policies (Continued)**

- **New standards and interpretations not mandatory as at 31 December 2017**

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

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

* Financial years beggining on or after

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

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

* Financial years beggining on or after

**1 Summary of the principal accounting policies (Continued)**

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

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

* Financial years beggining on or after

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

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

### 1.4. Investments in subsidiaries and associates

Investments in subsidiaries and associates are recorded at the acquisition cost net of impairment losses, when applicable.

After the investor's interest be reduced to zero, TAP SA recognises a liability to cover additional liabilities related to (i) legal or constructive claims or payments in favour of subsidiaries or associates, (ii) expectation of insufficient cash flows to comply with incurred legal or constructive liabilities and (iii) inability to determine the fair value of these investments reliably.

Dividends received from subsidiaries and associates companies, are recorded under the caption Gains and losses in subsidiaries and associates, when attributed.

### 1.5. Foreign currency translation

- **Functional and presentation currency**

The items included in the financial statements are measured using the currency of the economic environment in which the entity operates (functional currency). These financial statements are presented in Euros, which is the Company functional and presentation currency.

- **Balances and transactions**

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

- **Exchange rates**

The exchange rates used to update balances expressed in a foreign currency were as follows:

| Currency | 2017 | 2016 |
|---|---|---|
| USD | 1.1993 | 1.0541 |
| CHF | 1.1702 | 1.0739 |
| GBP | 0.8872 | 0.8562 |
| BRL | 3.9729 | 3.4305 |
| VEF | 4,011.7 | 710.21 |
| AOA | 185.40 | 184.48 |

**1 Summary of the principal accounting policies (Continued)**

**1.6. Tangible fixed assets**

Tangible fixed assets that were acquired prior to 1 January 2004 are recorded at their deemed cost, which is the book value under the accounting principles generally accepted in Portugal until 1 January 2004 (transition date to IFRS), including revaluations made in accordance with the prevailing legislation, deducted of depreciation and impairment losses. The fair value of these items of tangible fixed assets at that date was determined through an evaluation study performed by an independent expert (Colliers P&I), which also determined the remaining useful life of these assets, on transition date.

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

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

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

| | Years of useful life | Residual value |
|---|---|---|
| Buildings and other constructions | 20 – 50 | — |
| Basic equipment: | | |
| Flight equipment: | | |
| Aircraft | 20 | 5% |
| Aircraft under financial leasing | 20 | 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 and utensils | 8 – 20 | 0 – 5% |
| Administrative equipment | 5 – 16 | — |
| Other tangible fixed assets | 10 | — |

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

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

**1.7. Investment properties**

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

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

**1.8. Intangible assets**

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

**1 Summary of the principal accounting policies (Continued)**

**1.9. Impairment of non-current assents**

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

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

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

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

The reversal of impairment losses recognised in previous periods is recorded when it can be concluded that the recognised impairment losses no longer exist or have decreased.

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

**1.10. Financial Instruments**

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

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

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

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

- **Loans and receivables**

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

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

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

**1 Summary of the principal accounting policies (Continued)**

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

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

- **Held-to-maturity investments**

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

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

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

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

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

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

**Impairment of financial assets**

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

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

- Analysis of non-compliance;
- Failure to comply for more than 6 months;
- Financial difficulties of the debtor;
- It becomes probable that the debtor will enter bankruptcy.

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

**(ii) Available-for-sale financial assets**

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

**1 Summary of the principal accounting policies (Continued)**

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

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

**1.11. Derivative financial instruments**

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

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

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

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

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

- **Hedge accounting**

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

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

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

**1 Summary of the principal accounting policies (Continued)**

### 1.12. Assets and liabilities fair value

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

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

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

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

### 1.13. Inventories

Inventories are valued in accordance with the following criteria:

- **Goods and raw materials**

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

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

Material recovered internally is valued at cost.

- **Intermediate products and work in progress**

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

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

### 1.14. Trade and other receivables

Debtors' balances and other current assets are initially recorded at fair value and are subsequently recognised at their amortised cost, net of impairment losses, in order to present those balances at their net realisable amount (Note 14).

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

### 1.15. Cash and cash equivalents

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

TAP S.A. records the cash and cash equivalents, whose repatriation is restricted, in the heading "Restricted cash" under current assets.

**1 Summary of the principal accounting policies (Continued)**

### 1.16. Share Capital

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

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

### 1.17. Borrowings

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

Borrowings are classified as a current liability, except when the Company has an unconditional right to defer the settlement of the liability for at least 12 months after the date of the statement of financial position (Note 21).

### 1.18. Borrowing costs

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

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

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

### 1.19. Suppliers and other payables

Current suppliers and other payables are, initially, recorded at their fair value and, subsequently, at amortised cost (Note 22).

### 1.20. Corporate income tax

Income tax includes current and deferred tax. Current income tax is calculated based on net income, adjusted in conformity with tax legislation in place at the reporting date.

Deferred taxes liabilities are, usually, recognised for all temporary differences and deferred tax assets are recognised whenever there is a reasonable likelihood that future taxable profits will be generated or there are deferred taxes liabilities against which they can be offset. Deferred tax assets are revised periodically and decreased whenever it is likely they will not be used.

The income tax rate expected to be in force in the period in which the temporary differences will reverse is used in calculating deferred tax. Deferred taxes are recorded as a cost or income for the year, except where they result from amounts recorded directly under shareholders' equity, in which case deferred tax is also recorded under the same caption, ie, the amounts to be included in the current tax and in the deferred tax, resulting from transactions and events recognised in reserves, are recorded directly in these same captions. Therefore, the impact of changes in the tax rate is also recognised in net income, except when it refers to items recognised directly in equity, in which case this impact is also recorded directly in equity.

### 1.21. Post-employment benefits

As referred in Note 19, the Company have undertaken to make payments to its employees for complementary retirement pension, early retirement, health care and seniority bonuses.

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

**1 Summary of the principal accounting policies (Continued)**

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

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

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

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

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

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

### 1.22. Provisions

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

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

Provisions for future operating losses are not recognised. Provisions are reviewed on the date of the statement of financial position and are adjusted to reflect the best estimate at that date (Note 20).

### 1.23. Contingent assets and liabilities

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

Provisions are recognised for liabilities which meet the conditions described in note 1.22.

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

### 1.24. Government grants

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

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

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

**1 Summary of the principal accounting policies (Continued)**

### 1.25. Leases

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

According to this method, the asset's cost is recorded in Tangible fixed assets and the corresponding liability is recorded under liabilities as Borrowings, while the interest included in the instalments and the asset's depreciation, calculated as described in Note 1.6, are recorded as costs in the income statement of the period to which they relate.

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

### 1.26. Revenue and accrual basis

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

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

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

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

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

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

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

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

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

The differences between the amounts received and paid and the respective costs and income are recognised as deferred expenses and revenues, other receivables and payables (Notes 14 e 22, respectively).

**1 Summary of the principal accounting policies (Continued)**

**1.27. Segment reporting**

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

Three operational segments were identifies: air transportation, maintenance and engineering and others.

All inter-segmental sales and services rendered are valued at market prices. Segmental information is disclosed in Note 5.

**1.28. Statement of cash flows**

Statement of cash flows is prepared in accordance IAS 7, through direct method. The Company classified under this caption cash and cash equivalents with an initial maturity of up to 3 months which can be mobilised immediately without any significant risk of fluctuations in value. For the purpose of the statement of cash flows, this caption also includes bank overdrafts, which are presented in the statement of financial position, under the caption "Borrowings", as well as "Restricted cash".

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

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

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

The cash flows from financing activities include, namely, the payments and receipts related to loans obtained, financial leases payments, payments related to interest and similar costs, own shares acquisition and payment of dividends.

**1.29. Subsequent events**

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

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

**2 Important accounting estimates and judgements**

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

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

**2 Important accounting estimates and judgements (Continued)**

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

- **Deferred tax**

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

- **Post-employment benefits**

Liabilities relating to defined-benefit plans are calculated based on actuarial assumptions. Changes to those assumptions can have a material impact on the aforesaid liabilities. The key assumptions for pension obligations are detailed in Note 19. The Company's policy is to periodically review the main demographic assumptions, when their impact on the financial statements is considered relevant.

- **Recognition of provisions and impairments**

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

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

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

- **Customer loyalty program**

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

- **Liabilities from unused flight documents**

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

- **Useful life and residual value of tangible fixed assets**

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

These parameters are defined in accordance with the best judgement of the Board of Directors for the referred assets in question, also considering the practices adopted by peers. See additionally Note 6.

- **Venezuela exchange rate**

Following the strong deterioration of the Venezuelan economy, the successive devaluations of the local currency and the current limitation to the repatriation of capital controlled by local government entities,

**2 Important accounting estimates and judgements (Continued)**

the Company has been periodically monitoring the timing of the repatriation of the amounts indicated and applicable rate exchange in order to obtain the best possible estimate as at 31 December 2017.

The future currency fluctuations and future capital repatriation policies are not under Company's control, thus a different completion may result in significant impacts in the future, which could affect the operating results and the Company's financial position. See additionally Note 16.

**3 Financial risk management policies**

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

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

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

- **Market risk**

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

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

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

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

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

**3 Financial risk management policies (Continued)**

Immediately after the reprivatisation of the Group in November 2015, the Company began an ambitious strategic plan for the global fleet renewal, to be implemented in several stages. This cycle of massive investment and deep renewal of the airline was beginning. This cycle, which will last for several years, includes the renewal of most of the current fleet of 20 long-haul aircraft and 43 medium-haul aircraft, replacing for 53 new aircraft ordered to Airbus in 2015 to be delivered from 2018 onwards. This order involved, early in 2016, a first phase of investment by TAP S.A. in pre delivery payments paid to the manufacturer and will require a high and continuous financial effort during the coming years.

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

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

- **Fuel price risk**

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

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

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

- **Currency risk**

The TAP S.A. overall foreign exchange exposure comes from several markets, several areas of activity, multiple relevant costs and many of its assets and liabilities.

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

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

The American market accounted for, in the end of 2017, nearly 10% over the total of the TAP S.A.'s ticket sales. The resulting exposure to the dollar is important to counterbalance the adverse net exposure to the currency that the Company has in a substantial part of its costs.

The various foreign exchange costs of the TAP S.A. are responsible for a significant unbalance in its foreign exchange balance, which is deficient in relation to the US dollar. Generally, the cost headings of the TAP S.A are largely dependent on the euro and the dollar, with the remaining currencies, with the exception of the Brazilian real, having a reduced impact. The dollar, however, is the aviation reference currency and covers such diverse and important inputs as fuel, aircraft leasing, maintenance materials and services, aviation insurance, shipping fees and airport charges in many of the geographic areas. Regarding fuel, even in contracts subject to invoicing and settlement in euro, namely in the Portuguese market, the

**3 Financial risk management policies (Continued)**

calculation of amounts receivable is indexed, and established by reference, to the quotation of the dollar against the euro, almost total exposure to the dollar, in which only certain commercial rates and fees are excluded, with a marginal weight in the global fuel bill.

Also in the case of operating leases and wet leases the market operates predominantly in dollars from monthly rentals to maintenance reserve costs or to security deposits. Aircraft maintenance is another source of dollar exposure that is not always passed on to the final customer in terms of billing in that currency. The various materials incorporated in the TAP fleet are also normally purchased in dollars. At the strictly financial level, still, since some loans are also denominated in dollars, also the respective interest and capital repayments result in an additional exposure to the American currency. At the end of 2017, 17% of the Company's debt was denominated in dollars, against 13% at the end of 2016.

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

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

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | USD | BRL | AOA | VEF | Other | TOTAL |
| **ASSETS** | | | | | | |
| Cash and cash equivalents | 91,134,409 | 547,509 | 33,669,427 | 79 | 15,545,674 | 140,897,098 |
| Other financial assets (Note 10) | 81,084,329 | — | — | — | — | 81,084,329 |
| Restricted cash (Note 16) | — | — | — | 82,818 | — | 82,818 |
| Receivables—customers | 35,509,799 | 154,589,805 | 1,463,754 | 6,683 | 19,233,436 | 210,803,477 |
| Receivables—other | 92,688,615 | 20,424,920 | 3,741,731 | 5 | 3,984,956 | 120,840,227 |
| | **300,417,152** | **175,562,234** | **38,874,912** | **89,585** | **38,764,066** | **553,707,949** |
| **LIABILITIES** | | | | | | |
| Borrowing (Note 21) | 121,265,739 | — | — | — | — | 121,265,739 |
| Payables—suppliers | 46,665,942 | 8,202,535 | 392,038 | 521,388 | 7,384,372 | 63,166,275 |
| Payables—other | 155,748,722 | 6,646,037 | 3,020,014 | 82,056 | 6,468,921 | 171,965,750 |
| | **323,680,403** | **14,848,572** | **3,412,052** | **603,444** | **13,853,293** | **356,397,764** |

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | USD | BRL | AOA | VEF | Other | TOTAL |
| **ASSETS** | | | | | | |
| Cash and cash equivalents | 13,497,774 | 840,082 | 35,413,981 | 445 | 19,653,674 | 69,405,956 |
| Other financial assets (Note 10) | 40,184,572 | — | — | — | — | 40,184,572 |
| Restricted cash (Note 16) | — | — | — | 537,734 | — | 537,734 |
| Receivables—customers | 32,245,461 | 77,588,864 | 1,697,683 | 23,544 | 15,847,048 | 127,402,600 |
| Receivables—other | 60,864,243 | 14,864,103 | 189,676 | 150 | 3,342,435 | 79,260,607 |
| | **146,792,050** | **93,293,049** | **37,301,340** | **561,873** | **38,843,157** | **316,791,469** |
| **LIABILITIES** | | | | | | |
| Borrowing (Note 21) | 107,291,903 | — | — | — | — | 107,291,903 |
| Payables—suppliers | 23,657,564 | 10,670,565 | 283 | 161,808 | 5,500,091 | 39,990,311 |
| Payables—other | 148,239,445 | 7,035,770 | 1,804,404 | 214,012 | 6,510,075 | 163,803,706 |
| | **279,188,912** | **17,706,335** | **1,804,687** | **375,820** | **12,010,166** | **311,085,920** |

**3 Financial risk management policies (Continued)**

It should also be noted that, on 31 December 2017, "Other financial assets" includes the amount of Euro 80,812,375 (2016: Euro 39,653,765), referring to Angola's Treasury bonds subscribed in 2017 and 2016, indexed to the US dollar currency risk. Additionally, under the heading "cash and cash equivalents", also indexed to the US dollar currency risk, is included the amount of Euro 7,928,054, also deposited in Angola (2016: Euro 447,846) (Notes 10 and 16).

As at 31 December 2017, a 10% variation (positive or negative) of all the exchange rates relative to the Euro, would have an impact in the income statement of some Euro 20 million (2016: Euro 0.6 million).

- **Interest rate risk**

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

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

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

The amount of fixed-rate debt in the total TAP S.A.'s debt decreased 28% from the total in 2016 to 8% in 2017, at the end of the year. The majority of floating rate loans, corresponding to 92% of the total, bear interests at Euribor, plus the contractual spread, and once more indexed to negative values, for all the terms, during 2017, the amount applied in the respective operations was zero, according to the floor imposed by the financing entities. In practice, all variable-rate euro-denominated credits are charged considering the contractual spread only.

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

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

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | < 1 year | 1 – 2 years | 3 – 5 years | 6 – 10 years | > 10 years | Total |
| **Variable Rate** | | | | | | |
| Loans | — | 120,976,550 | 367,118,732 | 37,090,867 | 7,500,000 | 532,686,149 |
| Financial leases | 94,366,478 | 30,214,740 | 7,695,993 | — | — | 132,277,211 |
| | **94,366,478** | **151,191,290** | **374,814,725** | **37,090,867** | **7,500,000** | **664,963,360** |
| **Fixed Rate** | | | | | | |
| Loans | 8,216,842 | 7,310,180 | 30,258,897 | 2,082,547 | — | 47,868,466 |
| Financial leases | 3,619,095 | 3,761,911 | 3,925,492 | — | — | 11,306,498 |
| | **11,835,937** | **11,072,091** | **34,184,389** | **2,082,547** | **—** | **59,174,964** |
| **Total** | **106,202,415** | **162,263,381** | **408,999,114** | **39,173,414** | **7,500,000** | **724,138,324** |
| **% fixed rate** | **11%** | **7%** | **8%** | **5%** | **0%** | **8%** |

**3 Financial risk management policies (Continued)**

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | < 1 year | 1 – 2 years | 3 – 5 years | 6 – 10 years | > 10 years | Total |
| **Variable Rate** | | | | | | |
| Loans | 140,409,303 | — | 265,252,303 | 141,620,221 | 15,000,000 | 562,281,827 |
| Financial leases | 13,549,635 | 16,315,347 | 5,902,579 | — | — | 35,767,561 |
| | **153,958,938** | **16,315,347** | **271,154,882** | **141,620,221** | **15,000,000** | **598,049,388** |
| **Fixed Rate** | | | | | | |
| Loans | 56,514,120 | 7,300,538 | 14,878,003 | — | — | 78,692,661 |
| Financial leases | 96,714,439 | 25,151,637 | 36,197,988 | — | — | 158,064,064 |
| | **153,228,559** | **32,452,175** | **51,075,991** | **—** | **—** | **236,756,725** |
| **Total** | **307,187,497** | **48,767,522** | **322,230,873** | **141,620,221** | **15,000,000** | **834,806,113** |
| **% fixed rate** | **50%** | **67%** | **16%** | **0%** | **0%** | **28%** |

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

The sensitivity analysis is based on the following assumptions:

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

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

Note 21 presents detailed information about the remunerated bank debt.

- **Liquidity risk**

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

The table below, which includes principal and interests payments, considers assumptions related to market interest rates and Eurodollar exchange. The financial liabilities reflect the amounts payable in each maturity, including the estimation of all contractual cash flows including principal and interest payments,

**3 Financial risk management policies (Continued)**

not discounted, until borrowings maturity. It was considered a simplifying assumption of linear intra-annual amortisation rate for future interest's calculation purposes:

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | < 6 months | 6 months – 1 year | 1 – 2 years | 3 – 5 years | 6 – 10 years | > 10 years | Total |
| Loans | 19,382,358 | 11,694,155 | 157,871,438 | 425,535,944 | 42,693,500 | 7,648,688 | 664,826,083 |
| Financial leases | 74,222,722 | 27,726,139 | 35,357,807 | 11,902,431 | — | — | 149,209,099 |
| **Total** | **93,605,080** | **39,420,294** | **193,229,245** | **437,438,375** | **42,693,500** | **7,648,688** | **814,035,182** |

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | < 6 months | 6 months – 1 year | 1 – 2 years | 3 – 5 years | 6 – 10 years | > 10 years | Total |
| Loans | 42,443,449 | 174,181,092 | 34,276,204 | 320,247,294 | 140,159,640 | 15,593,531 | 726,901,210 |
| Financial leases | 31,561,906 | 83,674,397 | 43,834,694 | 43,315,602 | — | — | 202,386,599 |
| **Total** | **74,005,355** | **257,855,489** | **78,110,898** | **363,562,896** | **140,159,640** | **15,593,531** | **929,287,809** |

- **Credit risk**

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

| | 2017 | 2016 |
|---|---|---|
| **Non-current assets** | | |
| Other non-current assets (Notes 10 and 12) | 99,145,468 | 77,739,001 |
| **Current assets** | | |
| Cash and cash equivalents | 157,010,962 | 75,063,582 |
| Restricted cash | 82,818 | 537,734 |
| Receivables—Customers (Note 14) | 280,484,345 | 183,344,985 |
| Other current assets (Notes 10 and 14) | 963,932,897 | 872,627,707 |
| | **1,500,656,490** | **1,209,313,009** |

**3 Financial risk management policies (Continued)**

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

| Rating | 2017 | 2016 |
|---|---|---|
| AAA | 705,437 | 372,826 |
| AA− | 1,012,520 | 285,603 |
| A+ | 73,016,806 | 25,426,552 |
| A | 2,451,928 | 2,325,297 |
| A− | 474,561 | 65,151 |
| BBB+ | 931 | 160,383 |
| BBB | 356,498 | 165,135 |
| BBB− | 26,454,052 | 778 |
| BB+ | — | 515,730 |
| BB− | 1,007,638 | 3,609,587 |
| B+ | 175,193 | 1,044,726 |
| B | 30,670 | 538,218 |
| B− | — | 1,316,950 |
| CCC+ | — | 1,156,349 |
| CCC | 5,375,282 | — |
| Other | 45,938,716 | 38,572,768 |
| | **157,000,232** | **75,556,053** |
| Restricted cash (Note 16) | 82,818 | 537,734 |
| Bank deposits (Note 16) | 156,917,414 | 75,018,319 |
| | **157,000,232** | **75,556,053** |

The caption "Other", in the amount of Euro 45,938,716, refers to values related to various international institutions, for which it was not possible to obtain their rating, among which Euro 41,639,693 are deposited in Angola (Note 16).

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

| | 2017 | 2016 |
|---|---|---|
| Not overdue values | 244,928,441 | 133,052,644 |
| 1 to 90 days | 10,462,974 | 18,286,331 |
| 91 to 180 days | 3,798,419 | 17,017,286 |
| 181 to 270 days | 6,210,908 | 2,597,246 |
| 271 to 365 days | 744,568 | 1,128,814 |
| Over 366 days | 74,454,336 | 74,469,218 |
| | **340,599,646** | **246,551,539** |
| Impairment (Note 14) | (60,115,301) | (63,206,554) |
| **Customers—Net value (Note 14)** | **280,484,345** | **183,344,985** |

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

The balances of airline companies and travel agencies included in Trade receivables, as identified in Note 14, are settled, mainly, through the IATA Billing and Settlement Plan ("BSP") and the IATA Clearing House system ("ICH"), which substantially reduces the credit risk of the Company.

**3 Financial risk management policies (Continued)**

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

- **Capital management**

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

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

Gearing ratios as of December 31, 2017 and 2016 were as follows:

| | 2017 | 2016 |
|---|---|---|
| Total loans (Nota 21) | 724,138,324 | 835,085,763 |
| Cash and cash equivalents (Nota 16) | (157,010,962) | (75,063,582) |
| Net debt | 567,127,362 | 760,022,181 |
| Equity | 233,973,433 | 136,416,308 |
| Total equity | 801,100,795 | 896,438,489 |
| ***Gearing*** | **71%** | **85%** |

**4 Financial assets and liabilities**

The accounting policies described in Notes 1.10. and 1.11. were applied according to the categories presented below:

| | 2017 | | | | |
|---|---|---|---|---|---|
| | **Derivative financial instruments classified as hedge instruments (Note 23)** | **Credit and other receivables** | **Other assets/ financial liabilities** | **Non-financial assets and liabilities** | **Total** |
| **Assets** | | | | | |
| Other non-current assets | — | 53,185,952 | 45,959,516 | — | 99,145,468 |
| Current receivables | — | 1,209,564,383 | 34,852,859 | 24,659,204 | 1,269,076,446 |
| Restricted cash | — | — | 82,818 | — | 82,818 |
| Cash and cash equivalents | — | — | 157,010,962 | — | 157,010,962 |
| **Total assets** | **—** | **1,262,750,335** | **237,906,155** | **24,659,204** | **1,525,315,694** |
| **Liabilities** | | | | | |
| Non-current borrowings | — | — | (617,935,909) | — | (617,935,909) |
| Other non-current liabilities | — | — | (112,353,793) | — | (112,353,793) |
| Current borrowings | — | — | (106,202,415) | — | (106,202,415) |
| Current payables | — | — | (530,884,214) | (535,270,570) | (1,066,154,784) |
| **Total Liabilities** | **—** | **—** | **(1,367,376,331)** | **(535,270,570)** | **(1,902,646,901)** |

| | 2016 | | | | |
|---|---|---|---|---|---|
| | **Derivative financial instruments classified as hedge instruments (Note 23)** | **Credit and other receivables** | **Other assets/ financial liabilities** | **Non-financial assets and liabilities** | **Total** |
| **Assets** | | | | | |
| Other non-current assets | — | 38,085,236 | 39,653,765 | — | 77,739,001 |
| Current receivables | — | 1,055,972,692 | — | 28,509,579 | 1,084,482,271 |
| Restricted cash | — | — | 537,734 | — | 537,734 |
| Cash and cash equivalents | — | — | 75,063,582 | — | 75,063,582 |
| **Total assets** | **—** | **1,094,057,928** | **115,255,081** | **28,509,579** | **1,237,822,588** |
| **Liabilities** | | | | | |
| Non-current borrowings | — | — | (527,618,616) | — | (527,618,616) |
| Other non-current liabilities | (635,848) | — | (104,842,841) | — | (105,478,689) |
| Current borrowings | — | — | (307,467,147) | — | (307,467,147) |
| Current payables | — | — | (449,607,874) | (412,879,368) | (862,487,242) |
| **Total Liabilities** | **(635,848)** | **—** | **(1,389,536,478)** | **(412,879,368)** | **(1,803,051,694)** |

The following tables present the assets and liabilities measured at fair value as at 31 December 2017 and 2016, according to the following fair value hierarchical levels established in IFRS 13:

**Level 1:** the fair value of financial instruments is based on prices available on active, liquid markets at the date of the financial position;

**Level 2:** the fair value of financial instruments is not determined based on active market prices, but rather through valuation models. The main inputs of these models are observable on the market; and

**Level 3:** the fair value of financial instruments is not determined based on active market prices, but rather through valuation models, whose main inputs are not observable on the market.

**4 Financial assets and liabilities (Continued)**

- **Assets measured at fair value**

| | 2017 | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| **Non-financial assets** | | | |
| Investment properties | — | 883,849 | — |

| | 2016 | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| **Non-financial assets** | | | |
| Investment Properties | — | 1,005,597 | — |

- **Liabilities measured at fair value**

| | 2017 | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| **Financial liabilities** | | | |
| Derivative financial instruments—hedging | — | — | — |
| **Non-financial liabilities** | | | |
| Deferrals—Customers loyalty program | — | 50,399,075 | — |

| | 2016 | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| **Financial liabilities** | | | |
| Derivative financial instruments—hedging | — | 635,848 | — |
| **Non-financial liabilities** | | | |
| Deferrals—Customers loyalty program | — | 42,971,811 | — |

**Derivative financial instruments**

The fair value of the derivative financial instruments is recorded under the caption of other payables when negative, and under the caption of other receivables when positive.

During 2017 and 2016, the variation of derivative financial instruments fair value was recognised in equity.

The breakdown of the derivative financial instruments fair value is detailed in Note 23.

**Credit and other receivables**

Other receivables are initially recognised at their fair value, corresponding to their nominal value, deducted of any impairment loss identified during credit risk analysis.

**Other financial liabilities**

Other financial liabilities are recognised at their amortised cost, corresponding to the amount of the respective cash flow, discounted by the effective interest rate associated to each liability.

**5 Segment reporting**

The following business segments have been identified: air transport, maintenance and other. The net income/(loss) of each segment correspond to those directly allocated to them, as well as to those that can be reasonable attributed to those segments.

## 5 Segment reporting (Continued)

The financial information by operational segment for 2017 and 2016 is analysed as follows:

| | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Air Transport | Maintenance | Other | Total | Air Transport | Maintenance | Other | Total |
| **REVENUE** | | | | | | | | |
| Revenue | 2,697,850,221 | 144,796,300 | 7,052,357 | 2,849,698,878 | 2,110,729,391 | 79,132,030 | 7,770,376 | 2,197,631,797 |
| Net operating income/ (loss) | 153,665,154 | 17,471,408 | (22,553,923) | 148,582,639 | 34,062,976 | 8,698,631 | (18,781,346) | 23,980,261 |
| External net financial results | (32,430,889) | 1,409,559 | 13,516,713 | (17,504,617) | (1,059,082) | — | 14,413,215 | 13,354,133 |
| Net gains in associates | — | — | 37,626 | 37,626 | — | — | 26,772 | 26,772 |
| Income tax | (28,363,622) | (4,417,337) | 2,114,320 | (30,666,639) | (3,373,893) | (889,236) | 446,541 | (3,816,588) |
| **Net income** | **92,870,643** | **14,463,630** | **(6,922,890)** | **100,411,383** | **29,630,001** | **7,809,395** | **(3,921,590)** | **33,517,806** |

The sales and services provided by geographic market are defined based on the destination country of the goods and services sold by the Company, which in the case of air transport is understood as the destination country of the flight:

| | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Air Transport | Maintenance | Other | Total | Air Transport | Maintenance | Other | Total |
| **Sales and services rendered** | | | | | | | | |
| Mainland Portugal and islands | 166,571,865 | 17,509,733 | 7,052,357 | 191,133,955 | 151,045,387 | 13,882,096 | 7,770,376 | 172,697,859 |
| Europe | 992,766,723 | 97,184,760 | — | 1,089,951,483 | 880,860,076 | 38,567,274 | — | 919,427,350 |
| South Atlantic | 888,502,166 | 10,170,188 | — | 898,672,354 | 586,148,715 | 9,137,947 | — | 595,286,662 |
| North Atlantic | 292,312,310 | 12,886,735 | — | 305,199,045 | 176,512,446 | 9,804,901 | — | 186,317,347 |
| Mid Atlantic | 28,073,817 | — | — | 28,073,817 | 31,308,600 | — | — | 31,308,600 |
| Africa | 329,610,926 | 1,802,013 | — | 331,412,939 | 284,854,167 | 568,825 | — | 285,422,992 |
| Other | 12,414 | 5,242,871 | — | 5,255,285 | — | 7,170,987 | — | 7,170,987 |
| | **2,697,850,221** | **144,796,300** | **7,052,357** | **2,849,698,878** | **2,110,729,391** | **79,132,030** | **7,770,376** | **2,197,631,797** |

## 6 Tangible fixed assets

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

| | Land and natural resources | Buildings and other constructions | Basic equipment | Transport equipment | Tools and utensils | Administrative equipment | Other tangible fixed assets | Other assets in progress | Advances to suppliers of tangible assets | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Acquisition Cost** | | | | | | | | | | |
| **1 January 2016** | **41,168,153** | **154,550,726** | **1,650,892,764** | **2,611,120** | **20,923,047** | **54,625,593** | **10,971,827** | **5,645,211** | **49,865,583** | **1,991,254,024** |
| Acquisitions | — | 250,259 | 32,469,371 | 122,437 | 1,194,762 | 435,807 | 403,237 | 15,076,165 | 120,309,323 | 170,261,361 |
| Disposal | — | — | (156,565,604) | (52,338) | — | (20,057) | — | — | — | (156,637,999) |
| Regularisation, transfer and write-off | — | — | (2,938,288) | (195,180) | (109,216) | (268,767) | (14,036) | — | (3,383,498) | (6,908,985) |
| **31 December 2016** | **41,168,153** | **154,800,985** | **1,523,858,243** | **2,486,039** | **22,008,593** | **54,772,576** | **11,361,028** | **20,721,376** | **166,791,408** | **1,997,968,401** |
| Acquisitions | — | 1,323,695 | 67,335,993 | 110,356 | 1,982,619 | 1,949,013 | 832,886 | 32,351,385 | 126,557,857 | 232,443,804 |
| Disposal | — | — | (305,128,334) | (130,406) | — | (369,736) | — | — | — | (305,628,476) |
| Regularisation, transfer and write-off | — | 48,001 | 2,745,869 | (60,515) | (166,418) | (130,995) | (50,336) | (6,081,432) | (112,499,495) | (116,195,321) |
| **31 December 2017** | **41,168,153** | **156,172,681** | **1,288,811,771** | **2,405,474** | **23,824,794** | **56,220,858** | **12,143,578** | **46,991,329** | **180,849,770** | **1,808,588,408** |
| **Accumulated deprec. and impairment losses** | | | | | | | | | | |
| **1 January 2016** | **—** | **63,795,590** | **1,256,357,837** | **2,405,890** | **15,176,144** | **53,093,367** | **10,176,028** | **—** | **—** | **1,401,004,856** |
| Depreciations (Note 33) | — | 5,249,572 | 44,198,960 | 111,401 | 507,577 | 918,944 | 185,913 | — | — | 51,172,367 |
| Disposal | — | — | (127,499,765) | (52,338) | — | (19,588) | — | — | — | (127,571,691) |
| Regularisation, transfer and write-off | — | — | (1,362,660) | (195,180) | (101,260) | (268,173) | (14,036) | — | — | (1,941,309) |
| **31 December 2017** | **—** | **69,045,162** | **1,171,694,372** | **2,269,773** | **15,582,461** | **53,724,550** | **10,347,905** | **—** | **—** | **1,322,664,223** |
| Depreciations (Note 33) | — | 5,284,038 | 44,689,799 | 110,975 | 627,449 | 1,189,799 | 390,867 | — | — | 52,292,927 |
| Disposal | — | — | (142,332,517) | (130,406) | — | (360,840) | — | — | — | (142,823,763) |
| Regularisation, transfer and write-off | — | — | (1,646,713) | (60,515) | (74,997) | (130,995) | (50,336) | — | — | (1,963,556) |
| **31 December 2017** | **—** | **74,329,200** | **1,072,404,941** | **2,189,827** | **16,134,913** | **54,422,514** | **10,688,436** | **—** | **—** | **1,230,169,831** |
| **Carrying amount as at 31 December 2016** | **41,168,153** | **85,755,823** | **352,163,871** | **216,266** | **6,426,132** | **1,048,026** | **1,013,123** | **20,721,376** | **166,791,408** | **675,304,178** |
| **Carrying amount as at 31 December 2017** | **41,168,153** | **81,843,481** | **216,406,830** | **215,647** | **7,689,881** | **1,798,344** | **1,455,142** | **46,991,329** | **180,849,770** | **578,418,577** |

**6 Tangible fixed assets (Continued)**

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

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

- The additions of basic equipment in the amount of Euro 67,335,993, essentially refer to: (i) investment projects in fleet equipment, namely cabin modification (Cabin Retrofit), in the amount of Euro 28,942,212 and the amount of Euro 2,443,971 related to the life extension of A319/A320/A321 fleet (Extended Service Goal—ESG) and (ii) capitalization of maintenance costs of own aircraft or under finance lease in the amount of Euro 28,619,333.
- Basic equipment disposals, in the net amount of Euro 162,795,817, are mainly related to disposal of five aircraft A330, resulting from a sale and leaseback operation, having originated a net gain of Euro 17.856,440 (Note 26).
- Transfers and write-offs of basic equipment refer, essentially, to the write-off of spare parts as scrap and other miscellaneous maintenance equipment.
- The additions of other assets in progress, in the amount of Euro 32,351,385, refers essentially to: (i) equipment for the future aircraft NEO A330/A320F, in the amount of Euro 19,764,969; (ii) project of the cabins modification (Cabin Retrofit), in the amount of Euro 5,335,804 and (iii) capitalization of maintenance cost of own aircraft or under finance lease in the amount of Euro 4,796,686.
- The increase recorded in the heading "Advances to suppliers of tangible fixed assets", in the amount of Euro 126,557,857, refers, essentially, to the pre delivery payments made for future aircraft acquisition (Note 37).
- The disposals, regularization and write-offs in "Advances to suppliers of tangible assets", in the amount of Euro 112,499,495 includes the amount of Euro 107,541,050 related to: (i) transfer of the responsibility on the predelivery payments of 8 aircraft to lessors (Euro 97,491,239) and (ii) modification of the equipment type of 2 aircraft (Euro 10,049,811), within the process of acquisition of the new fleet, through credit granted by Airbus. As at 31 December 2017 there is an amount of Euro 5,062,512 thousand to be used, which is recorded under "Other current receivables" (Note 14), and will be used in future predelivery payments.

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

- The additions of basic equipment in the amount of Euro 32,469,371, essentially refers to: (i) investment in fleet equipment, namely the introduction of sharklet technology in the aircraft in the amount of Euro 4,805,545 , cabin retrofit in the amount of Euro 7,501,069 and the amount of Euro 6,500,201 related to the useful life extension of the A319/A320/A321 fleets (Extended Service Goal—ESG) and (ii) capitalisation of expenses with structural aircraft maintenance for own aircraft or acquired through financial leasing arrangements in the amount of Euro 10,338,953.
- Basic equipment disposals, in the net amount of Euro 29,065,839, mostly relate to the sale of three A330 aircraft, due to a sales and leaseback operation, which resulted in a gain of Euro 16,261,025 (Note 26)
- The additions of other assets in progress, in the amount of Euro 15,076,165, refers essentially to the consulting services provided in the process of negotiating purchase agreements for future aircraft acquisition (Note 37) in the amount of Euro 4,595,000 and to the cabin retrofit project, in the amount of Euro 7,686,256.
- The increase recorded in the heading "Advances to suppliers of tangible fixed assets", in the amount of Euro 120,309,323, refers, essentially, to the pre delivery payments made for future aircraft acquisition (Note 37).

To guarantee payment of the amounts due under a loan agreement with a national institution, in the amount of Euro 75 million, a mortgage was set up on an urban building of TAP SA, composed by twenty-nine office buildings, workshops for construction materials and others, located at the Lisbon Airport (Note 21).

**6 Tangible fixed assets (Continued)**

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

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

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Carrying amount | Acquisition cost | Accumulated depreciation | Carrying amount |
| Flight equipment | | | | | | |
| Aircraft | 467,678,451 | (399,309,143) | 68,369,308 | 439,276,142 | (384,827,705) | 54,448,437 |
| Spare engines | 11,116,927 | (7,373,149) | 3,743,778 | 11,116,927 | (6,752,040) | 4,364,887 |
| Spare parts | 103,500,923 | (76,627,379) | 26,873,544 | 102,488,936 | (75,519,362) | 26,969,574 |
| | 582,296,301 | (483,309,671) | 98,986,630 | 552,882,005 | (467,099,107) | 85,782,898 |
| Flight equipment under financial leases | | | | | | |
| Aircraft | 626,145,590 | (522,563,809) | 103,581,781 | 892,229,506 | (639,450,668) | 252,778,838 |
| | 626,145,590 | (522,563,809) | 103,581,781 | 892,229,506 | (639,450,668) | 252,778,838 |
| Machines and miscellaneous | 80,369,880 | (66,531,461) | 13,838,419 | 78,746,732 | (65,144,597) | 13,602,135 |
| | **1,288,811,771** | **(1,072,404,941)** | **216,406,830** | **1,523,858,243** | **(1,171,694,372)** | **352,163,871** |

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

| | 2017 | | | | | 2016 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Owned by TAP Group | Finance leases | Operating leases | ACMI | Total | Owned by TAP Group | Finance leases | Operating leases | ACMI | Total |
| Airbus A340 | 4 | — | — | — | **4** | 4 | — | — | — | **4** |
| Airbus A330 | — | 3 | 15 | — | **18** | — | 8 | 8 | — | **16** |
| Airbus A319 | — | 9 | 12 | — | **21** | — | 9 | 12 | — | **21** |
| Airbus A320 | 1 | 4 | 15 | — | **20** | 1 | 4 | 14 | — | **19** |
| Airbus A321 | — | 2 | 2 | — | **4** | — | 2 | 1 | — | **3** |
| ATR 72-600 | — | — | — | 8 | **8** | — | — | — | 8 | **8** |
| Embraer 190 | — | — | — | 9 | **9** | — | — | — | 9 | **9** |
| Embraer 195 | — | — | — | 4 | **4** | — | — | — | — | **—** |
| | **5** | **18** | **44** | **21** | **88** | **5** | **23** | **35** | **17** | **80** |

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

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

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

**7 Investment properties**

As at 31 December 2017, "Investment properties" refers to a property in Maputo (Mozambique).

**7 Investment properties (Continued)**

The movement occurred in this caption was as follows:

| | 2017 | 2016 |
|---|---|---|
| **Opening balance** | **1,005,597** | **973,638** |
| Fair value adjustments—net gains and losses | (121,748) | 31,959 |
| **Closing balance** | **883,849** | **1,005,597** |

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

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

**8 Intangible assets**

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

| | Industrial property and other rights | Computer programmes | Assets in progress | Total |
|---|---|---|---|---|
| **Acquisition cost** | | | | |
| **Balance as at 1 January 2016** | **11,951,704** | **283,031** | **—** | **12,234,735** |
| Acquisitions | — | 1,198,651 | — | 1,198,651 |
| Regularisation, transfer and write-off | — | (21,280) | — | (21,280) |
| **Balance as at 31 December 2016** | **11,951,704** | **1,460,402** | **—** | **13,412,106** |
| Acquisitions | — | 421,032 | 1,484,968 | 1,906,000 |
| Regularisation, transfer and write-off | — | — | — | — |
| **Balance as at 31 December 2017** | **11,951,704** | **1,881,434** | **1,484,968** | **15,318,106** |
| **Accumulated amort. and impairment losses** | | | | |
| **Balance as at 1 January 2016** | **(11,951,704)** | **(86,304)** | **—** | **(12,038,008)** |
| Amortisations and impairment losses (Note 33) | — | (95,629) | — | (95,629) |
| **Balance as at 31 December 2016** | **(11,951,704)** | **(181,933)** | **—** | **(12,133,637)** |
| Amortisations and impairment losses (Note 33) | — | (303,337) | — | (303,337) |
| **Balance as at 31 December 2017** | **(11,951,704)** | **(485,270)** | **—** | **(12,436,974)** |
| **Carrying amount as at 31 December 2016** | **—** | **1,278,469** | **—** | **1,278,469** |
| **Carrying amount as at 31 December 2017** | **—** | **1,396,164** | **1,484,968** | **2,881,132** |

**9 Investments in subsidiaries and associates**

As at 31 December 2017 and 2016, investments in subsidiaries and associates are detailed as follows:

| | 2017 | | | |
|---|---|---|---|---|
| | % Owned | Opening Balance | Increases/ Decreases | Closing Balance |
| IC TAP Limited | 100% | 143,592 | — | 143,592 |
| IC SAFIT Limited | 20% | 28,718 | — | 28,718 |
| | | **172,310** | **—** | **172,310** |

**9 Investments in subsidiaries and associates (Continued)**

| | 2016 | | | |
|---|---|---|---|---|
| | % Owned | Opening Balance | Increases/ Decreases | Closing Balance |
| IC TAP Limited | 100% | 143,592 | — | 143,592 |
| IC SAFIT Limited | 20% | 28,718 | — | 28,718 |
| | | **172,310** | **—** | **172,310** |

**10 Other financial assets**

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Current | Non-Current | Current | Non-Current |
| Angola's treasury bonds | 34,852,859 | 45,959,516 | — | 39,653,765 |
| Bank deposits in Guinea Bissau | — | 1,683,005 | — | 1,812,726 |
| SITA Group Foundation | — | 455,915 | — | 455,915 |
| Depósitos bancários em Moçambique | — | — | — | 60,639 |
| Other | — | 39,684 | — | 39,684 |
| | **34,852,859** | **48,138,120** | **—** | **42,022,729** |
| Impairment losses | — | (1,697,564) | — | (1,827,285) |
| | **34,852,859** | **46,440,556** | **—** | **40,195,444** |

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

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

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

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Current | Non-Current | Current | Non-Current |
| **Opening balance** | — | 40,195,444 | — | 735,896 |
| Increases | — | 47,272,685 | — | 39,653,765 |
| Decreases | — | (60,639) | — | (198,250) |
| Transfers | 39,653,765 | (39,653,765) | — | — |
| Currency translation differences | (4,800,906) | (1,313,169) | — | 1,997 |
| Other movements | — | — | — | 2,036 |
| **Closing balance** | **34,852,859** | **46,440,556** | **—** | **40,195,444** |

### 10 Other financial assets (Continued)

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

| | 2017 | 2016 |
|---|---|---|
| **Opening balance** | 1,827,285 | 1,852,698 |
| Currency translation differences | (129,721) | (25,413) |
| **Closing balance** | **1,697,564** | **1,827,285** |

### 11 Deferred tax assets and liabilities

As mentioned in Note 1.20, the Company recorded deferred taxes related to the temporary differences between assets and liabilities for tax and accounting purposes, as well as existing tax losses carried forward as at the date of the statement of financial position.

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

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

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

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

| | 2017 | | | |
|---|---|---|---|---|
| | Opening balance | Effect in results (Note 35) | Effect in comprehensive income | Closing balance |
| **Deferred tax assets** | | | | |
| Tax losses carried forward | 35,461,077 | (14,710,812) | — | 20,750,265 |
| Employee benefits obligations | 15,153,031 | (890,217) | 2,061,015 | 16,323,829 |
| Impairment losses in inventories | 7,665,788 | 652,610 | — | 8,318,398 |
| Impairment losses of accounts receivable | 6,796,990 | 75,124 | — | 6,872,114 |
| Tax benefits | 136,302 | (136,302) | — | — |
| Other provisions and adjustments not accepted for tax purposes | 127,476 | 5,627 | — | 133,103 |
| Impairment losses in fixed assets | — | 471,288 | — | 471,288 |
| Derivative financial instruments (Note 23) | 174,858 | — | (174,858) | — |
| | **65,515,522** | **(14,532,682)** | **1,886,157** | **52,868,997** |
| **Deferred tax liabilities** | | | | |
| Revaluation of tangible fixed assets | 19,129,277 | 562,438 | — | 19,691,715 |
| | **19,129,277** | **562,438** | **—** | **19,691,715** |
| | | **(15,095,120)** | **1,886,157** | |

## 11 Deferred tax assets and liabilities (Continued)

| | 2016 | | | |
|---|---|---|---|---|
| | Opening balance | Effect in results (Note 35) | Effect in comprehensive income | Closing balance |
| **Deferred tax assets** | | | | |
| Tax losses carried forward | 38,049,710 | (2,588,633) | — | 35,461,077 |
| Employee benefits obligations | 13,935,257 | (953,680) | 2,171,454 | 15,153,031 |
| Impairment losses in inventories | 7,643,309 | 22,479 | — | 7,665,788 |
| Impairment losses of accounts receivable | 7,284,580 | (487,590) | — | 6,796,990 |
| Tax benefits | 517,053 | (380,751) | — | 136,302 |
| Other provisions and adjustments not accepted for tax purposes | 391,699 | (264,223) | — | 127,476 |
| Derivative financial instruments (Note 23) | 285,447 | — | (110,589) | 174,858 |
| | **68,107,055** | **(4,652,398)** | **2,060,865** | **65,515,522** |
| **Deferred tax liabilities** | | | | |
| Revaluation of tangible fixed assets | 19,744,917 | (615,640) | — | 19,129,277 |
| | **19,744,917** | **(615,640)** | **—** | **19,129,277** |
| | | **(4,036,758)** | **2,060,865** | |

- **Tax losses carried forward**

Under the terms of current tax legislation in Portugal, tax losses generated in 2014 and 2015 can be carried forward for a period of twelve years after their occurrence and may thus be deducted to taxable profits generated over this period, up to the limit of 70% of the taxable profit in the following years.

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

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

| Year | Tax losses 31 December 2016 | Utilization during the year (estimation) | Tax losses 31 December 2017 (estimation) | Deduction year |
|---|---|---|---|---|
| 2014 | 58,370,395 | (58,370,395) | — | 2026 |
| 2015 | 207,605,948 | (11,681,091) | 195,924,857 | 2027 |
| | **265,976,343** | **(70,051,486)** | **195,924,857** | |

## 12 Other non-current receivables

As at 31 December 2017 and 2016, the caption other non-current receivables is detailed as follows:

| | 2017 | 2016 |
|---|---|---|
| Loans granted (Note 21) | 45,635,232 | 25,976,595 |
| Loan TAPGER (Note 39) | — | 3,500,000 |
| Accounts receivable | 7,069,680 | 8,066,962 |
| | **52,704,912** | **37,543,557** |

The security deposits are constituted under the operating lease contracts for aircraft and engines, and will be returned, without interests, when the aircraft and engines are returned to their lessors. The increase verified is related to the guarantee deposits associated with the new operating lease contracts carried out in 2017, for aircraft and reactors incorporated into the operation during the current financial year and for the aircraft to enter into operation in the future (Note 37).

**12 Other non-current receivables (Continued)**

The loan granted to TAPGER—Sociedade de Gestão e Serviços, S.A. ("TAPGER") was fully settled during the 2017 financial year.

**13 Inventories**

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

| | 2017 | 2016 |
|---|---|---|
| Raw material, imputs and consumables (Note 27) | 78,525,239 | 64,248,659 |
| Products and work in progress (Note 28) | 10,001,974 | 7,870,071 |
| Inventory impairment losses | (28,197,961) | (27,875,592) |
| | **60,329,252** | **44,243,138** |

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

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

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

| | 2017 | 2016 |
|---|---|---|
| **Opening balance as at 1 January 2017** | 27,875,592 | 27,793,851 |
| Increases (Note 31) | 450,918 | 101,000 |
| Decreases (Note 31) | (39,439) | (6,408) |
| Utilisation | (89,110) | (12,851) |
| **Closing balance as at 31 December 2017** | **28,197,961** | **27,875,592** |

**14 Other current receivables**

As at 31 December 2017 and 2016, other current receivables details as follows:

| | 2017 | 2016 |
|---|---|---|
| Other debtors | 869,656,553 | 840,959,345 |
| Trade receivables | 340,599,646 | 246,551,539 |
| Advances to suppliers | 38,232,424 | 19,813,550 |
| Accrued income | 25,389,995 | 16,056,585 |
| Deferred costs | 15,986,117 | 11,891,844 |
| State | 7,281,890 | 6,544,345 |
| Impairment losses | (64,314,235) | (67,408,327) |
| | **1,232,832,390** | **1,074,408,881** |

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

## 14 Other current receivables (Continued)

- **Other debtors**

As at 31 December 2017 and 2016, the amount recorded under the caption "Other debtors" details as follows:

| | 2017 | 2016 |
|---|---|---|
| Related parties (Note 39) | 818,280,646 | 798,303,698 |
| Employees | 11,433,117 | 12,425,309 |
| Interline and other invoicing | 10,924,277 | 10,245,865 |
| Suppliers account receivable | 7,329,380 | 5,015,830 |
| Airbus (Note 6) | 5,062,512 | — |
| Doubtful debtors | 4,198,934 | 4,205,299 |
| Deposits and guarantees | 1,719,062 | 1,538,098 |
| Representations VAT | 1,622,462 | 1,649,256 |
| Other | 9,086,163 | 7,575,990 |
| | **869,656,553** | **840,959,345** |
| Impairment | (4,198,934) | (4,201,773) |
| | **865,457,619** | **836,757,572** |

- **Trade receivables**

As at 31 December 2017 and 2016, the amount recorded under the caption "Trade receivables" corresponds to:

| | 2017 | 2016 |
|---|---|---|
| Private entities | 182,018,650 | 96,615,334 |
| Travel agency | 65,752,182 | 41,163,037 |
| Related parties (Note 39) | 15,992,710 | 18,442,971 |
| Airlines | 21,305,924 | 14,186,806 |
| Other | 3,072,910 | 21,815,479 |
| Doubtful clients | 52,457,270 | 54,327,912 |
| | **340,599,646** | **246,551,539** |
| Impairment | (60,115,301) | (63,206,554) |
| | **280,484,345** | **183,344,985** |

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

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

- **Advances to suppliers**

As at 31 December 2017 and 2016, the caption "Advances to suppliers" is detailed as follows:

| | 2017 | 2016 |
|---|---|---|
| Related parties (Note 39) | 20,855,702 | 13,370,111 |
| Eagle Services Asia | 6,071,717 | 3,767,243 |
| SR Technics Switzerland | 3,257,063 | — |
| Other | 8,047,942 | 2,676,196 |
| | **38,232,424** | **19,813,550** |

**14 Other current receivables (Continued)**

- **Accrued income**

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

| | 2017 | 2016 |
|---|---|---|
| Work for aviation companies | 19,068,071 | 11,573,373 |
| *Swaps jet fuel* | 3,200,936 | — |
| Mail revenue | 905,700 | 1,801,000 |
| Sale of miles to partners | 830,480 | 1,260,094 |
| Related parties (Note 39) | 208,177 | 1,151,563 |
| Other | 1,176,631 | 270,555 |
| | **25,389,995** | **16,056,585** |

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

- **Deferred costs**

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

| | 2017 | 2016 |
|---|---|---|
| Aircrafts and engines leases | 10,218,607 | 6,984,873 |
| Commissions | 2,753,123 | 2,721,883 |
| Other | 3,014,387 | 2,185,088 |
| | **15,986,117** | **11,891,844** |

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

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

- **State**

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

| | 2017 | 2016 |
|---|---|---|
| Fare compensation | 411,346 | 1,473,509 |
| VAT | 6,859,575 | 5,070,836 |
| Other | 10,969 | — |
| | **7,281,890** | **6,544,345** |

As at 31 December 2017 and 2016, the value recorded under the heading "Fare Compensation" includes the part of the fare subsidised by the Portuguese State for the routes of the Autonomous Region of the Azores until 29 March 2015, in the total amount of Euro 117,969 and Euro 515,723, respectively. These values correspond to tickets sold, which may be used on Company or other airline flights. This caption also includes, as at 31 December 2017 and 2016, a receivable amount from the Portuguese State of Euro 293,377 and Euro 957,786, respectively, relative to flights between the islands of the Autonomous Region of the Azores. The figures for the years of 2015 to 2017 have not yet been verified and audited by the Portuguese Authorities or approved by the Government. However, no significant corrections to the values recorded by the Company are expected.

## 14 Other current receivables (Continued)

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

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

- **Impairment losses on other receivables**

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

| | 2017 | 2016 |
|---|---|---|
| **Opening balance as at 1 January** | 67,408,327 | 65,433,309 |
| Increases (Note 31) | 3,305,464 | 4,209,970 |
| Reversals (Note 31) | (2,225,593) | (2,234,952) |
| Utilisation | (4,173,963) | — |
| **Closing balance as at 31 December** | **64,314,235** | **67,408,327** |

## 15 Income tax receivable/ payable

Since 2017, the Company started to be taxed through the Special Taxation Regime for Groups of Companies ("RETGS"), being the tax result determined in TAP SGPS. However, the Company's income tax estimate is recorded based on its taxable income.

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Current assets | Current liabilities | Current assets | Current liabilities |
| **RETGS: Related parties (Note 39)** | | | | |
| Payments on account | — | 928,718 | — | — |
| Withholding taxes | — | 3,059,552 | — | — |
| Current income tax (Note 35) | — | (16,944,284) | — | — |
| | **—** | **(12,956,014)** | **—** | **—** |
| **Income tax receivable/payable** | | | | |
| Payments on account | — | — | 210,000 | — |
| Withholding taxes | — | — | 10,325,684 | — |
| Current income tax (Note 35) | — | — | (462,294) | — |
| Other | 1,391,197 | — | — | — |
| | **1,391,197** | **—** | **10,073,390** | **—** |
| | **1,391,197** | **(12,956,014)** | **10,073,390** | **—** |

**16 Cash and cash equivalents**

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

| | 2017 | 2016 |
|---|---|---|
| Bank deposits available on demand | 53,009,566 | 64,069,933 |
| Term deposits | 103,907,848 | 10,948,386 |
| Cash | 93,548 | 45,263 |
| **Cash and cash equivalent in the statement of financial position** | **157,010,962** | **75,063,582** |
| **Restricted cash** | **82,818** | **537,734** |
| **Bank overdrafts (Note 21)** | **—** | **(279,650)** |
| **Cash and cash equivalents in the cash flow statement** | **157,093,780** | **75,321,666** |

The bank deposits in Angola as at 31 December 2017, in the amount of Euro 41,639,693, denominated in kwanzas, dollars and euros are currently experiencing difficulties in repatriating the funds. As at 31 December 2016, the bank deposits in Angola amounted to Euros 35,902,665. Additionally, the aforementioned cash will also be used to pay the local expenses of the air transport operation.

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

**Restricted cash**

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

**17 Share Capital**

As at 31 December 2017 and 2016, the share capital of TAP S.A. was fully underwritten and paid up, represented by 8,300,000 shares with a nominal value of 5 Euros, fully owned by TAP—Transportes Aéreos Portugueses, SGPS, S.A..

**18 Supplementary capital contributions and reserves**

**Supplementary capital contributions**

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

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

**18 Supplementary capital contributions and reserves (Continued)**

**Reserves**

As at 31 December 2017 and 2016, the captions "Legal reserves", "Hedge reserves" and "Other reserves" are detailed as follows:

| | Legal reserves | Hedge reserves (Note 23) | Other reserves |
|---|---|---|---|
| **1 January 2016** | **8,300,000** | **(752,542)** | **(200,588)** |
| Increases | — | (460,990) | — |
| Regularization by results | — | 752,542 | — |
| **31 December 2016** | **8,300,000** | **(460,990)** | **(200,588)** |
| Regularization by results | — | 460,990 | — |
| **31 December 2017** | **8,300,000** | **—** | **(200,588)** |

- **Legal reserves**

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

This reserve cannot be distributed, except in the case of the Company's liquidation, but can be incorporated into the share capital or used to absorb losses after all other reserves have been depleted.

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

- **Hedge reserves**

As at 31 December 2016, the negative amount of Euro 460,990 presented under the caption "Hedge reserves" corresponds to the fair value of the financial instruments classified as hedging accounting recorded in accordance with the accounting policy described in Note 1.11., net of tax, in the amount of Euro 174,858 (Note 11 and 23). As at 31 December 2017 there are no outstanding derivative financial instruments.

- **Other reserves**

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

**19 Post-employment benefits obligations**

As mentioned in Note 1.21., TAP S.A. is responsible for the payment of post-employment benefits to retired, early retired and still in active employees.

- **Retirement pension supplements and early retirement instalments**

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

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

**19 Post-employment benefits obligations (Continued)**

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

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

- Pilots recruited before 31 May 2007: the pension plan includes the seniority bonus guaranteed by the State (of 15% or 10%, according to the starting date of the contributory career) and the possibility of an additional bonus (up to 25% or 30%) as an option for the beneficiary upon retirement (this additional bonus of up to 25% will be paid by the Company);
- Pilots recruited as of 1 June 2007: the pension plan consists of a defined contribution scheme of 7.5% of the base remuneration effectively earned (14 times a year), of which 80% is paid by the Company. 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 Company has recorded all its liabilities related to past services for the payment of pension supplements and early retirement benefits relative to the defined benefit plan.

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

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

- **Seniority bonus—PNT**

The Company Agreement concluded between TAP S.A. and SPAC establishes that the Company 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 the Company on behalf of the pilots. The main conditions of the collective retirement policy agreed with the insurance company, describing this Retirement Benefits Plan for Pilots, are as follows:

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

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

**19 Post-employment benefits obligations (Continued)**

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

- Pilots recruited before 31 May 2007: the one-off seniority bonus is maintained, but shall only be paid if, on the retirement date, the person is entitled to the full pension, with the possibility of increasing the capital for every additional year of service after the full pension age has been reached;
- Pilots recruited as of 1 June 2007: there is no entitlement to seniority bonus.

- **Health care**

The Company ensures that both pre-retired and early-retired employees, below the age of 65, are provided with a health care plan providing access to medical care at reduced prices. In addition, the Company provides its retired employees with access to medical services of 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 the Company.

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

**Assumptions used in the evaluation of liabilities**

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

| | 2017 | 2016 |
|---|---|---|
| Mortality table | TV-88/90 | TV-88/90 |
| Invalidity table | EKV 1980 | EKV 1980 |
| Discount rate | 2.00% | 2.00% |
| Growth rate | 1.50% | 1.50% |
| Wages | 1.00% | 1.00% |
| Pensions | 2.00% | 2.00% |
| Fund yield rate | 2.00% | 2.00% |
| Trend of medical costs | 1.50% | 1.50% |

Liabilities for 2017 and 2016 are detailed as follows:

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | VIVA Pensions | Before 1997 | Assets | Medical acts | Seniority Bonus | England Representation | Total |
| Liabilities from past services | | | | | | | |
| —Active employees | 239,658 | — | 1,655,514 | — | 70,210,638 | — | 72,105,810 |
| —Early retirement | 60,154 | — | 344,866 | 19,214 | — | — | 424,234 |
| —Retired | 10,292,051 | 33,020,465 | — | 2,753,887 | — | 17,058,710 | 63,125,113 |
| Fair value of the funds | (16,398,887) | — | — | — | (48,296,222) | (15,625,035) | (80,320,144) |
| **Deficit / (surplus)** | **(5,807,024)** | **33,020,465** | **2,000,380** | **2,773,101** | **21,914,416** | **1,433,675** | **55,335,013** |

**19 Post-employment benefits obligations (Continued)**

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | VIVA Pensions | Before 1997 | Assets | Medical acts | Seniority Bonus | England Representation | Total |
| Liabilities from past services | | | | | | | |
| —Active employees | 358,994 | — | 2,313,409 | — | 67,776,644 | — | 70,449,047 |
| —Early retirement | 61,024 | — | 367,125 | 31,965 | — | — | 460,114 |
| —Retired | 9,958,909 | 35,423,540 | — | 2,908,567 | — | 16,133,290 | 64,424,306 |
| Fair value of the funds | (16,280,096) | — | — | — | (49,144,977) | (14,806,466) | (80,231,539) |
| **Deficit / (surplus)** | **(5,901,169)** | **35,423,540** | **2,680,534** | **2,940,532** | **18,631,667** | **1,326,824** | **55,101,928** |

According to the actuarial study carried out by an independent entity, the best estimate of contributions to the pension benefit plans, for the following financial year, is Euro 5,500,882.

As at 31 December 2017 and 2016, the defined benefit plans of the Company in Portugal (excluding the Representation in England) covered 1,973 and 2,143 active beneficiaries, respectively. The total number of retired former employees entitled to a supplementary retirement pension, as at 31 December 2017 and 2016, was 647 and 806 beneficiaries, respectively.

As at 31 December 2017 and 2016, the average maturity of the liabilities related to the defined benefit plan for the VIVA and the Seniority Bonus plan is 12 years.

**Sensitivity analysis**

- **Annual discount rate**

An increase (decrease) of 0.25% in the annual discount rate of the defined benefit plans of the VIVA open pension fund and Seniority Bonus would correspond to the following impacts on the Company's liabilities as at 31 December 2017:

| | Rate | VIVA Pensions* | Seniority Bonus |
|---|---|---|---|
| **Annual discount rate of pensions** | 2.00% | 45,612,708 | 70,210,638 |
| 0,25% increase in the discount rate | 2.25% | 44,663,885 | 67,693,018 |
| 0,25% decrease in the discount rate | 1.75% | 46,598,951 | 72,848,728 |

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

- **Rate of growth of medical costs**

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

| | Rate | 2017 | 2016 |
|---|---|---|---|
| **Annual growth rate of medical costs** | 1.50% | 2,773,101 | 2,940,532 |
| 1% increase in the growth rate of medical costs | 2.50% | 3,001,103 | 3,192,148 |
| 1% decrease in the growth rate of medical costs | 0.50% | 2,570,747 | 2,718,105 |

**19 Post-employment benefits obligations (Continued)**

**Evolution of liabilities from past services**

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

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **VIVA Pensions** | **Before 1997** | **Assets** | **Medical acts** | **Seniority Bonus** | **England Representation** | **Total** |
| Liabilities at the beginning of the year | 10,378,927 | 35,423,540 | 2,680,534 | 2,940,532 | 67,776,644 | 16,133,290 | 135,333,467 |
| Currency translation differences | — | — | — | — | — | (602,248) | (602,248) |
| Values recorded through profit or loss for the year: | | | | | | | |
| Current services | 31,214 | — | — | — | 3,740,374 | — | 3,771,588 |
| Net interest | 207,552 | 708,471 | 53,612 | 58,811 | 1,363,859 | 934,237 | 3,326,542 |
| Remeasurements | 721,796 | 474,744 | (733,766) | (226,242) | 3,091,965 | 1,778,315 | 5,106,812 |
| Benefits paid | (747,626) | (3,586,290) | — | — | (5,762,204) | (1,184,884) | (11,281,004) |
| **Responsibilities at the end of the year** | **10,591,863** | **33,020,465** | **2,000,380** | **2,773,101** | **70,210,638** | **17,058,710** | **135,655,157** |

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **VIVA Pensions** | **Before 1997** | **Assets** | **Medical acts** | **Seniority Bonus** | **England Representation** | **Total** |
| Liabilities at the beginning of the year | 10,357,062 | 37,197,209 | 2,296,738 | 3,002,334 | 58,921,140 | 15,858,992 | 127,633,475 |
| Currency translation differences | — | — | — | — | — | (1,779,708) | (1,779,708) |
| Values recorded through profit or loss for the year: | | | | | | | |
| Current services | 31,123 | — | — | — | 3,733,528 | — | 3,764,651 |
| Net interest | 258,925 | 743,944 | 243,407 | 75,058 | 1,250,068 | 866,172 | 3,437,574 |
| Remeasurements | 521,669 | 1,165,612 | 140,389 | (136,860) | 4,329,294 | 1,757,808 | 7,777,912 |
| Benefits paid | (789,852) | (3,683,225) | — | — | (457,386) | (569,974) | (5,500,437) |
| **Responsibilities at the end of the year** | **10,378,927** | **35,423,540** | **2,680,534** | **2,940,532** | **67,776,644** | **16,133,290** | **135,333,467** |

**Evolution of funds allocated to pensions benefit schemes**

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

| | 2017 | | | |
|---|---|---|---|---|
| | **VIVA Pensions** | **Seniority Bonus** | **England Representation** | **Total** |
| Opening balance | 16,280,096 | 49,144,977 | 14,806,466 | 80,231,539 |
| Contributions in the year | — | 4,200,000 | 222,897 | 4,422,897 |
| Net interest | 866,444 | 982,900 | 2,297,213 | 4,146,557 |
| Benefits paid | (747,653) | (5,762,204) | (1,184,884) | (7,694,741) |
| Remeasurements | — | (269,451) | — | (269,451) |
| Currency translation differences | — | — | (516,657) | (516,657) |
| **Closing balance** | **16,398,887** | **48,296,222** | **15,625,035** | **80,320,144** |

**19 Post-employment benefits obligations (Continued)**

| | 2016 | | | |
|---|---|---|---|---|
| | VIVA Pensions | Seniority Bonus | England Representation | Total |
| Opening balance | 16,792,465 | 44,526,613 | 15,640,736 | 76,959,814 |
| Contributions in the year | — | 4,200,000 | — | 4,200,000 |
| Net interest | 277,483 | 1,113,165 | 1,111,916 | 2,502,564 |
| Benefits paid | (789,852) | (457,386) | (569,974) | (1,817,212) |
| Remeasurements | — | (237,415) | 119,132 | (118,283) |
| Currency translation differences | — | — | (1,495,344) | (1,495,344) |
| **Closing balance** | **16,280,096** | **49,144,977** | **14,806,466** | **80,231,539** |

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

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Fair value level | VIVA Pensions | Seniority Bonus | England Representation | Total |
| Shares | 1 | 5,514,150 | — | 13,730,375 | 19,244,525 |
| Bonds | 1 | 5,854,344 | 47,909,852 | 1,680,511 | 55,444,707 |
| Public debt | 1 | 4,017,956 | — | — | 4,017,956 |
| Real estate | 2 | 483,269 | 309,096 | — | 792,365 |
| Liquidity | 1 | 529,168 | 77,274 | — | 606,442 |
| Other current investments | 1 | — | — | 214,149 | 214,149 |
| | | **16,398,887** | **48,296,222** | **15,625,035** | **80,320,144** |

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Fair value level | VIVA Pensions | Seniority Bonus | England Representation | Total |
| Shares | 1 | 4,994,600 | — | 9,377,692 | 14,372,292 |
| Bonds | 1 | 4,964,596 | 47,896,694 | 4,019,011 | 56,880,301 |
| Public debt | 1 | 4,858,835 | — | — | 4,858,835 |
| Real estate | 2 | 546,633 | 383,331 | — | 929,964 |
| Liquidity | 1 | 915,432 | 864,952 | — | 1,780,384 |
| Other current investments | 1 | — | — | 1,409,763 | 1,409,763 |
| | | **16,280,096** | **49,144,977** | **14,806,466** | **80,231,539** |

**Expenses related to pensions and other post-employment benefits**

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

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | VIVA Pensions | Before 1997 | Assets | Medical acts | Seniority Bonus | England Representation | Total |
| Current Services | 31,214 | — | — | — | 3,740,374 | — | 3,771,588 |
| Net interest | (658,892) | 708,471 | 53,612 | 58,811 | 380,959 | (1,362,976) | (820,015) |
| | **(627,678)** | **708,471** | **53,612** | **58,811** | **4,121,333** | **(1,362,976)** | **2,951,573** |

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | VIVA Pensions | Before 1997 | Assets | Medical acts | Seniority Bonus | England Representation | Total |
| Current Services | 31,123 | — | — | — | 3,733,528 | — | 3,764,651 |
| Net interest | (18,558) | 743,944 | 243,407 | 75,058 | 136,903 | (245,744) | 935,010 |
| | **12,565** | **743,944** | **243,407** | **75,058** | **3,870,431** | **(245,744)** | **4,699,661** |

**19 Post-employment benefits obligations (Continued)**

As previously mentioned, the pilots admitted after 1 June 2007, benefit from a defined contribution plan. During 2017, a cost was recognised in the caption Post-employment benefits obligations costs in the amount of Euro 1,569, 276 (2016: Euro 1,136, 447), relative to the contributions made during the year in favour of its employees.

The expenses relative to pensions and other post-employment benefits are recorded under the caption Post-employment benefits obligations expenses in the income statement.

**Remeasurement gains/losses**

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

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | VIVA Pensions | Before 1997 | Assets | Medical Acts | Seniority Bonus | England Representation | Total |
| **Remeasurements** | | | | | | | |
| Return of assets, excluding amounts included in net income | — | — | — | — | 269,451 | — | 269,451 |
| | **—** | **—** | **—** | **—** | **269,451** | **—** | **269,451** |
| (Gains)/losses due to experience | 721,796 | 474,744 | (733,766) | (226,242) | 3,091,965 | 1,778,315 | 5,106,812 |
| | **721,796** | **474,744** | **(733,766)** | **(226,242)** | **3,091,965** | **1,778,315** | **5,106,812** |
| **Total remeasurements** | **721,796** | **474,744** | **(733,766)** | **(226,242)** | **3,361,416** | **1,778,315** | **5,376,263** |

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | VIVA Pensions | Before 1997 | Assets | Medical Acts | Seniority Bonus | England Representation | Total |
| **Remeasurements** | | | | | | | |
| Return of assets, excluding amounts included in net income | — | — | — | — | 237,415 | (119,132) | 118,283 |
| | **—** | **—** | **—** | **—** | **237,415** | **(119,132)** | **118,283** |
| (Gains)/losses due to changes in financial assumptions | 477,854 | 1,402,582 | 160,106 | 167,753 | 5,135,062 | — | 7,343,357 |
| (Gains)/losses due to experience | 43,815 | (236,970) | (19,717) | (304,613) | (805,768) | 1,757,808 | 434,555 |
| | **521,669** | **1,165,612** | **140,389** | **(136,860)** | **4,329,294** | **1,757,808** | **7,777,912** |
| **Total remeasurements** | **521,669** | **1,165,612** | **140,389** | **(136,860)** | **4,566,709** | **1,638,676** | **7,896,195** |

The remeasurement gains/losses were recognised directly in the Company's comprehensive income.

**20 Provisions**

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

| | Provision for legal claims | Other | Total |
|---|---|---|---|
| **1 January 2016** | **11,117,690** | **1,424,361** | **12,542,051** |
| Increases | 1,170,373 | — | 1,170,373 |
| Reversals | (1,109,017) | (960,812) | (2,069,829) |
| **31 December 2016** | **11,179,046** | **463,549** | **11,642,595** |
| Increases | | — | — |
| Reversals | (2,407,494) | (12,352) | (2,419,846) |
| **31 December 2017** | **8,771,552** | **451,197** | **9,222,749** |

In 2017 and 2016, resulted gains of Euro 2,419,846 and Euro 899,456, respectively, recorded under the caption "Provisions" of the income statement.

- **Provision for legal claims**

Provisions for legal claims are recognised in accordance with the Company's and its legal advisors risk assessments, based on historical success rates by type of legal action and probability of unfavourable outcomes for the Company. As at 31 December 2017, the existent provision, in the amount of Euro 8,771,552, aims to cover the risk of several lawsuits filed against the Company, in Portugal and foreign countries.

**21 Borrowings**

- **Current and non-current borrowings**

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Current | Non-Current | Current | Non-Current |
| Bank loans | 7,500,000 | 579,113,386 | 194,540,137 | 449,000,000 |
| Bank overdrafts (Note 16) | — | — | 279,650 | — |
| Interest accrued | 3,935,341 | — | 4,283,501 | — |
| Initial expenses | (3,218,499) | (6,775,613) | (1,900,215) | (4,948,935) |
| **Remunerated bank debt** | **8,216,842** | **572,337,773** | **197,203,073** | **444,051,065** |
| Leasing liabilities | 98,104,982 | 45,817,152 | 109,582,548 | 83,810,560 |
| Interest accrued | 441,603 | — | 1,074,770 | — |
| Initial expenses | (561,012) | (219,016) | (393,244) | (243,009) |
| **Financial leases** | **97,985,573** | **45,598,136** | **110,264,074** | **83,567,551** |
| **Total Borrowings** | **106,202,415** | **617,935,909** | **307,467,147** | **527,618,616** |

**21 Borrowings (Continued)**

- **Net debt**

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

| | 2017 | 2016 |
|---|---|---|
| **Borrowings** | | |
| Non-current | 617,935,909 | 527,618,616 |
| Current | 106,202,415 | 307,467,147 |
| | **724,138,324** | **835,085,763** |
| **Cash and cash equivalents (Note 16)** | | |
| Cash | 93,548 | 45,263 |
| Bank deposits available on demand | 53,009,566 | 64,069,933 |
| Other deposits | 103,907,848 | 10,948,386 |
| | **157,010,962** | **75,063,582** |
| **Net debt** | **567,127,362** | **760,022,181** |

- **Remunerated bank debt**

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

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

| | 2017 | 2016 |
|---|---|---|
| Up to 1 year | 8,216,842 | 196,923,423 |
| 1 to 2 years | 128,286,730 | 7,300,538 |
| 2 to 3 years | 135,338,254 | 89,296,994 |
| 3 to 4 years | 130,665,282 | 97,713,655 |
| 4 to 5 years | 131,374,093 | 93,119,657 |
| Over 5 years | 46,673,414 | 156,620,221 |
| | **580,554,615** | **640,974,488** |

| | 2017 | 2016 |
|---|---|---|
| **Variable rate** | | |
| Up to 1 year | — | 140,409,303 |
| 1 to 2 years | 120,976,550 | — |
| 2 to 3 years | 121,678,931 | 81,903,014 |
| Over 3 years | 290,030,668 | 339,969,510 |
| | **532,686,149** | **562,281,827** |
| **Fixed rate** | | |
| Up to 1 year | 8,216,842 | 56,514,120 |
| 1 to 2 years | 7,310,180 | 7,300,538 |
| 2 to 3 years | 13,659,323 | 7,393,980 |
| Over 3 years | 18,682,121 | 7,484,023 |
| | **47,868,466** | **78,692,661** |
| | **580,554,615** | **640,974,488** |

**21 Borrowings (Continued)**

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

| | 2017 | 2016 |
|---|---|---|
| Loans in EUR | 580,554,615 | 621,998,355 |
| Loans in USD—Note 3 | — | 18,976,133 |
| | **580,554,615** | **640,974,488** |

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

- **Financial leases**

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

| | 2017 | 2016 |
|---|---|---|
| Up to 1 year | 97,985,573 | 110,264,074 |
| 1 to 2 years | 33,976,651 | 41,466,984 |
| 2 to 3 years | 11,621,485 | 31,333,304 |
| 3 to 4 years | — | 10,767,263 |
| | **143,583,709** | **193,831,625** |

| | 2017 | 2016 |
|---|---|---|
| **Variable rate** | | |
| Up to 1 year | 94,366,478 | 13,549,635 |
| 1 to 2 years | 30,214,740 | 16,315,347 |
| 2 to 3 years | 7,695,993 | 5,902,579 |
| | **132,277,211** | **35,767,561** |
| **Fixed rate** | | |
| Up to 1 year | 3,619,095 | 96,714,439 |
| 1 to 2 years | 3,761,911 | 25,151,637 |
| 2 to 3 years | 3,925,492 | 25,430,725 |
| Over 3 years | — | 10,767,263 |
| | **11,306,498** | **158,064,064** |
| | **143,583,709** | **193,831,625** |

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

| | 2017 | 2016 |
|---|---|---|
| Financial leases in EUR | 22,317,970 | 105,515,855 |
| Financial leases in USD (Note 3) | 121,265,739 | 88,315,770 |
| | **143,583,709** | **193,831,625** |

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

Some borrowings have real guarantees, namely financial leases and one of the loans obtained from a national institution (Note 6).

**21 Borrowings (Continued)**

- **Operating leases**

As referred to in Note 1.25., these liabilities are not recorded in the Company's statement of financial position. Operating leases contracts have different periods which may reach up to 12 years, which may be extended through the explicit consent of the contracting parties.

As at 31 December 2017, 44 aircraft and 7 engines were under operating lease contracts and 21 aircraft under ACMI contracts, as detailed on Note 6.

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

| | 2017 | 2016 |
|---|---|---|
| Up to 1 year | 166,869,512 | 138,813,997 |
| 1 to 2 years | 135,050,008 | 123,123,468 |
| 2 to 3 years | 99,526,684 | 97,820,311 |
| 3 to 4 years | 75,490,339 | 66,675,964 |
| Over 4 years | 95,810,886 | 128,135,840 |
| | **572,747,429** | **554,569,580** |

These contracts require security deposits which, as at 31 December 2017 and 2016, reached a total of Euro 45,635,232 and Euro 25,976,595, respectively. These deposits shall be returned when each of these aircraft is handed back to its lessor (Note 12).

- **Financial covenants**

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

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

**22 Other payables**

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Suppliers | 199,597,865 | — | 160,427,907 | — |
| Accrued expenses | 210,839,095 | 112,353,793 | 189,613,410 | 104,842,841 |
| Deferred revenue | 81,699,605 | — | 65,998,963 | — |
| Advances from customers | 923,939 | — | 1,336,576 | — |
| State | 28,883,500 | — | 29,013,607 | — |
| Other | 119,523,315 | — | 98,229,981 | 635,848 |
| | **641,467,319** | **112,353,793** | **544,620,444** | **105,478,689** |

## 22 Other payables (Continued)

- **Suppliers**

As at 31 December 2017 and 2016, the carrying amount of the heading "Suppliers" is detailed as follows:

| | 2017 | 2016 |
|---|---|---|
| Suppliers—current account | 78,558,546 | 98,882,645 |
| Suppliers—related parties (Note 39) | 52,963,249 | 30,869,993 |
| Suppliers—pending invoices | 68,076,070 | 30,675,269 |
| | **199,597,865** | **160,427,907** |

- **Accrued expenses**

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Remunerations | 80,289,409 | — | 65,093,994 | — |
| Maintenance—operating leases | 16,929,186 | 112,353,793 | 22,568,656 | 104,842,841 |
| Aircraft fuel | 15,731,145 | — | 11,312,886 | — |
| Remuneration—air crew | 15,709,636 | — | 14,321,863 | — |
| Special sales charges | 15,053,884 | — | 10,359,723 | — |
| Navigation charges | 14,305,171 | — | 12,347,889 | — |
| Related parties (Note 39) | 7,153,498 | — | 8,058,026 | — |
| Maintenance and repair of materials | 5,230,644 | — | 3,461,499 | — |
| Handling services | 4,870,871 | — | 2,868,367 | — |
| *Booking fees* | 3,860,684 | — | 4,848,750 | — |
| Specialised work | 2,691,452 | — | 2,821,651 | — |
| Landing charges | 1,960,718 | — | 1,320,782 | — |
| Air charter | 1,400,032 | — | 1,701,557 | — |
| Insurance payable | 1,208,488 | — | 1,102,560 | — |
| Passenger boarding taxes | — | — | 2,134,289 | — |
| Other accrued expenses | 24,444,277 | — | 25,290,918 | — |
| | **210,839,095** | **112,353,793** | **189,613,410** | **104,842,841** |

The variation verified is mainly related to the general increase of the expenses with external supplies and services, directly associated with the increase of the Company's activity.

The increase recorded in remunerations is related to amounts to be paid of bonuses and indemnities.

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

- **Deferred revenue**

The caption "Deferred revenue", as at 31 December 2017 and 2016, is detailed as follows:

| | 2017 | 2016 |
|---|---|---|
| Customer loyalty program | 50,399,075 | 42,971,811 |
| Work for aviation companies | 28,063,301 | 22,226,871 |
| Grants receivable | 2,625,993 | — |
| Related parties (Note 39) | 345,467 | 383,872 |
| Other deferred revenue | 265,769 | 416,409 |
| | **81,699,605** | **65,998,963** |

**22 Other payables (Continued)**

Under the application of IFRIC 13—Customer loyalty programme, the attribution of miles to customers who are members of the "TAP Victoria" customer loyalty programme is deferred based on the unit value of the mile, as perceived by the customer (Note 1.26.).

The amount of Euro 28,063,301 (2016: Euro 22,226,871), recorded under the caption "Work for aviation companies", refers to advanced billing of maintenance work for third parties that was in progress as at 31 December 2017.

- **State**

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

| | 2017 | 2016 |
|---|---|---|
| Corporate income tax | 33,534 | 32,706 |
| Personal income tax | 13,469,858 | 14,045,215 |
| Social security contribution | 15,380,108 | 14,877,104 |
| Other | — | 58,582 |
| | **28,883,500** | **29,013,607** |

- **Other payables—current**

As at 31 December 2017 and 2016, the caption "Other payables—current" is detailed as follows:

| | 2017 | 2016 |
|---|---|---|
| Taxes and fees | 90,619,218 | 72,461,266 |
| Fixed assets suppliers | 14,456,543 | 5,957,769 |
| Personnel | 512,989 | 1,770,026 |
| Customers payables | 3,113,822 | 8,370,355 |
| Work accident indemnities | 989,533 | 873,155 |
| Payroll payable | 641,225 | 559,349 |
| Related parties (Note 39) | 446,904 | 550,730 |
| Indemnities | 759,416 | 176,048 |
| Other | 7,983,665 | 7,511,283 |
| | **119,523,315** | **98,229,981** |

The caption Taxes and fees refers, essentially, to amounts payable to several entities, related to taxes and fees charged to customers on the issued tickets. The variation observed is related to the variation of the caption liabilities from unused flight documents due to the increase in the number of tickets issued in the second half of the year when compared to the same period of the previous year.

- **Other payables—non - current**

As at 31 December 2016, this caption refers to the fair value of the derivative financial instruments, namely interest rate swaps, in the amount of Euro 635,848 (Note 23). This amount was settled in advance in the exercise of 2017 and at reporting date there are no amounts to pay of this nature.

### 23 Derivative financial instruments

As at December 31 2017 and 2016, the Company had negotiated the following derivative financial instruments related to interest rate swaps classified as hedge instruments:

| | 2017 Liabilities | 2016 Liabilities |
|---|---|---|
| Interest rate Swaps—non-current (Notes 4 and 22) | — | 635,848 |
| | **—** | **635,848** |

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

| | Start | Maturity | 2017 Net | 2016 Net |
|---|---|---|---|---|
| Interest rate Swaps | 26-11-2009 | 26-11-2019 | — | (635,848) |
| | | | **—** | **(635,848)** |

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

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

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

| | Liabilities | |
|---|---|---|
| | Current | Non-current |
| **Fair value 1 January 2016** | **—** | **(1,037,989)** |
| Payment/(revenue) of swaps during the year | — | 469,345 |
| Revenue/(payment) of swaps retained through profit or loss | — | (469,345) |
| Increase/(decrease) of fair value reflected in equity | — | 402,141 |
| **Fair value 31 December 2016** | **—** | **(635,848)** |
| Acquisitions during the year—payment/(revenue) | 9,523,059 | — |
| Payment/(revenue) of swaps during the year | — | 609,021 |
| Revenue/(payment) of swaps retained through profit or loss | (9,523,059) | (609,021) |
| Increase/(decrease) of fair value reflected in equity | — | 635,848 |
| **Fair value 31 December 2017** | **—** | **—** |

### 24 Liabilities from unused flight documents

As at 31 December 2017 and 2016, the Company's liabilities relative to unused flight documents were as follows:

| | 2017 | 2016 |
|---|---|---|
| Passengers | 411,131,420 | 317,316,825 |
| Cargo | 600,031 | 549,973 |
| | **411,731,451** | **317,866,798** |

The variation verified in this caption is related to the joint effect of the increase of the timing of anticipation of purchase date when compared to the flight date and the increase in the number of tickets sold.

During 2017 and 2016, based on the partial and periodic analyses of this caption (Note 1.26), adjustments were made to the revenue from passenger and cargo transport in the amount of Euro 65,073,195 (2.4% of revenue from flown tickets) and Euro 72,181,326 (3.4% of revenue from flown tickets), respectively, which were recognised under the caption "Sales and services rendered".

## 25 Gains and losses in associates

During 2017 and 2016, the caption Gains and losses in associates is detailed as follows:

| | 2017 | 2016 |
|---|---|---|
| Received dividends | | |
| IC SAFIT | 37,626 | 26,772 |
| | **37,626** | **26,772** |

## 26 Other operating income

During 2017 and 2016, this caption is presented as follows:

| | 2017 | 2016 |
|---|---|---|
| Gains from tangible fixed assets | 17,982,828 | 16,740,560 |
| Suplementary income | 9,405,167 | 10,016,219 |
| Recovered warehouse material | 3,580,775 | 4,729,456 |
| Other grants | 2,234,430 | 1,105,650 |
| Publicity | 2,104,351 | 2,609,755 |
| Commissions | 1,875,934 | 3,002,945 |
| Gains from inventories | 224,391 | 216,418 |
| Currency translation differences | — | 2,071,306 |
| Aircraft rental | — | 85,820 |
| Other operating income | 676,950 | 3,472,216 |
| | **38,084,826** | **44,050,345** |

The gains recorded under the caption "Gains from tangible fixed assets" is mainly due to the gain resultant from the disposal of five A330 aircraft in a sale and leaseback operation during the first half of 2017, amounting to Euro 17,856 thousand (Note 6), compared to the gain in 2016 from the sale of three A330 aircraft in the amount of Euro 16,261 thousand.

The caption "Supplementary income" presents the following composition as at 31 December 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Rents and subleases | 4,486,418 | 4,493,405 |
| Services rendered (third parties) | 1,490,437 | 1,360,012 |
| *Booking fees* | 472,516 | 886,872 |
| Other | 2,955,796 | 3,275,930 |
| | **9,405,167** | **10,016,219** |

## 27 Cost of goods sold and materials consumed

The cost of goods sold and materials consumed in 2017 and 2016 was as follows:

| | 2017 | 2016 |
|---|---|---|
| Inventories—opening balance (Note 13) | 64,248,659 | 61,280,894 |
| Purchases | 150,999,787 | 101,086,892 |
| Adjustment of inventories | 107,361 | 57,000 |
| Inventories—closing balance (Note 13) | (78,525,239) | (64,248,659) |
| | **136,830,568** | **98,176,127** |

The variation of 29% occurred in 2017, is mainly due to the increase in materials consumed in the maintenance and engineering activity.

## 28 Variation in production

The variation in production in 2017 and 2016 was as follows:

| | 2017 | 2016 |
|---|---|---|
| Inventories—opening balance (Note 13) | (7,870,071) | (5,545,255) |
| Adjustment of inventories | (41,873) | (4,969) |
| Inventories—closing balance (Note 13) | 10,001,974 | 7,870,071 |
| | **2,090,030** | **2,319,847** |

## 29 External supplies and services

External supplies and services is detailed as follows:

| | 2017 | 2016 |
|---|---|---|
| Aircraft fuel | 580,217,898 | 433,819,436 |
| Operating leases of aircraft and spare parts | 179,105,710 | 118,596,675 |
| Handling services | 176,772,952 | 153,292,368 |
| Specialised work | 173,765,962 | 139,231,098 |
| Maintenance and repair of flight equipment | 162,990,169 | 110,776,059 |
| Navigation charges | 153,779,488 | 141,846,833 |
| Chartering of aircraft | 117,402,888 | 83,286,812 |
| In-flight expenses | 92,690,517 | 82,431,939 |
| Landing charges | 89,038,146 | 76,361,564 |
| Commissions | 46,921,708 | 34,426,740 |
| Special sales charges—air transport | 38,055,174 | 28,025,630 |
| Operational irregularities | 34,008,451 | 24,412,899 |
| Facilities at airports | 29,103,173 | 22,242,860 |
| Accommodation and meals during stopovers | 28,418,677 | 25,214,908 |
| Air traffic control charges | 26,389,276 | 22,634,930 |
| Advertising and publicity | 23,082,329 | 21,018,824 |
| Baggage, cargo and mail charges | 17,952,350 | 13,767,494 |
| Ground costs related to executive class passengers | 11,708,563 | 8,850,155 |
| Maintenance and repair of other assets | 7,657,211 | 6,326,472 |
| Rental costs | 6,282,765 | 6,454,370 |
| Insurance | 5,133,367 | 4,130,986 |
| Transport of goods | 5,008,830 | 3,748,334 |
| Communication | 4,670,945 | 3,238,869 |
| Fees | 3,881,964 | 4,153,286 |
| Travel costs | 3,231,299 | 2,409,637 |
| Surveillance and security | 2,455,227 | 2,084,558 |
| Other costs | 11,004,585 | 10,769,898 |
| | **2,030,729,624** | **1,583,553,634** |

The increase in fuel expenses is mainly due to the increase of quantities and average price of jet fuel.

Operating lease expenses for flight equipment in 2017 increased Euro 60,056 thousand compared to 2016, due to the increase of aircraft in this type of lease.

The increase in air transport activity cause the increase of many operating expenses as commercial costs, commissions, booking fees and advertising, as well as expenses with handling, catering, irregularities, food, accommodation at the scales, among others.

## 30 Employee costs

Employee costs are detailed as follows:

| | 2017 | 2016 |
|---|---|---|
| Remunerations | | |
| Statutory Bodies | — | 25,803 |
| Employees | 504,648,966 | 468,240,194 |
| | **504,648,966** | **468,265,997** |
| Fixed remuneration | 268,743,832 | 261,183,203 |
| Variable remuneration | 110,874,008 | 100,370,131 |
| Social security contributions | 80,179,511 | 74,725,533 |
| Insurance | 11,598,572 | 11,010,141 |
| Social action costs | 10,512,948 | 9,998,081 |
| Indemnities | 9,855,055 | 1,428,873 |
| Work accident insurance | 4,975,192 | 4,011,776 |
| Meals allowance | 3,521,970 | 2,738,446 |
| Uniform and work clothes | 1,513,052 | 1,157,909 |
| Training and recruitment | 1,466,279 | 414,642 |
| Displaced personnel costs | 762,229 | 649,191 |
| Other expenses with employees | 646,318 | 578,071 |
| | **504,648,966** | **468,265,997** |

The increase in employee costs is mainly due to the headcount variation, average salary increase and significant increase in variable remuneration, as a result of the strong growth of the operation.

As at 31 December 2017 and 2016, the average number of employees, divided between Headoffice and Representations, is as follows:

| | 2017 | 2016 |
|---|---|---|
| **Head office** | | |
| Ground employees | 1,013 | 982 |
| Technical flight employees | 968 | 933 |
| Cabin Crew employees | 2,681 | 2,543 |
| Maintenance and engineering employees | 1,864 | 1,906 |
| Other | 481 | 465 |
| **Representations** | | |
| Angola | 29 | 32 |
| UK/Ireland | 24 | 27 |
| Germany | 27 | 30 |
| France | 40 | 39 |
| Switzerland | 10 | 14 |
| Belgium / Luxembourg | 13 | 15 |
| Spain | 43 | 53 |
| Italy | 28 | 32 |
| USA | 41 | 39 |
| Brazil | 116 | 143 |
| Venezuela | 25 | 25 |
| Other | 62 | 59 |
| | **7,465** | **7,337** |

**31 Impairment in inventory and receivables**

As at 31 December 2017 and 2016, this caption is detailed as follows:

| | 2017 | 2016 |
|---|---|---|
| Inventory impairment (Note 13) | 411,479 | 94,592 |
| Receivables impairment (Note 14) | 1,079,871 | 1,975,018 |
| | **1,491,350** | **2,069,610** |

**32 Other operating expenses**

The caption other operating expenses is detailed as follows:

| | 2017 | 2016 |
|---|---|---|
| Taxes | 4,747,426 | 4,291,831 |
| Credit card fraudulent usage | 3,090,347 | 1,694,013 |
| Financial services | 2,541,372 | 3,433,661 |
| Losses from tangible fixed assets | 1,717,091 | 1,584,479 |
| Contributions | 708,118 | 902,123 |
| Inventory losses | 373,624 | 278,388 |
| Fines and penalties | 335,993 | 82,939 |
| Internally generated assets | (1,051,729) | (558,705) |
| Other | 346,956 | 101,714 |
| | **12,809,198** | **11,810,443** |

**33 Depreciation, amortisation and impairment losses**

For the years ended as at 31 December 2017 and 2016, this caption is detailed as follows:

| | 2017 | 2016 |
|---|---|---|
| Tangible fixed assets depreciation (Note 6) | | |
| Buildings and other constructions | 5,284,038 | 5,249,572 |
| Basic equipment | 44,689,799 | 44,198,960 |
| Transport equipment | 110,975 | 111,401 |
| Tools and utensils | 627,449 | 507,577 |
| Administrative equipment | 1,189,799 | 918,944 |
| Other tangible fixed assets | 390,867 | 185,913 |
| | **52,292,927** | **51,172,367** |
| Intangible assets amortization (Note 8) | | |
| Computer programmes | 303,337 | 95,629 |
| | **303,337** | **95,629** |
| | **52,596,264** | **51,267,996** |

**34 Finance income and expenses**

In 2017 and 2016, finance income and expenses are detailed as follows:

| | 2017 | 2016 |
|---|---|---|
| Interest expenses | 28,764,426 | 31,771,339 |
| Interest income | (44,603,650) | (49,773,870) |
| Net currency translation differences | 27,754,822 | 2,734,274 |
| Other financial costs and losses | 5,589,019 | 1,914,124 |
| | **17,504,617** | **(13,354,133)** |

**34 Finance income and expenses (Continued)**

The amount of loans interest expenses is net of capitalised interest on tangible fixed assets in the amount of Euro 2,513,993 as at 31 December 2017 (Euro 6,890,372 as at 31 December 2016).

The unfavourable currency exchange differences in 2017 resulted, essentially, from the significant devaluation of the real and kwanza, partially attenuated by the effect of the devaluation of the American dolar.

**35 Income tax for the year**

The Company is subject to Corporate Income Tax (IRC) based on its individual net income, at the rate of 21% plus a surcharge at the maximum rate of 1.5% on taxable profit, thus reaching an aggregate rate of 22.5%. This rate is increased by 3% on the portion of taxable profit which is greater than Euro 1.5 million and less than Euro 7.5 million, by 5% on the portion of taxable profit which is greater than Euro 7.5 million and less than Euro 35 million, and by 7% on the portion of taxable profit which is greater than Euro 35 million, giving rise to an aggregate maximum tax rate of 29.5%.

In the calculation of the taxable profits, to which the tax rates referred to above are applied, the amounts not accepted for tax purposes are added and subtracted to the accounting results. These differences between the results for accounting and tax purposes may have a temporary or permanent nature.

Under the terms of article 88 of the Corporate Income Tax Code, the Company is subject to autonomous taxation on some expenses, at the tax rates listed therein.

In accordance with legislation in force, the Company income tax returns are subject to review and correction by the tax authorities for a period of four years (social security can be reviewed for five years), except when there are tax losses carried forward, tax benefits have been granted or there are claims or appeals in progress where, depending on the circumstances, the period can be extended or suspended. The Board of Directors believes that any corrections resulting from reviews / inspections by the tax authorities of these tax returns will not have a significant effect on the financial statements as at 31 December 2017 and 2016.

As at 31 December 2017 and 2016, the caption "Income tax for the year" is detailed as follows:

| | 2017 | 2016 |
|---|---|---|
| Deferred taxes (Note 11) | 15,095,120 | 4,036,758 |
| Current taxes | 16,944,284 | 462,294 |
| Differences from tax estimates | (1,372,765) | (682,464) |
| | **30,666,639** | **3,816,588** |

The reconciliation of the effective tax rate for 2017 and 2016 is detailed as follows:

| | 2017 | 2016 |
|---|---|---|
| Net income/(loss) before income tax | 131,078,022 | 37,334,394 |
| Nominal tax rate | 29.5% | 27.5% |
| Expected tax | 38,668,016 | 10,266,958 |
| Permanent differences | (6,769,731) | (5,966,948) |
| Autonomous taxation | 141,119 | 199,042 |
| Insufficient/(surplus) estimate of taxes for the previous year | (1,372,765) | (682,464) |
| | **30,666,639** | **3,816,588** |
| Effective tax rate | 23% | 10% |

## 36 Earnings per share

There are no convertible financial instruments on the shares of TAP S.A., so there is no dilution of results.

| | 2017 | 2016 |
|---|---|---|
| Net income/(loss) for the year | 100,411,383 | 33,517,806 |
| Wheighted average number of shares | 8,300,000 | 8,300,000 |
| Basic and diluted earnings per share | 12.1 | 4.0 |

## 37 Commitments

- **Purchase commitments**

The acquisition of 53 aircraft (39 A320 NEO Family and 14 A330 NEO) to be received between 2018 and 2025 is contracted with Airbus SAS (“Airbus”). This order is due to the novation to TAP S.A. of the previously negotiated acquisition agreement and signed between Airbus and DGN Corporation. Following this commitment was signed for 14 aircraft an assignment of contractual position with subsequent leaseback and sale and leaseback contracts (8 A320 NEO Family and 6 A330 NEO).

A commitment was also signed with CFM International Inc. on the acquisition of 83 LEAP-A1 engines, including 5 reserve engines, which will equip the new fleet of A320 NEO Family aircraft.

- **Other commitments**

As at 31 December 2017, there were financial commitments, assumed by the Company, related to operating leases of aircraft and engines (including ACMI), in operation, in the amount of Euro 572,747 thousand (Euro 554,570 thousand at 31 December 2016) (Note 21).

In addition, operating leases contracts were also signed in respect to aircraft whose the operation is expected to start between 2018 and 2020. The present value of payment schedule under non-cancellable agreements is around Euro 1,402,545 thousand in 31 of December 2017.

In 2017, were also signed letters of intent relating to the operating lease of three A330 NEO aircraft and two A321 NEO aircraft that are included in the purchase agreement signed between Airbus and TAP S.A.

A letter of intent was also signed for the operating lease of 3 additional A321 NEO aircraft.

## 38 Contingencies

- **Contingent assets and liabilities**

As at 31 December 2016 and 2015, the Company have no contingent assets for disclosure.

TAP SGPS and TAP SA were notified on 10 November 2016 by a “Notice of Objections” issued by the European Commission—Directorate General for Competition, concerning the fares charged by TAP SA and SN Brussels on the Lisbon-Brussels route, considering the existing code-share agreements. TAP understands that there are no substantiated indications of any breach and therefore an outflow of resources is not probable to be required.

### 38 Contingencies (Continued)

- **Pledged Guarantees**

As at 31 December 2017 and 2016, the pledged guarantees are detailed as follows:

| | 2017 | 2016 |
|---|---|---|
| **Bank guarantees provided by Head Office** | | |
| Aircrafts | 41,616,218 | 47,357,023 |
| INEA—“Spice” project | 2,625,993 | 2,625,993 |
| Fuel | 1,733,820 | 2,198,677 |
| Portuguese State—Operation of the Azores routes | 1,653,985 | 1,653,985 |
| Clean Sky—Investigation project—M&E | 1,612,116 | 1,612,116 |
| Labour Court | 680,954 | 1,053,188 |
| Natwest—Acquiring relative to credit cards | — | 2,452,755 |
| Other | 6,503,628 | 7,700,158 |
| **Bank guarantees provided by Representations** | 4,024,259 | 3,505,120 |
| | **60,450,973** | **70,159,015** |

The real guarantees provided under loan agreements are disclosed in Note 21.

### 39 Related Parties

As at 31 December 2017 and 2016, the balances and transactions with related parties are detailed as follows:

| | 2017 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | TAP SGPS | Azul S.A. | TAPGER | Portugália | SPdH | Megasis | TAP ME Brasil | Cateringpor | UCS | Total |
| **Balances:** | | | | | | | | | | |
| Trade receivables (Note 14) | — | 396,953 | 615,000 | 907,039 | 123,948 | 324,619 | 13,350,575 | 80,667 | 193,909 | 15,992,710 |
| Advances to suppliers (Note 14) | — | — | — | — | — | — | 20,855,702 | — | — | 20,855,702 |
| Accrued income (Note 14) | 885 | — | — | 207,282 | — | 10 | — | — | — | 208,177 |
| Other receivables | | | | | | | | | | |
| Current (Note 14) | 809,914,844 | 1,562 | 329 | 357,470 | 602,906 | 1,465,781 | 5,047,926 | 452,259 | 437,569 | 818,280,646 |
| | **809,915,729** | **398,515** | **615,329** | **1,471,791** | **726,854** | **1,790,410** | **39,254,203** | **532,926** | **631,478** | **855,337,235** |
| Suppliers (Note 22) | (6,331,523) | (35,020) | — | (9,872,738) | (8,309,975) | (4,928,378) | (17,030,296) | (5,568,793) | (886,526) | (52,963,249) |
| Accrued expenses (Note 22) | (1,041,900) | (68,373) | — | (5,100,011) | (623,253) | — | (5,034) | (314,927) | — | (7,153,498) |
| Deferred income (Note 22) | — | — | — | — | (102,847) | (15,710) | — | (198,718) | (28,192) | (345,467) |
| Income tax payable (Note 15) | (12,956,014) | — | — | — | — | — | — | — | — | (12,956,014) |
| Other payables | | | | | | | | | | |
| Current (Note 22) | (193,378) | — | — | — | (796) | (238,651) | — | — | (14,079) | (446,904) |
| | **(20,522,815)** | **(103,393)** | **—** | **(14,972,749)** | **(9,036,871)** | **(5,182,739)** | **(17,035,330)** | **(6,082,438)** | **(928,797)** | **(73,865,132)** |
| **Transactions:** | | | | | | | | | | |
| Sales and services rendered | — | (99,770) | 500,000 | 1,378,167 | 6,228,910 | 2,498,811 | 484,761 | 1,570,063 | 808,763 | 13,369,705 |
| Materials and services consumed | (5,970,948) | (7,958,788) | — | (108,391,977) | (91,692,917) | (36,206,608) | (9,624,060) | (40,066,400) | (4,057,319) | (303,969,017) |
| Interest obtained | 38,341,118 | — | 70,753 | — | — | — | — | — | — | 38,411,871 |
| | **32,370,170** | **(8,058,558)** | **570,753** | **(107,013,810)** | **(85,464,007)** | **(33,707,797)** | **(9,139,299)** | **(38,496,337)** | **(3,248,556)** | **(252,187,441)** |

## 39 Related Parties (Continued)

| | 2016 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **TAP SGPS** | **Azul S.A.** | **TAPGER** | **Portugália** | **SPdH** | **Megasis** | **TAP ME Brasil** | **Cateringpor** | **UCS** | **Total** |
| **Balances:** | | | | | | | | | | |
| Trade receivables (Note 14) | 102 | 1,436,185 | — | 477,302 | 576,247 | 348,275 | 14,763,783 | 30,649 | 39,659 | 18,442,971 |
| Advances to suppliers (Note 14) | — | — | — | — | — | — | 13,370,111 | — | — | 13,370,111 |
| Accrued income (Note 14) | 25,693 | — | — | 1,125,860 | — | 10 | — | — | — | 1,151,563 |
| Other receivables | | | | | | | | | | |
| Non-current (Note 12) | — | 1,672,665 | 3,500,000 | — | — | — | — | — | — | 5,172,665 |
| Current (Note 14) | 793,133,730 | 347,343 | 188,116 | 195,448 | 667,043 | 307,772 | 2,828,041 | 432,739 | 87,942 | 798,303,698 |
| | **793,159,525** | **3,456,193** | **3,688,116** | **1,798,610** | **1,243,290** | **656,057** | **30,961,935** | **463,388** | **127,601** | **836,441,008** |
| Suppliers (Note 22) | (6,297,547) | — | — | (6,657,287) | (764,789) | (2,772,241) | (7,119,364) | (6,975,761) | (283,004) | (30,869,993) |
| Accrued expenses (Note 22) | — | — | — | (1,421,515) | (6,630,768) | — | (5,743) | — | — | (8,058,026) |
| Deferred income (Note 22) | — | — | — | — | (100,812) | (15,378) | — | (197,631) | (28,041) | (383,872) |
| Other payables | | | | | | | | | | |
| Current (Note 22) | — | — | — | — | (15,912) | (518,045) | — | — | (16,773) | (550,730) |
| | **(6,297,547)** | **—** | **—** | **(8,078,802)** | **(7,512,281)** | **(3,305,664)** | **(7,125,107)** | **(7,173,392)** | **(327,818)** | **(39,862,621)** |
| **Transactions:** | | | | | | | | | | |
| Sales and services rendered | — | 586,776 | 500,000 | 1,582,106 | 6,296,662 | 2,325,900 | 850,171 | 1,498,826 | 843,807 | 18,290,743 |
| Materials and services consumed | (5,096,908) | (6,797,261) | — | (74,961,893) | (79,670,962) | (31,936,755) | (6,386,934) | (39,642,733) | (3,600,489) | (248,093,935) |
| Interest obtained | 46,988,005 | — | 187,787 | — | — | — | — | — | — | 47,175,792 |
| | **41,891,097** | **(6,210,485)** | **687,787** | **(73,379,787)** | **(73,374,300)** | **(29,610,855)** | **(5,536,763)** | **(38,143,907)** | **(2,756,682)** | **(182,627,400)** |

The terms and conditions enforced between the Company and the related parties are similar in substance to the terms which would normally be contracted between independent entities in comparable operations.

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

Members of the Board of Directors are remunerated exclusively by the functions performed at TAP SGPS, and are not remunerated by the functions performed at TAP S.A., from 2016 onwards.

## 40 Costs with audit and statutory audit

As at 31 December 2017 and 2016, fees for audit, statutory audit services and tax advisory services are detailed as follows:

| | **2017** | **2016** |
|---|---|---|
| Audit and statutory audit | 184,340 | 221,031 |
| Tax advisory | 43,786 | 74,604 |
| | **228,126** | **295,635** |

## 41 Subsequent events

The Board of Directors is not aware of any subsequent events as at the reporting date that may have significant impact on the financial statements for the year ended as at 31 December 2017.

**42 Note added for translation**

The accompanying financial statements are a translation of financial statements originally issued in Portuguese. In the event of any discrepancies, the Portuguese version prevails.

**CHARTERED ACCOUNTANT**

Sandra Candeias Matos da Luz

**BOARD OF DIRECTORS**

Humberto Manuel dos Santos Pedrosa
*Chairman*

David Gary Neeleman
*Member*

Antonoaldo Grangeon Trancoso Neves
*Chairman of the Executive Committee*

David Humberto Canas Pedrosa
*Executive Committee Member*

Raffael Guarita Quintas Alves
*Executive Committee Member*

***Auditors' Report***

***(Free translation from the original in Portuguese)***

***Report on the audit of the financial statements***

***Opinion***

We have audited the financial statements of Transportes Aéreos Portugueses, S.A. (the Entity), which comprise the statement of financial position as at December 31, 2017 (which shows total assets of Euro 2,220,869,811 and total shareholders' equity of Euro 233,973,433 including a net profit of Euro 100,411,383), the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Transportes Aéreos Portugueses, S.A. as at December 31, 2017, and its financial performance and its 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 financial statements" section below. In accordance with the law we are independent of the Entity 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.

***Responsibilities of management and supervisory board for the financial statements***

Management is responsible for:

a) the preparation of the financial statements, which present fairly the financial position, the financial performance and the cash flows of the Entity in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Entity's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Entity's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure process of the Entity's financial information.

*PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda.*
*Sede: Palácio Sottomayor, Rua Sousa Martins, 1 - 3º, 1069-316 Lisboa, Portugal*
*Tel +351 213 599 000, Fax +351 213 599 999, www.pwc.pt*
*Matriculada na CRC sob o NUPC 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*

*Auditor's responsibilities for the audit of the financial statements*

Our responsibility is to obtain reasonable assurance about whether the 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 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and

f) communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

***Report on other legal and regulatory requirements***

***Director's report***

In our opinion, the Director's report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited financial statements and, taking into account the knowledge and assessment about the Entity, no material misstatements were identified.

February 23, 2018

PricewaterhouseCoopers & Associados
—Sociedade de Revisores Oficiais de Contas, Lda.
Represented by:

Hugo Miguel Patrício Dias, R.O.C.

**TRANSPORTES AÉREOS PORTUGUESES, S.A.**

FINANCIAL STATEMENTS

FINANCIAL YEAR OF 2016

## INDEX


**STATEMENT OF FINANCIAL POSITION** . . . F-202
**INCOME STATEMENT** . . . F-203
**STATEMENT OF COMPREHENSIVE INCOME** . . . F-204
**STATEMENT OF CHANGES IN EQUITY** . . . F-205
**STATEMENT OF CASH FLOWS** . . . F-206
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR** . . . F-207
Introduction . . . F-207
1 Summary of the principal accounting policies . . . F-208
2 Important accounting estimates and judgements . . . F-220
3 Financial risk management policies . . . F-222
4 Financial assets and liabilities . . . F-233
5 Segment reporting . . . F-234
6 Tangible fixed assets . . . F-236
7 Investment properties . . . F-238
8 Intangible assets . . . F-239
9 Investments in subsidiaries and associates . . . F-239
10 Other financial assets . . . F-240
11 Deferred tax assets and liabilities . . . F-241
12 Other non-current receivables . . . F-242
13 Inventories . . . F-243
14 Other current receivables . . . F-243
15 State and other public entities . . . F-245
16 Cash and cash equivalents . . . F-246
17 Share Capital . . . F-247
18 Supplementary capital contributions and reserves . . . F-247
19 Post-employment benefits obligations . . . F-248
20 Provisions . . . F-254
21 Borrowings . . . F-255
22 Other payables . . . F-259
23 Derivative financial instruments . . . F-261
24 Liabilities from unused flight documents . . . F-262
25 Gains and losses in associates . . . F-262
26 Other operational income . . . F-263
27 Cost of goods sold and materials consumed . . . F-263
28 Variation in production . . . F-264
29 Materials and services consumed . . . F-264
30 Employee costs . . . F-265
31 Impairment in inventories and receivables . . . F-266
32 Other operational costs . . . F-266
33 Non-recurring items . . . F-266
34 Depreciation and amortisation costs . . . F-266
35 Finance income and costs . . . F-267
36 Income tax for the year . . . F-267
37 Earnings per share . . . F-268
38 Commitments . . . F-268
39 Contingencies . . . F-269
40 Related Parties . . . F-269
41 Costs with audit and statutory audit . . . F-270
42 Subsequent events . . . F-270
43 Note added for translation . . . F-271

## STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2016 AND 2015

| Amounts stated in Euro | Notes | 2016 | 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Tangible fixed assets | 6 | 675,304,178 | 590,249,168 |
| Investment properties | 7 | 1,005,597 | 973,638 |
| Intangible assets | 8 | 1,278,469 | 196,727 |
| Investments in subsidiaries and associates | 9 | 172,310 | 172,310 |
| Other financial assets | 10 | 40,195,444 | 735,896 |
| Deferred tax assets | 11 | 65,515,522 | 68,107,055 |
| Other receivables | 12 | 37,543,557 | 24,942,180 |
| | | **821,015,077** | **685,376,974** |
| **Current assets** | | | |
| Inventories | 13 | 44,243,138 | 39,032,298 |
| Other receivables | 14 | 1,067,864,536 | 1,022,355,298 |
| State and other public entities | 15 | 16,617,735 | 9,930,448 |
| Restricted cash | 16 | 537,734 | 4,177,461 |
| Cash and cash equivalents | 16 | 75,063,582 | 130,644,662 |
| | | **1,204,326,725** | **1,206,140,167** |
| **Total assets** | | **2,025,341,802** | **1,891,517,141** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 17 | 41,500,000 | 41,500,000 |
| Supplementary capital contributions | 18 | 154,353,400 | 154,353,400 |
| Legal reserves | 18 | 8,300,000 | 8,300,000 |
| Hedge reserves | 18 e 23 | (460,990) | (752,542) |
| Other reserves | 18 | (200,588) | (200,588) |
| Retained earnings | | (100,593,320) | 4,138,041 |
| Net income/(loss) for the year | | 33,517,806 | (99,006,620) |
| **Total equity** | | **136,416,308** | **108,331,691** |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 11 | 19,129,277 | 19,744,917 |
| Post-employment benefits obligations | 19 | 55,101,928 | 50,673,661 |
| Provisions | 20 | 11,642,595 | 12,542,051 |
| Borrowings | 21 | 527,618,616 | 710,011,170 |
| Other payables | 22 | 105,478,689 | 84,018,963 |
| | | **718,971,105** | **876,990,762** |
| **Current liabilities** | | | |
| Borrowings | 21 | 307,467,147 | 177,043,132 |
| Other payables | 22 | 515,606,837 | 441,620,330 |
| State and other public entities | 15 | 29,013,607 | 16,463,201 |
| Liabilities from unused flight documents | 24 | 317,866,798 | 271,068,025 |
| | | **1,169,954,389** | **906,194,688** |
| **Total liabilities** | | **1,888,925,494** | **1,783,185,450** |
| **Total equity and liabilities** | | **2,025,341,802** | **1,891,517,141** |

The accompanying notes form an integral part of the statement of financial position as at 31 December 2016.

## INCOME STATEMENT
## FOR 2016 AND 2015

| Amounts stated in Euro | Notes | 2016 | 2015 |
|---|---|---|---|
| Operational income | | | |
| Sales and services rendered | 5 | 2,197,631,797 | 2,336,587,220 |
| Net gains/losses) in associates | 25 | 26,772 | — |
| Other operational income | 26 | 44,050,345 | 61,863,294 |
| | | **2,241,708,914** | **2,398,450,514** |
| Operational costs | | | |
| Cost of goods sold and materials consumed | 27 | (98,176,127) | (87,061,057) |
| Variation in production | 28 | 2,319,847 | (8,589,274) |
| Materials and services consumed | 29 | (1,583,553,634) | (1,731,387,278) |
| Employee costs | 30 | (468,265,997) | (457,789,942) |
| Post-employment benefits obligations costs | 19 | (5,836,108) | (6,057,339) |
| Impairment in inventories and receivables | 31 | (2,069,610) | (6,409,743) |
| Provisions | 20 | 899,456 | (329,641) |
| Fair value increases/decreases | 7 | 31,959 | 100,563 |
| Other operational costs | 32 | (11,810,443) | (60,444,986) |
| | | **75,248,257** | **40,481,817** |
| Non-recurring items | 33 | — | (91,393,729) |
| | | **75,248,257** | **(50,911,912)** |
| Depreciation and amortisation costs | 34 | (51,267,996) | (57,881,836) |
| **Operating income/(loss) (earnings before interests and taxes)** | | **23,980,261** | **(108,793,748)** |
| Finance income/costs | 35 | 13,354,133 | (11,079,038) |
| **Net income/(loss) before income tax** | | **37,334,394** | **(119,872,786)** |
| Income tax for the year | 36 | (3,816,588) | 20,866,166 |
| **Net income/(loss) for the year** | | **33,517,806** | **(99,006,620)** |
| **Earnings per share** | | | |
| Basic and diluted results per share | 37 | 4.0 | (11.9) |

The accompanying notes form an integral part of the income statement as at 31 December 2016.

## STATEMENT OF COMPREHENSIVE INCOME
## FOR 2016 AND 2015

| Amounts stated in Euro | Notes | 2016 | 2015 |
|---|---|---|---|
| **Net income/(loss) for the year** | | **33,517,806** | **(99,006,620)** |
| **Items that may be reclassified to income statement:** | | | |
| Gains and losses in derivate financial instruments—cash flow hedge | 23 | 402,141 | 49,619,614 |
| Deferred tax on derivative financial instruments—cash flow hedge | 11 | (110,589) | (13,645,394) |
| **Items that will not be reclassified to income statement:** | | | |
| Remeasurements of defined benefit plans | 19 | (7,896,195) | (2,954,303) |
| Deferred tax on remeasurements | 11 | 2,171,454 | 812,433 |
| **Other comprehensive income/(loss) net of tax** | | **(5,433,189)** | **33,832,350** |
| **Total comprehensive income/(loss) for the year** | | **28,084,617** | **(65,174,270)** |

The accompanying notes form an integral part of the statement of comprehensive income as at 31 December 2016.

## STATEMENT OF CHANGES IN EQUITY

## FROM 1 JANUARY 2015 TO 31 DECEMBER 2016

| Amounts stated in Euro | Notes | Capital | Supplementary capital contributions | Legal reserves | Hedge reserves | Other reserves | Retained earnings | Net income/(loss) for the year | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Equity as at 1 January 2015** | | **41,500,000** | **—** | **8,300,000** | **(36,726,762)** | **(200,588)** | **52,638,219** | **(46,358,308)** | **19,152,561** |
| Application of net income/(loss) for the year 2014 | | — | — | — | — | — | (46,358,308) | 46,358,308 | — |
| Supplementary capital contributions | 18 | — | 154,353,400 | — | — | — | — | — | 154,353,400 |
| Remeasurements* | 11 and 19 | — | — | — | — | — | (2,141,870) | — | (2,141,870) |
| Fair value of derivative financial instruments* | 11 and 23 | — | — | — | 35,974,220 | — | — | — | 35,974,220 |
| Net income/(loss)for the year | | — | — | — | — | — | — | (99,006,620) | (99,006,620) |
| **Equity as at 31 December 2015** | | **41,500,000** | **154,353,400** | **8,300,000** | **(752,542)** | **(200,588)** | **4,138,041** | **(99,006,620)** | **108,331,691** |
| Application of net income/(loss) for the year 2015 | | — | — | — | — | — | (99,006,620) | 99,006,620 | — |
| Remeasurements* | 11 and 19 | — | — | — | — | — | (5,724,741) | — | (5,724,741) |
| Fair value of derivative financial instruments* | 11 and 23 | — | — | — | 291,552 | — | — | — | 291,552 |
| Net income/(loss)for the year | | — | — | — | — | — | — | 33,517,806 | 33,517,806 |
| **Equity position as at 31 December 2016** | | **41,500,000** | **154,353,400** | **8,300,000** | **(460,990)** | **(200,588)** | **(100,593,320)** | **33,517,806** | **136,416,308** |

* Amount net of deferred taxes, when applicable

The accompanying notes form an integral part of the statement of changes in equity as at 31 December 2016.

## STATEMENT OF CASH FLOWS
## FOR 2016 AND 2015

| Amounts stated in Euro | Notes | 2016 | 2015 |
|---|---|---|---|
| **Operating activities:** | | | |
| Receipts from customers | | 2,075,984,073 | 2,459,621,404 |
| Payments to suppliers | | (1,891,718,818) | (1,935,568,935) |
| Payments to employees | | (345,683,551) | (355,527,953) |
| Cash flow from operations | | (161,418,296) | 168,524,516 |
| Income tax payment/receipt | | (5,634,446) | (14,333,944) |
| Other receipts/payments relating to operating activities | | 239,023,947 | (163,674,705) |
| **Cash flow from operating activities (1)** | | **71,971,205** | **(9,484,133)** |
| **Investment activities:** | | | |
| **Receipts from:** | | | |
| Financial investments | | 115,852 | 1,042,912 |
| Tangible fixed assets | 6 | 64,665,603 | 74,571,084 |
| Loans granted | | 835,199,182 | 792,093,600 |
| Interests and similar income | | 41,621,643 | 49,460,710 |
| | | 941,602,280 | 917,168,306 |
| **Payments relating to:** | | | |
| Financial investments | | (39,276,010) | — |
| Tangible fixed assets | | (134,895,179) | (42,428,329) |
| Loans granted | | (804,670,000) | (912,590,000) |
| | | (978,841,189) | (955,018,329) |
| **Cash flow from investment activities (2)** | | **(37,238,909)** | **(37,850,023)** |
| **Financing activities:** | | | |
| **Receipts from:** | | | |
| Borrowings | | 100,000,277 | 630,443,520 |
| Supplementary capital contributions | 18 | — | 154,353,400 |
| | | 100,000,277 | 784,796,920 |
| **Payments relating to:** | | | |
| Borrowings | | (71,460,469) | (587,976,863) |
| Financial leasing contracts | | (69,988,513) | (97,325,566) |
| Interests and similar costs | | (41,513,128) | (43,742,745) |
| | | (182,962,110) | (729,045,174) |
| **Cash flow from financing activities (3)** | | **(82,961,833)** | **55,751,746** |
| **Net increase (decrease) in cash and cash equivalents (1)+(2)+(3)** | | (48,229,537) | 8,417,590 |
| Effects of exchange rate changes | | (11,270,920) | (99,527,529) |
| **Cash and cash equivalents at the beginning of the year** | | 134,822,123 | 225,932,062 |
| **Cash and cash equivalents at the end of the year** | 16 | **75,321,666** | **134,822,123** |

The accompanying notes form an integral part of the statement of cash flows as at 31 December 2016.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR

**Introduction**

TAP—Transportes Aéreos Portugueses, S.A. ("Company" or "TAP S.A.") is a public limited company with its head office in Lisbon, which is governed by Decree-Law no. 312/91, of 17 August, and which succeeded the public company Transportes Aéreos Portugueses, EP, continuing its legal personality and retaining all the rights and obligations that are part of its legal area at the time of its transformation into a public limited company.

The Company's core business consists in the air transport of passengers, cargo and mail, operating in Portugal, mainland and its Autonomous Regions, Europe, Africa, North Atlantic, Mid-Atlantic and South Atlantic. The Company has 21 representative offices in foreign countries and 4 in Portugal. Additionally, it carries out maintenance and engineering work for its fleet and for third parties.

**Head Office** Lisbon Airport, Edifício 25

**Share Capital** Euro 41,500,000

**Taxpayer Number:** 500 278 725

The Company is affiliated to the IATA—International Air Transport Association.

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

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

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

With the transmission of 61% of the share capital of TAP SGPS to Atlantic Gateway on 12 November 2015, among other contractual instruments, it should be noted the "Agreement on Economic and Financial Stability of TAP" ("Acordo Relativo à Estabilidade Económica-Financeira"), between Parpública, Atlantic Gateway, TAP SGPS, TAP S.A. and Portugália, in which Atlantic Gateway, as buyer, and TAP S.A. and Portugália, as borrowers, assumed some obligations related to TAP Group financial debt and debt service.

As part of the process of notification to the Portuguese Civil Aviation Authority ("ANAC") of the transaction concluded on 12 November, 2015, which led to the acquisition by Atlantic Gateway of shares representing 61% of the share capital of TAP SGPS, should be noted that, by resolution of 19 February 2016, the Board of Directors of ANAC imposed a set of precautionary measures to the TAP Group. This proceeding with ANAC was, concluded favourably on 23 December 2016, at which date the Board of Directors of ANAC deliberated that TAP SA fulfilled the conditions set forth in Article 4 of Regulation (CE) n° 1008 / 2008 of the European Parliament and of the Council of 24 September 2008, on common rules for the operation of air services in the European Community.

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

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

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

The Resolution of the Council of Ministers n° 30/2016 of 19 May, which approved the minutes of the Share Purchase Agreement and the Shareholders Agreement and Strategic Commitments of TAP SGPS, also determined, among others, (i) the immediate cessation of the effects of the Strategic Commitment Agreement formalised on 24 June 2015, referred to above, on the date that the Shareholders Agreement and Strategic Commitments of TAP SGPS became effective, as well as (ii) the expiration of the unavailability scheme provided for in the specifications of the Reprivatisation Process—with respect to the number of shares of TAP SGPS and TAP SA that are necessary to ensure the majority of the voting rights and effective control of mentioned companies—on the effective date of the transfer of the shares of TAP SGPS to Parbública.

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

These financial statements were approved by the Board of Directors on 22 February 2017. However, they are still subject to approval by the General Meeting of Shareholders, under the terms of the commercial legislation in force.

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

## 1 Summary of the principal accounting policies

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

### 1.1. Basis of preparation

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

**1 Summary of the principal accounting policies (Continued)**

The accompanying financial statements were prepared on a going concern basis from the accounting books and records of the Company based on historic cost, except for derivative financial instruments, investment properties and customer loyalty programs, which are recorded at fair value.

The preparation of the financial statements, accordingly with IFRS, requires the use of important estimates and judgments in the application of the accounting policies. Despite the estimates used are based on the best information available during the preparation of these financial statements and best knowledge of past and present events, we note that actual and future results may differ from these estimates. The principal assertions which involve a greater degree of judgment or complexity and the most significant assumptions and estimates used in the preparation of the aforesaid financial statements are disclosed in Note 2.

In the preparation and presentation of these financial statements, the Company declares that is in compliance with the IAS/IFRS and their interpretations SIC/IFRIC, as adopted by the European Union.

**1.2. Comparability of the financial statements**

The figures presented in the financial statements for the year ended on 31 December 2016 are comparable in all significant aspects with the figures for the year ended on 31 December 2015.

**1.3. New standards, changes and interpretations of existing standards**

- **New standards and interpretations mandatory as at 31 December 2016**

The application of the interpretations and amendments to the standards mentioned below, are mandatory by the IASB for the financial years beginning on or after 1 January 2016:

| Description | Amendment | Effective date* |
|---|---|---|
| IAS 19—Defined benefit plans | Accounting for contributions independent of years of service | 1 February 2015 |
| Annual improvements to IFRS's 2010 – 2012 | Clarifications: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and IAS 24 | 1 February 2015 |
| IAS 16 and IAS 38—Acceptable methods of depreciation / amortisation | Clarification that revenue based methods should not be used to measure the consumption of fixed and intangible assets' economic benefits | 1 January 2016 |
| IAS 16 and IAS 41—Agriculture: bearer plants | Bearer plants are included within the scope of IAS 16, measured either at cost or revaluated amounts | 1 January 2016 |
| IFRS 11—Joint arrangements | Accounting for acquisition of interest in a joint operation that is a business | 1 January 2016 |
| IAS 1—Presentation of financial statements | Review of disclosures under the "Disclosure initiative" IASB project | 1 January 2016 |
| IAS 27—Separate financial statements | Option to measure investments in subsidiaries, joint ventures and associates using equity method | 1 January 2016 |
| Amendments to IFRS 10, 12 and IAS 28: Investment entities—applying consolidation exception | Investment entities' exemption applies to an intermediate parent that is a subsidiary of an investment entity | 1 January 2016 |
| Annual improvements to IFRS's 2012 – 2014 | Clarifications: FRS 5, IFRS 7, IAS 19 and IAS 34 | 1 January 2016 |

* Financial years beggining on or after

**1 Summary of the principal accounting policies (Continued)**

The introduction of these improvements and interpretation did not have any significant impact on the financial statements of the Company.

- **New standards and interpretations not mandatory as at 31 December 2016:**

There are new standards, interpretations and amendments of existing standards that, despite having already been published, are only mandatory for the periods beginning on or after 1 January 2017, and which the Company decided not to early-adopt in the current period, as follows:

| Description | Amendment | Effective date* |
|---|---|---|
| IFRS 9—Financial instruments | New standard for the accounting of financial instruments' | 1 January 2018 |
| IFRS 15—Revenue from contracts with customers | Revenue recognition for the provision of goods or services, following a five step approach | 1 January 2018 |

* Financial years beggining on or after

**Standards and interpretations effective, on or after 1 January 2017, not endorsed by EU:**

| Description | Amendment | Effective date* |
|---|---|---|
| IAS 7—Cash flow statement | Reconciliation of changes in financing liabilities with Cash flows for financing activities | 1 January 2017 |
| IAS 12—income taxes | Accounting for deferred tax assets on assets measured at fair value, the impact of deductible temporary differences in future taxable income estimates and the impact of restrictions on the recoverability of deferred tax assets | 1 January 2017 |
| IAS 40—investment property | Clarification that evidence of the change in use is required, when assets are transferred to, or from investment properties category | 1 January 2018 |
| IFRS 2—Share-based payments | Measurement of cash-settled share-based payments, accounting for modifications and classification as equity-settled share-based payments when employer withholds tax | 1 January 2018 |
| IFRS 4—Applying IFRS 4 with IFRS 9 | Temporary exemption for insurance companies only, from applying IFRS 9 for annual periods beginning before 1 January 2021. Overlay approach for assets within IFRS 4 that qualify as FVTPL under IFRS 9 and at amortised cost under IAS 39, being the measurement difference reclassified to OCI. | 1 January 2018 |
| Amendments to IFRS 15—Revenue from contracts with customers | Identification of performance obligations, timing of revenue recognition from licenses of IP, change to principle versus agent guidance, and new practical expedients on transition | 1 January 2018 |
| IFRS 16—Leases | New definition of lease. New accounting of lease contracts to lessees. No major changes to lessors lease accounting. | 1 January 2019 |
| Annual improvements to IFRS's 2014 – 2016 | Clarifications: IFRS 1, IFRS 12 and IAS 28 | 1 January 2017 and 1 January 2018 |
| **Interpretations** | | |
| IFRIC 22—Foreign currency transactions and advance consideration | Foreign exchange rate to apply when consideration is paid or received in advance | 1 January 2018 |

* Financial years beggining on or after

**1 Summary of the principal accounting policies (Continued)**

Up to the date of issuing this report, the Company had not yet concluded the estimate of the effects of changes arising from the adoption of these standards, for which it decided not to early-adopt them. However, it does not expect them to have materially relevant impact on their equity position and results, with the exception of IFRS 16—Leases.

### 1.4. Investments in subsidiaries and associates

Investments in subsidiaries and associates are recorded at the acquisition cost net of impairment losses, when applicable.

After the investor's interest be reduced to zero, TAP SA recognises a liability to cover additional liabilities related to (i) legal or constructive claims or payments in favour of subsidiaries or associates, (ii) expectation of insufficient cash flows to comply with incurred legal or constructive liabilities and (iii) inability to determine the fair value of these investments reliably.

Dividends received from subsidiaries and associates companies, are recorded under the caption Gains and losses in subsidiaries and associates, when attributed.

### 1.5. Foreign currency translation

- **Functional and presentation currency**

The items included in the financial statements are measured using the currency of the economic environment in which the entity operates (functional currency). These financial statements are presented in Euros, which is the Company functional and presentation currency.

- **Balances and transactions**

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

- **Exchange rates**

The exchange rates used to update balances expressed in a foreign currency were as follows:

| Currency | 2016 | 2015 |
|---|---|---|
| USD | 1.0541 | 1.0887 |
| CHF | 1.0739 | 1.0835 |
| GBP | 0.8562 | 0.7340 |
| BRL | 3.4305 | 4.3117 |
| VEF | 710.21 | 216.32 |
| AOA | 184.48 | 147.83 |

### 1.6. Tangible fixed assets

Tangible fixed assets that were acquired prior to 1 January 2004 are recorded at their deemed cost, which is the book value under the accounting principles generally accepted in Portugal until 1 January 2004 (transition date to IFRS), including revaluations made in accordance with the prevailing legislation, deducted of depreciation and impairment losses. The fair value of these items of tangible fixed assets at that date was determined through an evaluation study performed by an independent expert (Colliers P&I), which also determined the remaining useful life of these assets, on transition date.

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

**1 Summary of the principal accounting policies (Continued)**

Subsequent costs, including fleet renewals and structural maintenance, are included in the cost of acquisition of the asset whenever future economic benefits are likely to flow to the Company. The change in the accounting policy, related to the capitalization of structural maintenance, whose impact is not considered relevant in the financial statements, was recorded prospectively in the current year given the impracticability of its retrospective application due to its nature. Other costs with maintenance and repairs are recognised as losses in the period as are incurred.

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

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

The residual values of the assets and respective useful lives are reviewed and adjusted, when necessary, at the date of the statement of financial position (Note 5). If the book value of the asset is higher than the asset's realizable value, then it is written down to the estimated recoverable amount by recognising an impairment loss

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

### 1.7. Investment properties

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

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

### 1.8. Intangible assets

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

### 1.9. Impairment of non-current assents

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

**1 Summary of the principal accounting policies (Continued)**

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

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

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

The reversal of impairment losses recognised in previous periods is recorded when it can be concluded that the recognised impairment losses no longer exist or have decreased.

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

**1.10. Financial Instruments**

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

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

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

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

- **Loans and receivables**

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

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

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

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

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

**1 Summary of the principal accounting policies (Continued)**

- **Held-to-maturity investments**

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

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

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

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

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

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

**Impairment of financial assets**

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

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

- Analysis of non-compliance;
- Failure to comply for more than 6 months;
- Financial difficulties of the debtor;
- It becomes probable that the debtor will enter bankruptcy.

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

**(ii) Available-for-sale financial assets**

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

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

**1 Summary of the principal accounting policies (Continued)**

impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

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

### 1.11. Derivative financial instruments

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

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

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

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

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

- **Hedge accounting**

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

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

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

### 1.12. Assets and liabilities fair value

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

**1 Summary of the principal accounting policies (Continued)**

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

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

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

### 1.13. Inventories

Inventories are valued in accordance with the following criteria:

- **Goods and raw materials**

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

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

Material recovered internally is valued at cost.

- **Intermediate products and work in progress**

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

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

### 1.14. Trade and other receivables

Debtors' balances and other current assets are initially recorded at fair value and are subsequently recognised at their amortised cost, net of impairment losses, in order to present those balances at their net realisable amount (Note 14).

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

### 1.15. Cash and cash equivalents

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

TAP S.A. records the cash and cash equivalents, whose repatriation is restricted, in the heading "Restricted cash" under current assets.

### 1.16. Share Capital

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

**1 Summary of the principal accounting policies (Continued)**

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

### 1.17. Borrowings

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

Borrowings are classified as a current liability, except when the Company has an unconditional right to defer the settlement of the liability for at least 12 months after the date of the statement of financial position (Note 21).

### 1.18. Borrowing costs

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

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

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

### 1.19. Suppliers and other payables

Current suppliers and other payables are, initially, recorded at their fair value and, subsequently, at amortised cost (Note 22).

### 1.20. Corporate income tax

Income tax includes current and deferred tax. Current income tax is calculated based on net income, adjusted in conformity with tax legislation in place at the reporting date.

Deferred taxes liabilities are, usually, recognised for all temporary differences and deferred tax assets are recognised whenever there is a reasonable likelihood that future taxable profits will be generated or there are deferred taxes liabilities against which they can be offset. Deferred tax assets are revised periodically and decreased whenever it is likely they will not be used.

The income tax rate expected to be in force in the period in which the temporary differences will reverse is used in calculating deferred tax. Deferred taxes are recorded as a cost or income for the year, except where they result from amounts recorded directly under shareholders' equity, in which case deferred tax is also recorded under the same caption, ie, the amounts to be included in the current tax and in the deferred tax, resulting from transactions and events recognised in reserves, are recorded directly in these same captions. Therefore, the impact of changes in the tax rate is also recognised in net income, except when it refers to items recognised directly in equity, in which case this impact is also recorded directly in equity.

### 1.21. Post-employment benefits

As referred in Note 19, the Company have undertaken to make payments to its employees for complementary retirement pension, early retirement, health care and seniority bonuses.

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

Remeasurements resulting from differences between the assumptions used for purposes of calculating the liabilities and what effectively occurred (as well as from changes made thereto and from the difference

**1 Summary of the principal accounting policies (Continued)**

between the expected amount of the return on the funds' assets and the actual return) are recognised when incurred directly in the statement of comprehensive income.

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

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

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

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

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

**1.22. Provisions**

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

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

Provisions for future operating losses are not recognised. Provisions are reviewed on the date of the statement of financial position and are adjusted to reflect the best estimate at that date (Note 20).

**1.23. Contingent assets and liabilities**

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

Provisions are recognised for liabilities which meet the conditions described in note 1.22.

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

**1.24. Government grants**

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

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

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

**1 Summary of the principal accounting policies (Continued)**

**1.25. Leases**

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

According to this method, the asset's cost is recorded in Tangible fixed assets and the corresponding liability is recorded under liabilities as Borrowings, while the interest included in the instalments and the asset's depreciation, calculated as described in Note 1.6, are recorded as costs in the income statement of the period to which they relate.

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

**1.26. Revenue and accrual basis**

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

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

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

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

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

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

The preliminary invoicing of maintenance work in progress for third parties as at 31 December 2016 is recorded under the caption "Other payables".

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

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

The differences between the amounts received and paid and the respective costs and income are recognised as deferred expenses and revenues, other receivables and payables (Notes 14 e 22, respectively).

**1 Summary of the principal accounting policies (Continued)**

### 1.27. Non-recurring items

Accordingly to paragraphs 85 and 86 of IAS 1, the non-recurring items recognised in the income statement reflect unusual expenses that should be presented in a separate line item, considering its magnitude and relevance to an understanding of the Company's operations and results.

### 1.28. Segment reporting

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

Three operational segments were identifies: air transportation, maintenance and engineering and others.

All inter-segmental sales and services rendered are valued at market prices. Segmental information is disclosed in Note 5.

### 1.29. Statement of cash flows

Statement of cash flows is prepared in accordance IAS 7, through direct method. The Company classified under this caption cash and cash equivalents with an initial maturity of up to 3 months which can be mobilised immediately without any significant risk of fluctuations in value. For the purpose of the statement of cash flows, this caption also includes bank overdrafts, which are presented in the statement of financial position, under the caption "Borrowings", as well as "Restricted cash".

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

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

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

The cash flows from financing activities include, namely, the payments and receipts related to loans obtained, financial leases payments, payments related to interest and similar costs, own shares acquisition and payment of dividends.

### 1.30. Subsequent events

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

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

## 2 Important accounting estimates and judgements

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

These estimates are influenced by the TAP's management's judgments, based on: (i) the best information and knowledge of present events and in certain cases on the reports of independent experts; and (ii) the actions which the Company considers it may have to take in the future. However, on the future date on which the operations will be realised, the outcome could be quite different from those estimates. Pursuant

**2 Important accounting estimates and judgements (Continued)**

to IAS 8, any changes to these estimates, which occur after the date of the financial statements, are adjusted prospectively through income statement.

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

- **Deferred tax**

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

- **Post-employment benefits**

Liabilities relating to defined-benefit plans are calculated based on actuarial assumptions. Changes to those assumptions can have a material impact on the aforesaid liabilities. The key assumptions for pension obligations are detailed in Note 19. The Company's policy is to periodically review the main demographic assumptions, when their impact on the financial statements is considered relevant.

- **Recognition of provisions and impairments**

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

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

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

- **Customer loyalty program**

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

- **Liabilities from unused flight documents**

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

- **Useful life and residual value of tangible fixed assets**

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

These parameters are defined in accordance with the best judgement of the Board of Directors for the referred assets in question, also considering the practices adopted by peers. See additionally Note 6.

**2 Important accounting estimates and judgements (Continued)**

- **Fair value of derivatives and other financial instruments**

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

- **Venezuela exchange rate**

Following the strong deterioration of the Venezuelan economy, the successive devaluations of the local currency and the current limitation to the repatriation of capital controlled by local government entities, the Company has been periodically monitoring the timing of the repatriation of the amounts indicated and applicable rate exchange in order to obtain the best possible estimate as at 31 December 2016.

The future currency fluctuations and future capital repatriation policies are not under Company's control, thus a different completion may result in significant impacts in the future, which could affect the operating results and the Company's financial position. See additionally Note 16.

**3 Financial risk management policies**

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

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

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

- **Market risk**

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

In Europe the level of competition is very high in most markets and low-cost operators have successively achieved a larger market share. In Portugal the level of penetration of low cost airlines is, for example, about one-third at Lisbon airport, and in Oporto has the majority market share.

Also in the long-haul there is an increasing competition between operators given the various alternative routes available to the same destination. Madrid, for example, can easily compete with Lisbon in attracting traffic originating in Brazil and bound for multiple European cities. This dispute has actually occurred on some Brazilian routes between TAP and TAM. Similarly, in the North Atlantic, TAP tries to divert traffic from other routes and to attract US passengers, or that go to the US, to pass through the Lisbon hub.

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

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

**3 Financial risk management policies (Continued)**

emissions and flexible in terms of flight autonomy. A modern and advanced fleet is a fundamental asset to compete.

Immediately after the reprivatisation of the Group in November 2015, the Company began an ambitious strategic plan for the global fleet renewal, to be implemented in several stages. A cycle of massive investment and deep renewal of the airline was beginning. This cycle, which will last for several years, includes the renewal of most of the current fleet of 20 long-haul aircraft and 43 medium-haul aircraft, replacing for 53 new aircraft ordered to Airbus in 2015 to be delivered from 2018 onwards. This order involved, early in 2016, a first phase of investment by TAP S.A. in pre delivery payments paid to the manufacturer and will require a high and continuous financial effort during the coming years.

Given that the planned deliveries of the new aircraft will take place gradually from 2018 onwards, TAP S.A. has prepared an interim renewal program for the existing fleet, including the improvement of the cabin interior of the aircraft, in order to provide passengers with greater comfort and greater flexibility for the company to manage the space to be sold. This cabin modification program was started in 2016 and will continue in 2017, covering a substantial part of the aircraft of both mid and long-haul fleets. The retrofit interventions are mostly carried out both in Maintenance and Engineering in Portugal and in the Groups's maintenance unit in Brazil. In addition to the cabin upgrade of aircraft, other investments were initiated or carried out in 2016 such as the installation on the wings of some aircrafts, devices designed to reduce fuel consumption—sharklets. It is estimated that these devices reduce fuel consumption by 4% and that the required investment recovery time is less than 3 years.

Group TAP Maintenance and Engineering is the 1st MRO (Maintenance, Repair and Overhaul) in Europe, and 2nd in the world, to carry out the installation of sharklets. Finally, in addition to the modernization of the existing fleet and in order to a short-term reinforcement of the available capacity, namely to operate the new routes launched in 2016, two leased A330 aircraft entered into the operation.

The medium and long-haul fleets had, in 2016, an average age above 15 years. However, the TAP Group's regional fleet operated by TAP S.A. had a much higher average age at the beginning of the year. The fleet of Portugália in early 2016 comprised 6 Fokker 100 (97 seats) and 8 Embraer 145 (49 seats), with average ages of 25 and 20 years old, respectively. The TAP Group successfully completed in 2016 the full restructuring of the regional fleet operated by Portugália through the leasing of nine Embraer 190 aircrafts.

On the other hand, TAP S.A. also contracted for the regional service with White Airways, S.A. ("White"), the lease of eight ATR72 aircraft in order to complement the capacity required for the regional network. During the year, were received and integrated into the operation 9 Embraer 190 aircrafts (106 seats) operated by Portugália, and 8 ATR72 aircrafts (70 seats) operated by White and serving TAP SA under wet lease (lease with crew).

The average age of the ATR72 aircrafts was about 1 year at the time of entry into service and the average age of the Embraer 190 aircraft was approximately 5 years. These aircrafts, practically new, are more efficient, have lower operation and maintenance costs, are technologically advanced, have more seats and more cargo capacity. The year of 2016 was a period of transition and adaptation in which the Embraer 190 operated during approximately half of the year while the ATR72 operated a little more than half of the year 2016. In the autumn was concluded the operation of the old aircrafts which will be discontinued.

The network underwent a series of adaptations and adjustments during 2016, and some European routes were cancelled and closed also, for example, in the long-haul, the route of Colombia and the route of Manaus. On the other hand, the routes of Boston and New York-JFK, in the USA, were launched, as well as the air-bridge between Lisbon and Oporto with a significant number of daily frequencies.

The number of passenger kilometres offered (PKO) in Portugal mainland increased by 50% in 2016. In Europe the PKO variation was close to 6% and in the US the PKO number increased by more than 60%. On the other hand, TAP S.A. had to adjust its operation in Brazil (with a 35% weight in the total of the operation) and also in Angola. PKOs decreased 10% on Brazilian routes and close to 20% on the Luanda route. Overall network PKO decreased 3% as a result of the combined effect of all positive and negative variations in the various geographic areas. The load factor remained unchanged from 2015 to 2016, with

**3 Financial risk management policies (Continued)**

the number of passenger kilometres used (PKU) also falling 3% in line with the PKO decline. The decline of the 2016 PKU compares with the 1.6% reduction recorded in 2015 and a 7% increase in 2014, the year of expansion of the operation. In terms of average revenue per PKU, or yield, there was a decrease in 2016 of 2%, against reductions of 3.5% in 2015 and 7% in 2014.

The reduction in ticket revenues in 2016 was 5% compared to 2015, resulting from a 2% yield decline and a 3% reduction in activity. In particular, the decline in yield reflects, in addition to the geographical mix of the TAP S.A. operation, also the overall context of lowering fares that most companies practiced in search of market share and taking advantage of lower fuel costs. The total revenue from tickets was reduced by more than Euro 100 million to approximately Euro 2 billion.

In Brazil, ticket sales fell by around 20%, as a result of the deep economic crisis and the strong impact of private consumption in the year. However, the reduction in income on an intra-annual basis was more subdued in the second half of the year, by 10% year-on-year, compared to more than 30% in the first half of the year, reflecting a gradual stabilization of the situation. Given the weight and the total value of the revenues of Brazil, above 400 million Euro in 2015, about one fifth of the total sales, the fall in this market was the fundamental conditioning factor of the revenue in 2016.

The Portuguese market, which accounted for around Euro 450 million in revenues, recorded a 4% drop in the value of sales, with a decrease in the average fare practiced partially offset by the increase in tickets sold.

The United States saw its sales volume increase by 35% and had a share of TAP S.A. sales of 8% of the total sales, higher than all African markets, with 7%. This was pushed by the consolidation of the Miami line as well as the beginning, in the middle of the year, of the two new routes, Boston and JFK.

In Africa, Angola recorded a 20% drop in revenues in relation to 2015, in line with the reduction in supply on the Luanda route in the same order of magnitude. It was possible, through this capacity adjustment, to maintain the level of the average fare in either in dollar or euro.

In 2016, cargo transport activity fell by almost 15%. The reduction in revenues resulted from a decrease in the transported tonnage of almost 10% and a reduction of cargo yield of 5%. Cargo sales fell more than 20% in Portugal but this reduction was closely related to the behaviour of Brazil as the main destination market. Also, as a market that exports cargo, Brazil has dropped by around 15% in 2016. Other important markets, such as Germany and Italy, have decreased their cargo revenues, since the exports in question are normally destined for Brazil and Angola. From the group of markets with greater weight, only the United States increased cargo sales, by 8%, as a result of the significant increase in the number of flights to and from the US.

The maintenance activity for third parties registered a significant decrease in 2016, in Maintenance and Engineering in Portugal. The main reason for the decrease was a significant reduction in aircraft work in terms of fuselage to third parties. On the contrary, there was an increase in reactors, although insufficient to compensate for the decrease in aircrafts and components work. The decrease in airframe work for third parties was precisely related to the increase of the work for the TAP fleet, due in particular to the ongoing cabin modification programme.

In addition to the tickets' revenue, including excess baggage, cargo, maintenance and other income and gains, in the Company's operations are also relevant certain income, such as capital gains on the sale of aircraft, when performing sale and leaseback operations, as occurred in 2015 and 2016, for example.

- **Fuel price risk**

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

**3 Financial risk management policies (Continued)**

In 2016 the crude oil price fell, in average, comparing with the previous year, 17%. On the other hand, the prices of the Platts index of jet fuel registered in 2016 a reduction, in average, near 20%. The decline in the price recorded in 2016 has accentuated the trend already seen since mid-2014, when the brent stood at 110 dollars per barrel. From then on it would fall to close to 60 dollars by the end of 2014 and later, about 50% during the year 2015, reaching minimum values below 30 dollars by the end of 2015.

During 2016, however, the price of crude oil registered a gradual recovery, ending the year above 50 dollars per barrel. The average price of 2016, about 43 dollars per barrel, was still 10 dollars below the previous year's average. The price of jet fuel, as well as most of refined products, also fell in line with crude oil, with the average jet fuel price, namely the CIF NWE reference, lowered by 100 dollars from 2015 to 2016, from 525 dollars for 425 dollars per ton, ending the year 2016 marginally above 500 dollars per ton.

During 2015 hedge operations were contracted covering approximately 50% of the projected exposure. Given the subsequent decline in energy markets, the hedging process was suspended in the second half of 2015, so that by the end of the year all hedging operations had been extinguished and there was no need to record any unfavourable hedge reserves in 2015 and 2016.

The maintenance of crude oil prices and the low jet fuel price during 2016 had a significant impact on operating results, with total fuel costs reducing by one third in 2016 compared to 2015, considering the impact of risk coverage of the price of jet fuel materialised during this period.

Fuel expenses decreased to Euro 434 million in 2016 from Euro 660 million recorded in 2015. The average price of jet fuel in dollars paid by TAP SA was 20% lower than in the previous year, when in 2015 had already been less than 2014 by 40%. Given that there were several hedging operations in force in 2015, negotiated prior to the rapid decline in prices at the end of 2014, the cumulative effect of the price depression of 2015 and 2016 only had full effects in the year 2016, a year in which already there was no unfavourable impact on the TAP Group's accounts of fuel price hedging operations. The variation of the dollar against the euro did not have a significant impact in 2016, compared to 2015, as the average exchange rate variation for the year as a whole was less than 1%. The volumes consumed, close to 1 million tons of jet fuel, decreased in the year by approximately 3% in line with the reduction in flight hours compared to the previous year.

TAP S.A. did not have fuel price hedging operations in place for 2017 at the end of the year 2016, so that it could benefit fully from any maintenance of the low price environment.

As at 31 December 2016 a variation (positive or negative) of 10% in the jet fuel price, would result in an impact on the income statement of some Euro 43 million.

- **Currency risk**

TAP S.A.'s exposure to exchange rate changes originated in several markets, in several areas of activity, in multiple relevant cost items, and in several of its assets and liabilities.

At the level of revenues, Brazil has been losing weight in the total sales of the Company with successive breaks of revenue in that market since the peak of 2013, having reduced its share to 17% in 2016. This was the year in which the decline in revenue was more pronounced, with a 20% reduction. The decline in sales in Brazil was clearly influenced by the deep economic recession experienced in the last three years in the country and the strong contraction in consumption. In the year 2016 there were no significant fare changes but the market reacted again to the reduction of the purchasing capability through the use of tickets with lower prices, lowering the fare level.

On the other hand, since fares were defined in US dollars, and the Real appreciated moderately in 2016 in average against the dollar, the exchange rate contributed, although marginally, to an automatic, downward adjustment of the prices in Brazilian Real, favourable to passengers, which helped to cease a more pronounced contraction of the market and to delay the need for TAP SA to lower the fares occurred during 2015. Should also be mentioned specific features of the Brazilian market, with potential cash flow impact, such as the practice of instalment sales, as well as agreements, which are regularly established with the acquiring entities, in order to anticipate the receipt TAP SA's receivables.

**3 Financial risk management policies (Continued)**

The American market currently accounts for about 8% of total ticket sales, double the amount it represented in 2013, and equivalent to almost half the current weight of the Brazilian market. The positive exposure to the dollar is important to counterbalance the adverse net exposure to the currency that TAP S.A. has in a substantial part of its costs. The perspectives continue to be of growth and expansion in the North American market, which is yet under explored by the Company. The new US routes opened in 2016 began midway through the year and will only have full effect by 2017. On the other hand, new destinations for North America are planned or under analysis, and expansion in the North Atlantic is an element of the new commercial strategy and a source of diversification that is relevant both economically and also in currency exchange terms.

Angola, in 2016, similar to Brazil, registered a sales reduction of close to 20%, accompanied by a very significant reduction in the number of flights, in order to keep flights with a satisfactory load factor and to mitigate problems related to the accumulation of values pending authorization for transfer to Portugal. More than half of the amounts deposited in Angola at the end of 2016 were safeguarded from further currency devaluations, as happened in January 2016, with the acquisition of Angolan treasury bonds indexed to the American dollar.

Other major markets may also be the source of unexpected exchange rate changes, and the United Kingdom was one of those situations in 2016. The pound depreciated by almost 13% in average terms in the year, a depreciation that was inseparable from the referendum about the permanence of the United Kingdom in the European Union in June 2016. It should be noted that TAP S.A. attempted to counterbalance the devaluation of the pound by the fare adjustment, which meant that, for the year as a whole, the average fares in euro did not reduced.

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

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

Also in the case of operating leases and wet leases the market operates predominantly in dollars from monthly rentals to maintenance reserve costs or to security deposits. Aircraft maintenance is another source of dollar exposure that is not always passed on to the final customer in terms of billing in that currency. The various materials incorporated in the TAP fleet are also normally purchased in dollars. At the strictly financial level, still, since some loans are also denominated in dollars, also the respective interest and capital repayments result in an additional exposure to the American currency. At the end of 2016, 13% of the Company's debt was denominated in dollars, against 14% at the end of 2015.

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

**3 Financial risk management policies (Continued)**

The Company's exposure to currency risk as at 31 December 2016 and 2015, based on its financial position, from financial assets and liabilities converted into euro at the exchange rates at the reporting date, is presented as follows:

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | USD | BRL | AOA | VEF | OTHER | TOTAL |
| **ASSETS** | | | | | | |
| Cash and cash equivalents | 13,497,774 | 840,082 | 35,583,698 | 445 | 19,653,674 | 69,575,673 |
| Restricted cash (Note 16) | — | — | — | 537,734 | — | 537,734 |
| Receivables—customers | 32,245,461 | 77,588,864 | 1,697,683 | 23,544 | 15,847,048 | 127,402,600 |
| Receivables—other | 101,048,815 | 14,864,103 | 189,676 | 150 | 3,342435 | 119,445,179 |
| | **146,792,050** | **93,293,049** | **37,471,057** | **561,873** | **38,843,157** | **316,961,186** |
| **LIABILITIES** | | | | | | |
| Borrowings (Note 21) | 107,291,903 | — | — | — | — | 107,291,903 |
| Payables—suppliers | 23,657,564 | 10,670,565 | 283 | 161,808 | 5,500,091 | 39,990,311 |
| Payables—other | 148,239,445 | 7,035,770 | 1,804,404 | 214,012 | 6,510,075 | 163,803,706 |
| | **279,188,912** | **17,706,335** | **1,804,687** | **375,820** | **12,010,166** | **311,085,920** |

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | USD | BRL | AOA | VEF | OTHER | TOTAL |
| **ASSETS** | | | | | | |
| Cash and cash equivalents | 3,749,059 | 420,538 | 27,286,468 | — | 21,337,372 | 52,793,437 |
| Restricted cash (Note 16) | — | — | — | 4,177,461 | — | 4,177,461 |
| Receivables—customers | 29,850,243 | 69,143,754 | 1,558,635 | — | 13,067,041 | 113,619,673 |
| Receivables—other | 72,153,958 | 1,837,776 | 54,064 | 1,885 | 451,541 | 74,499,224 |
| | **105,753,260** | **71,402,068** | **28,899,167** | **4,179,346** | **34,855,954** | **245,089,795** |
| **LIABILITIES** | | | | | | |
| Borrowings (Note 21) | 124,828,630 | 13,665,335 | — | — | — | 138,493,965 |
| Payables—suppliers | 12,124,184 | 3,297,257 | 1,810,284 | 116 | 6,034,499 | 23,266,340 |
| Payables—other | 120,476,964 | 3,080,660 | 1,013,913 | 76,236 | 4,533,565 | 129,181,338 |
| | **257,429,778** | **20,043,252** | **2,824,197** | **76,352** | **10,568,064** | **290,941,643** |

As at 31 December 2016, a 10% variation (positive or negative) of all the exchange rates relative to the Euro, would have an impact in the income statement of some Euro 0,6 million (2015: Euro 5 million).

- **Interest rate risk**

The borrowings of the TAP S.A. were of Euro 835 million at the end of 2016, a reduction of 6% compared to the figure at the end of the year 2015, amounting to Euros 887 million, which already had registered a reduction of 5% compared to the figure recorded a year earlier, at the end of 2014, Euro 935 million. The value of the average debt balance for the year as a whole is more relevant for the purpose of evaluating its cost and impact on the operating results than the balance at the end of each financial year. The average debt for 2016 as a whole was 10% below the average value recorded in 2015.

In addition to the debt to financial institutions, the Company is simultaneously a creditor of high values to its shareholder, TAP SGPS, to whom it grants loans. At the end of 2016, the amount outstanding, including interest, was Euro 793 million, against a corresponding amount, at the end of 2015, of Euro 815 million.

**3 Financial risk management policies (Continued)**

If by the end of 2015, coinciding with the reprivatisation of the TAP Group, there had been multiple changes in the financial operations in force, including a deep restructuring of short-term debt with national entities, consisting of the conversion of these short-term loans into operations at 7 Years, in 2016 one structuring transaction was executed, the negotiation of a bank loan, with a national institution, collateralised by TAP S.A.'s real estate assets, in the amount of Euro 75 million, with a maturity of 12 years. In addition to these operations, the financial activity of the year was normal and the repayment plans in effect for the loans in force were maintained and complied with. For a set of 3 loans with a national entity, an early reimbursement was made, followed by the sales and leaseback of the respective A330 aircrafts, dated 1999.

Despite the contracting of new long-term operations, the share of the short-term portion of total debt increased, as far as a significant number of repayments, negotiated during the reprivatisation process, should be made by the end of 2017, and, consequently were presented as of 31 December 2016, as current borrowing in the statement of financial position. The short-term portion of debt, which had fallen from 60% in 2014 to 20% at the end of 2015, thus increased by the end of 2016 to nearly 40% of the total. Following the changes to the prevailing reprivatisation model contained in the Memorandum of Understanding signed by the Company's shareholders, the adjustment to the TAP S.A.'s debt profile is, however, one of the precedent conditions and therefore should be renegotiated with the national financial institutions.

The average cost of TAP S.A. debt decreased in 2016 through interest and exchange rate effects. Total financial costs were reduced from Euro 62 million to Euro 36 million. Of this amount, interest charges decreased moderately from Euro 42 million to Euro 32 million, with the remaining reductions resulting mainly from exchange differences and from other financial expenses. The weighted average interest rate implicit in the 2016 figures, compared to the estimated average debt balance during the year, would have been marginally below 4% and below the same ratio calculated for 2015. The weighted average interest rate, by the end of 2016, however, suffered a soft reduction compared to the previous year and compared to previous years, due to the lower cost of the new operations. Transactions whose repayments occurred throughout the year had very different fixed or floating rates, so the final interest costs results from the set of fees and spreads weighted by their length of stay and weighted by the corresponding amounts outstanding.

The exchange difference in 2016 was very low compared to the amount recorded in 2015. The dollar debt portion of the Company's total debt was 13% and 14% respectively, and the appreciation of the US dollar at the end of the year was 10% in 2015 and was only 3% in 2016.

The amount of fixed-rate debt in the total debt remained stable at the end of the year, between 2015 and 2016, approximately 30%. The majority of floating rate loans, corresponding to 70% of the total, bear interests at Euribor, plus the contractual spread, and once more indexed to negative values, for all the terms, during 2016, the amount applied in the respective operations was zero, according to the floor imposed by the financing entities. In practice, all variable-rate euro-denominated credits are charged only to the contractual spread. At the end of 2016, a contractual option was exercised in a long-term credit operation in euro for 6 years, with a floating rate to a fixed rate, with effects on the beginning of 2017.

Interest rate risk has not materialised in recent years, given the long period of rates close to zero that occurred in Europe and also in the United States. However, during 2016 there was a gradual rise in interest rates in dollars and in the end of the year the short and long-term interest rates in this currency increased even more sharply. The future impacts of a rise in the general interest level, either in US Dollar or possibly in Euro, are relevant to TAP S.A., not only in relation to existing debt but possibly more in terms of amounts of debt to be contracted in the future, as a result of the planned investments. Interest rates are also a factor of cost increase in operating leases to be contracted in the future, transactions in which the level of long-term interest rates is normally passed on to the aircraft rental.

**3 Financial risk management policies (Continued)**

As at 31 December 2016 and 2015, financial liabilities with interest rate exposure, by type of interest rate, is as follows:

| 2016 | < 1 year | 1 – 2 years | 3 – 5 years | 6 – 10 years | > 10 years | Total |
|---|---|---|---|---|---|---|
| **Variable Rate** | | | | | | |
| Loans | 140,409,303 | — | 265,252,303 | 141,620,221 | 15,000,000 | 562,281,827 |
| Financial leases | 13,549,635 | 16,315,347 | 5,902,579 | — | — | 35,767,561 |
| | **153,958,938** | **16,315,347** | **271,154,882** | **141,620,221** | **15,000,000** | **598,049,388** |
| **Fixed Rate** | | | | | | |
| Loans | 56,514,120 | 7,300,538 | 14,878,003 | — | — | 78,692,661 |
| Financial leases | 96,714,439 | 25,151,637 | 36,197,988 | — | — | 158,064,064 |
| | **153,228,559** | **32,452,175** | **51,075,991** | **—** | **—** | **236,756,725** |
| **Total** | **307,187,497** | **48,767,522** | **322,230,873** | **141,620,221** | **15,000,000** | **834,806,113** |
| **% fixed rate** | **50%** | **67%** | **16%** | **0%** | **0%** | **28%** |

| 2015 | < 1 year | 1 – 2 years | 3 – 5 years | 6 – 10 years | > 10 years | Total |
|---|---|---|---|---|---|---|
| **Variable Rate** | | | | | | |
| Loans | 19,276,742 | 118,659,084 | 151,904,806 | 171,860,407 | — | 461,701,039 |
| Financial leases | 28,031,820 | 13,320,497 | 22,388,290 | — | — | 63,740,607 |
| | **47,308,562** | **131,979,581** | **174,293,096** | **171,860,407** | **—** | **525,441,646** |
| **Fixed Rate** | | | | | | |
| Loans | 86,943,238 | 55,259,526 | 22,291,321 | — | — | 164,494,085 |
| Financial leases | 42,791,332 | 93,398,495 | 60,928,744 | — | — | 197,118,571 |
| | **129,734,570** | **148,658,021** | **83,220,065** | **—** | **—** | **361,612,656** |
| **Total** | **177,043,132** | **280,637,602** | **257,513,161** | **171,860,407** | **—** | **887,054,302** |
| **% fixed rate** | **73%** | **53%** | **32%** | **0%** | **n/a** | **41%** |

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

The sensitivity analysis is based on the following assumptions:

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

Under these assumptions and considering also that: (i) the market interest rate for Euribor is 2% and for dollar Libor is 1.75%, (ii) the Eurodollar exchange rate for 2016 is 1.0541 (2015: 1.0887) and (iii) the intra-annual amortisation is linear for purposes of future interest calculation (simplifying assumption), an increase or decrease of 0.5% in market interest rates, to all currencies in which the Group has loans would have an impact in the future interest expense of some approximately Euro 11 million (2015: Euro 10 million).

Note 21 presents detailed information about the remunerated bank debt financing entity and respective interest rate.

**3 Financial risk management policies (Continued)**

- **Liquidity risk**

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

The table below, which includes principal and interests payments, considers assumptions related to market interest rates and Eurodollar exchange, as follows: 2% to Euribor 1.75% to dollar Libor and 1.0541 in Eurodollar (2015: 1.0887 in Eurodollar). The financial liabilities reflect the amounts payable in each maturity, including the estimation of all contractual cash flows including principal and interest payments, not discounted, until borrowings maturity. It was considered a simplifying assumption of linear intra-annual amortisation rate for future interest's calculation purposes:

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | < 6 months | 6 months – 1 year | 1 – 2 years | 3 – 5 years | 6 – 10 years | > 10 years | Total |
| Loans | 48,172,859 | 179,910,501 | 43,940,641 | 339,190,241 | 143,265,906 | 15,760,937 | 770,241,085 |
| Financial leases | 31,822,605 | 83,881,464 | 44,024,730 | 43,333,556 | — | — | 203,062,355 |
| **Total** | **79,995,464** | **263,791,965** | **87,965,371** | **382,523,797** | **143,265,906** | **15,760,937** | **973,303,440** |

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | < 6 months | 6 months – 1 year | 1 – 2 years | 3 – 5 years | 6 – 10 years | > 10 years | Total |
| Loans | 80,441,657 | 58,434,206 | 202,817,654 | 240,303,921 | 172,523,374 | — | 754,520,812 |
| Financial leases | 46,477,689 | 34,025,251 | 113,147,344 | 87,092,779 | — | — | 280,743,063 |
| **Total** | **126,919,346** | **92,459,457** | **315,964,998** | **327,396,700** | **172,523,374** | **—** | **1,035,263,875** |

- **Credit risk**

The following table presents elements relative to the TAP S.A.'s assets as at 31 December 2016 and 2015, as well as other receivables, which reflect the credit risk on those dates:

| | 2016 | 2015 |
|---|---|---|
| **Non-current assets** | | |
| Other non-current assets | 77,739,001 | 25,678,076 |
| **Current assets** | | |
| Cash and cash equivalents | 75,063,582 | 130,644,662 |
| Restricted cash | 537,734 | 4,177,461 |
| Other receivables—trade receivables (Note 14) | 183,344,985 | 137,935,738 |
| Related parties and other current receivables (Note 14) | 872,627,707 | 876,590,208 |
| | **1,209,313,009** | **1,175,026,145** |

**3 Financial risk management policies (Continued)**

The Company's quality of credit risk and liquidity, as at 31 December 2016 and 2015, relative to financial assets (cash and cash equivalents and derivative financial instruments), whose counterparts are financial institutions, are detailed as follows:

| Rating classification | 2016 | 2015 |
|---|---|---|
| AAA | 372,826 | — |
| AA− | 285,603 | 8,639 |
| A+ | 25,426,552 | 32,095 |
| A | 2,325,297 | 21,523,700 |
| A− | 65,151 | 762,741 |
| BBB+ | 160,383 | 187,997 |
| BBB | 165,135 | 70,443 |
| BBB− | 778 | 419,951 |
| BB+ | 515,730 | 157,894 |
| BB | — | 71,067 |
| BB− | 3,609,587 | 199,493 |
| B+ | 1,044,726 | 46,765,719 |
| B | 538,218 | 4,451,148 |
| B− | 1,316,950 | — |
| CCC+ | 1,156,349 | — |
| CCC | — | 27,167,713 |
| Other | 38,572,768 | 32,967,541 |
| | **75,556,053** | **134,786,141** |
| Restricted cash (Note 16) | 537,734 | 4,177,461 |
| Bank deposits (Note 16) | 75,018,319 | 130,608,680 |
| | **75,556,053** | **134,786,141** |

The caption "Other" refers to values related to various international institutions, for which it was not possible to obtain their rating.

As at 31 December 2016 and 2015, the receivables from customers showed the following age structure, considering the maturity date as reference:

| | 2016 | 2015 |
|---|---|---|
| Outstanding values | 133,052,644 | 100,614,576 |
| 1 to 90 days | 18,286,331 | 16,236,188 |
| 91 to 180 days | 17,017,286 | 3,325,152 |
| 181 to 270 days | 2,597,246 | 750,214 |
| 271 to 365 days | 1,128,814 | 3,355,978 |
| over 366 days | 74,469,218 | 74,874,939 |
| | **246,551,539** | **199,157,047** |
| Impairments (Note 14) | (63,206,554) | (61,221,309) |
| **Trade receivables—Net value (Note 14)** | **183,344,985** | **137,935,738** |

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

The balances of airline companies and travel agencies included in Trade receivables, as identified in Note 14, are settled, mainly, through the systems IATA Billing and Settlement Plan ("BSP") and IATA Clearing House ("ICH"), which substantially reduces the credit risk of the Company.

**3 Financial risk management policies (Continued)**

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

- **Capital management**

The reprivatisation of the TAP Group, completed in November 2015 and approved by ANAC at the end of 2016, created the conditions for the entry of private contributions. A substantial part of this investment was still in 2015 in the form of supplementary capital contributions by TAP SGPS.

Following the reinforcement of own funds in 2015, TAP S.A.'s equity stood at Euro 108 million, against a Euro 136 million at the end of 2016. While the final value reached in 2015 benefited from the inflow of supplementary capital contributions and was negatively affected by the assumption of a loss of Euro 91 million, related to the devaluation of TAP SA funds retained in Venezuela, the improvement in 2016 was mainly due to positive operating result of the year.

TAP S.A.'s assets recorded a significant increase, in global terms, highlighting the variation recorded in tangible fixed assets. The increase of Euro 85 million in this caption in 2016, net of depreciation of Euro 51 million, essentially corresponds to the pre delivery payments made to Airbus in accordance with the aircraft purchase agreement in force. A smaller portion of the increase in tangible fixed assets is related to ongoing investments in the current fleet, which will continue to increase as the existing aircraft renewal program is implemented.

The cash balance registered a moderate reduction, taking into account the balance of bank deposits combined with the amount invested in sovereign bonds in Angola indexed to the US Dollar amounting to approximately Euro 40 million, which acquisition is intended to safeguard the value of deposits and avoid the risk of kwanza future devaluation.

In terms of liabilities, there were increases in payables balances and a significant increase in liabilities from unused flight documents, corresponding to an increase in sales, not yet "flown", by the TAP SA.

Regarding borrowings, although it decreased in 2016, it should be considered that TAP SA's debt has a strict accounting policy but can be analysed and measured in a more extensive and substantial way, aggregating liabilities that, in some aspects, are similar to borrowings, although in the form of operating leases. The increase in the set of aircraft operating lease costs corresponds to an increase in significant future liabilities, as far as these are medium and long-term contracts, which are close to staggered debt payments, although there is no risk of residual value of the aircraft at the end of the lease. In addition to the renewal of the regional fleet, already completed in 2016, and the capacity expansion, carried out in 2016 and in previous years, will be relevant for risk management, and for the return on invested capital, the future increase of debt that may occur in the form of borrowing, or in the form of an operating lease, to enable the investment cycle in the Company's new fleet in the coming years.

## 4 Financial assets and liabilities

The accounting policies described in notes 1.10. and 1.11. were applied according to the categories presented below:

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Derivative financial instruments classified as hedge instruments (Note 23) | Credit and other receivables | Other assets/ financial liabilities | Non-financial assets and liabilities | Total |
| **Assets** | | | | | |
| Other non-current assets | — | 38,085,236 | 39,653,765 | — | 77,739,001 |
| Current receivables | — | 1,055,972,692 | — | 28,509,579 | 1,084,482,271 |
| Restricted cash | — | 537,734 | — | — | 537,734 |
| Cash and cash equivalents | — | 75,063,582 | — | — | 75,063,582 |
| **Total Assets** | **—** | **1,169,659,244** | **39,653,765** | **28,509,579** | **1,237,822,588** |
| **Liabilities** | | | | | |
| Non-current borrowings | — | — | (527,618,616) | — | (527,618,616) |
| Other non-current liabilities | (635,848) | — | (104,842,841) | — | (105,478,689) |
| Current borrowings | — | — | (307,467,147) | — | (307,467,147) |
| Current payables | — | — | (449,607,874) | (412,879,368) | (862,487,242) |
| **Total Liabilities** | **(635,848)** | **—** | **(1,389,536,478)** | **(412,879,368)** | **(1,803,051,694)** |

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Derivative financial instruments classified as hedge instruments (Note 23) | Credit and other receivables | Other assets/ financial liabilities | Non-financial assets and liabilities | Total |
| **Assets** | | | | | |
| Other non-current assets | — | 25,678,076 | — | — | 25,678,076 |
| Current receivables | — | 1,014,525,946 | — | 17,759,800 | 1,032,285,746 |
| Restricted cash | — | 4,177,461 | — | — | 4,177,461 |
| Cash and cash equivalents | — | 130,644,662 | — | — | 130,644,662 |
| **Total Assets** | **—** | **1,175,026,145** | **—** | **17,759,800** | **1,192,785,945** |
| **Liabilities** | | | | | |
| Non-current borrowings | — | — | (710,011,170) | — | (710,011,170) |
| Other non-current liabilities | (1,037,989) | — | (82,980,974) | — | (84,018,963) |
| Current borrowings | — | — | (177,043,132) | — | (177,043,132) |
| Current payables | — | — | (378,035,350) | (351,116,206) | (729,151,556) |
| **Total Liabilities** | **(1,037,989)** | **—** | **(1,348,070,626)** | **(351,116,206)** | **(1,700,224,821)** |

The following tables present the assets and liabilities measured at fair value as at 31 December 2016 and 2015, according to the following fair value hierarchical levels established in IFRS 13:

Level 1: the fair value of financial instruments is based on prices available on active, liquid markets at the date of the financial position;

Level 2: the fair value of financial instruments is not determined based on active market prices, but rather through valuation models. The main inputs of these models are observable on the market; and

Level 3: the fair value of financial instruments is not determined based on active market prices, but rather through valuation models, whose main inputs are not observable on the market.

**4 Financial assets and liabilities (Continued)**

- **Assets measured at fair value**

| | 2016 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| **Non-financial assets** | | | |
| Investment properties | — | 1,005,597 | — |

| | 2015 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| **Non-financial assets** | | | |
| Investment properties | — | 973,638 | — |

- **Liabilities measured at fair value**

| | 2016 | | |
|---|---|---|---|
| | Nivel 1 | Nivel 2 | Nivel 3 |
| **Financial liabilities** | | | |
| Derivative financial instruments—hedging | — | 635,848 | — |
| **Non-financial liabilities** | | | |
| Deferrals—Customers loyalty program | — | 42,971,811 | — |

| | 2015 | | |
|---|---|---|---|
| | Nivel 1 | Nivel 2 | Nivel 3 |
| **Financial liabilities** | | | |
| Derivative financial instruments—hedging | — | 1,037,989 | — |
| **Non-financial liabilities** | | | |
| Deferrals—Customers loyalty program | — | 41,995,320 | — |

**Derivative financial instruments**

The fair value of the derivative financial instruments is recorded under the caption of other payables when negative, and under the caption of other receivables when positive.

During 2016 and 2015, the variation of derivative financial instruments fair value was recognised in equity.

The breakdown of the derivative financial instruments fair value is detailed in Note 23.

**Credit and other receivables**

Other receivables are initially recognised at their fair value, corresponding to their nominal value, deducted of any impairment loss identified during credit risk analysis.

**Other financial liabilities**

Other financial liabilities are recognised at their amortised cost, corresponding to the amount of the respective cash flow, discounted by the effective interest rate associated to each liability.

**5 Segment reporting**

The following business segments have been identified: air transport, maintenance and other. The net income/(loss) of each segment correspond to those directly allocated to them, as well as to those that can be reasonable attributed to those segments.

**5 Segment reporting (Continued)**

The financial information by operational segment for 2016 and 2015 is analysed as follows:

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Air Transport | Maintenance and engineering | Other | Total | Air Transport | Maintenance and engineering | Other | Total |
| **REVENUE** | | | | | | | | |
| Revenue | 2,110,729,391 | 79,132,030 | 7,770,376 | 2,197,631,797 | 2,227,291,256 | 102,022,115 | 7,273,849 | 2,336,587,220 |
| Net operating income/(loss) | 34,062,976 | 8,698,631 | (18,781,346) | 23,980,261 | (104,364,324) | 10,880,980 | (15,310,404) | (108,793,748) |
| External net financial results | (1,059,082) | — | 14,413,215 | 13,354,133 | 335,687 | — | (11,414,725) | (11,079,038) |
| Net gains in associates | — | — | 26,772 | 26,772 | — | — | — | — |
| Income tax | (1,614,703) | — | (2,201,885) | (3,816,588) | (7,754,223) | — | 28,620,389 | 20,866,166 |
| **Net income/(loss) for the year** | **31,389,191** | **8,698,631** | **(6,570,016)** | **33,517,806** | **(111,782,860)** | **10,880,980** | **1,895,260** | **(99,006,620)** |

The sales and services provided by geographic market are defined based on the destination country of the goods and services sold by the Company, which in the case of air transport is understood as the destination country of the flight:

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Air Transport | Maintenance and engineering | Other | Total | Air Transport | Maintenance and engineering | Other | Total |
| **Sales and services rendered:** | | | | | | | | |
| Mainland Portugal and islands | 151,045,387 | 13,882,096 | 7,770,376 | 172,697,859 | 115,275,980 | 15,199,467 | 7,273,849 | 137,749,296 |
| Europe | 880,860,076 | 38,567,274 | — | 919,427,350 | 854,196,682 | 72,796,174 | — | 926,992,856 |
| South Atlantic | 586,148,715 | 9,137,947 | — | 595,286,662 | 728,516,307 | 2,978,081 | — | 731,494,388 |
| North Atlantic | 176,512,446 | 9,804,901 | — | 186,317,347 | 124,900,346 | 3,426,445 | — | 128,326,791 |
| Mid Atlantic | 31,308,600 | — | — | 31,308,600 | 68,504,980 | — | — | 68,504,980 |
| Africa | 284,854,167 | 568,825 | — | 285,422,992 | 335,749,284 | 1,385,326 | — | 337,134,610 |
| Other | — | 7,170,987 | — | 7,170,987 | 147,677 | 6,236,622 | — | 6,384,299 |
| | **2,110,729,391** | **79,132,030** | **7,770,376** | **2,197,631,797** | **2,227,291,256** | **102,022,115** | **7,273,849** | **2,336,587,220** |

## 6 Tangible fixed assets

During the years ended 31 December 2016 and 2015, changes in tangible fixed assets, as well as the accumulated depreciation and impairments losses, were as follows:

| | Land and natural resources | Buildings and other constructions | Basic equipment | Transport equipment | Tools and utensils | Administrative equipment | Other tangible fixed assets | Other assets in progress | Advances to suppliers of tangible assets | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Acquisition Cost** | | | | | | | | | | |
| **Balance as at 1 January 2015** | **41,168,153** | **155,240,330** | **1,818,969,261** | **2,574,535** | **20,557,650** | **55,056,956** | **10,730,074** | **828,325** | **17,165,885** | **2,122,291,169** |
| Additions | — | — | 7,660,437 | 79,555 | 366,496 | 355,680 | 248,267 | 5,212,641 | 32,699,698 | 46,622,774 |
| Disposals | — | — | (164,499,255) | — | — | — | — | — | — | (164,499,255) |
| Regularisation, transfer and write-off | — | (689,604) | (11,237,679) | (42,970) | (1,099) | (787,043) | (6,514) | (395,755) | — | (13,160,664) |
| **Balance as at 31 December 2015** | **41,168,153** | **154,550,726** | **1,650,892,764** | **2,611,120** | **20,923,047** | **54,625,593** | **10,971,827** | **5,645,211** | **49,865,583** | **1,991,254,024** |
| Additions | — | 250,259 | 32,469,371 | 122,437 | 1,194,762 | 435,807 | 403,237 | 15,076,165 | 120,309,323 | 170,261,361 |
| Disposals | — | — | (156,565,604) | (52,338) | — | (20,057) | — | — | — | (156,637,999) |
| Regularisation, transfer and write-off | — | — | (2,938,288) | (195,180) | (109,216) | (268,767) | (14,036) | — | (3,383,498) | (6,908,985) |
| **Balance as at 31 December 2016** | **41,168,153** | **154,800,985** | **1,523,858,243** | **2,486,039** | **22,008,593** | **54,772,576** | **11,361,028** | **20,721,376** | **166,791,408** | **1,997,968,401** |
| **Accumulated Depreciation and impairment losses** | | | | | | | | | | |
| **Balance as at 1 January 2015** | **—** | **59,111,264** | **1,358,002,494** | **2,338,745** | **14,669,041** | **53,019,864** | **9,995,723** | **—** | **—** | **1,497,137,131** |
| Depreciation for the year (Note 34) | — | 5,264,329 | 50,877,552 | 109,863 | 508,093 | 860,503 | 186,509 | — | — | 57,806,849 |
| Disposals | — | — | (143,514,238) | — | — | — | — | — | — | (143,514,238) |
| Regularisation, transfer and write-off | — | (580,003) | (9,007,971) | (42,718) | (990) | (787,000) | (6,204) | — | — | (10,424,886) |
| **Balance as at 31 December 2015** | **—** | **63,795,590** | **1,256,357,837** | **2,405,890** | **15,176,144** | **53,093,367** | **10,176,028** | **—** | **—** | **1,401,004,856** |
| Depreciation for the year (Note 34) | — | 5,249,572 | 44,198,960 | 111,401 | 507,577 | 918,944 | 185,913 | — | — | 51,172,367 |
| Disposals | — | — | (127,499,765) | (52,338) | — | (19,588) | — | — | — | (127,571,691) |
| Regularisation, transfer and write-off | — | — | (1,362,660) | (195,180) | (101,260) | (268,173) | (14,036) | — | — | (1,941,309) |
| **Balance as at 31 December 2016** | **—** | **69,045,162** | **1,171,694,372** | **2,269,773** | **15,582,461** | **53,724,550** | **10,347,905** | **—** | **—** | **1,322,664,223** |
| Net value as at 31 December 2015 | 41,168,153 | 90,755,136 | 394,534,927 | 205,230 | 5,746,903 | 1,532,226 | 795,799 | 5,645,211 | 49,865,583 | 590,249,168 |
| Net value as at 31 December 2016 | 41,168,153 | 85,755,823 | 352,163,871 | 216,266 | 6,426,132 | 1,048,026 | 1,013,123 | 20,721,376 | 166,791,408 | 675,304,178 |

**6 Tangible fixed assets (Continued)**

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

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

- The additions of basic equipment in the amount of Euro 32,469,371, essentially refers to: (i) investment in fleet equipment, namely the introduction of sharklet technology in the aircrafts in the amount of Euro 4,805,545 , cabin retrofit in the amount of Euro 7,501,069 and the amount of Euro 6,500,201 related to the useful life extension of the A319/A320/A321 fleets (Extended Service Goal—ESG) and (ii) capitalisation of expenses with structural aircraft maintenance for own aircrafts or acquired through financial leasing arrangements in the amount of Euro 10,338,953 thousand.
- The increase recorded in the heading "Advances to suppliers of tangible fixed assets", in the amount of Euro 120,309,323, refers, essentially, to the pre delivery payments made for future aircrafts acquisition (Note 38).
- The additions of other assets in progress, in the amount of Euro 15,076,165, refers essentially to the consulting services provided in the process of negotiating purchase agreements for future aircraft acquisition (Note 38) in the amount of Euro 4,595,000 and to the cabin retrofit project, in the amount of Euro 7,686,256.
- Basic equipment disposals, in the net amount of Euro 29,065,839, mostly relate to the sale of three A330 aircraft, due to a sales and leaseback operation, which resulted in a gain of Euro 16,261,025 (Note 26)

The main impacts occurred during the year ended 31 December 2015 are as follows:

- The additions of basic equipment in the amount of Euro 7,660,437, essentially refers to: (i) spare parts in the amount of Euro 4 million; (ii) a communication system project (FANS B+) related to fleet and aircraft equipment in the amount of Euro 2 million and (iii) aircraft maintenance material in the amount of Euro 1,4 million.
- The increase in the heading "Advances to suppliers of tangible assets", in the amount of Euro 32,699,698, refers, essentially, to the pre delivery payments made for future aircraft acquisition, in the amount of Euro 27,270,680 (Note 38), added to the amount of Euro 5,429,018 related to the introduction of sharklet technology in the aircrafts and to the useful life extension of the A319/A320/A321 fleets (ESG).
- The additions of other assets in progress, in the amount of Euro 5,212,641 refers to consulting services provided in the process of negotiating purchase agreements for future aircraft acquisition (Note 38).
- Basic equipment disposals, in the net amount of Euro 20,985,017, refers, essentially, to the disposal of 6 aircraft A319, due to a sale and leaseback operation, which resulted in a gain of some Euro 24,207,268 (Note 26).
- Transfers and write-offs of basic equipment refer, essentially, to the write-off of spare parts as scrap and other miscellaneous maintenance equipment.

**6 Tangible fixed assets (Continued)**

As at 31 December 2016 and 2015, the heading "Basic equipment" was detailed as follows:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Acquisition cost** | **Accumulated depreciation** | **Carrying amount** | **Acquisition cost** | **Accumulated depreciation** | **Carrying amount** |
| Flight equipment | | | | | | |
| Aircraft | 439,276,142 | (384,827,705) | 54,448,437 | 380,140,677 | (349,609,671) | 30,531,006 |
| Spare engines | 11,116,927 | (6,752,040) | 4,364,887 | 12,732,298 | (7,475,330) | 5,256,968 |
| Spare parts | 102,488,936 | (75,519,362) | 26,969,574 | 102,310,493 | (74,530,408) | 27,780,085 |
| | 552,882,005 | (467,099,107) | 85,782,898 | 495,183,468 | (431,615,409) | 63,568,059 |
| Flight equipment under financial leases | | | | | | |
| Aircraft | 892,229,506 | (639,450,668) | 252,778,838 | 1,075,246,684 | (758,684,460) | 316,562,224 |
| | 892,229,506 | (639,450,668) | 252,778,838 | 1,075,246,684 | (758,684,460) | 316,562,224 |
| Machines and miscellaneous equipment | 78,746,732 | (65,144,597) | 13,602,135 | 80,462,612 | (66,057,968) | 14,404,644 |
| | **1,523,858,243** | **(1,171,694,372)** | **352,163,871** | **1,650,892,764** | **(1,256,357,837)** | **394,534,927** |

As at 31 December 2016 and 2015, the company's aircraft fleet is detailed as follows:

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | **TAP property** | **Financial leasing** | **Operational Leasing** | **Total** | **TAP property** | **Financial leasing** | **Operational Leasing** | **Total** |
| Airbus A340 | 4 | — | — | **4** | 4 | — | — | **4** |
| Airbus A330 | — | 8 | 8 | **16** | — | 11 | 3 | 14 |
| Airbus A319 | — | 9 | 12 | **21** | — | 9 | 12 | **21** |
| Airbus A320 | 1 | 4 | 14 | **19** | — | 5 | 14 | **19** |
| Airbus A321 | — | 2 | 1 | **3** | — | 2 | 1 | **3** |
| | **5** | **23** | **35** | **63** | **4** | **27** | **30** | **61** |

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

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

In October 2016, nine Embraer E190 aircrafts, operated by Portugália, mainly used on the nearest and with lowest density European routes, were also incorporated in the operation.

During the year 2015 TAP used two ATR 42-600 aircrafts from White, which were being operated by TAP, S.A. under an ACMI agreement.

To guarantee payment of the amounts due under a loan agreement with a national institution, in the amount of Euro 75 million, a mortgage was set up on an urban building of TAP SA, composed by twenty-nine office buildings, workshops for construction materials and others, located at the Lisbon Airport (Note 21).

Depreciation of tangible fixed assets is recognised under "Depreciation and amortisation costs" in the income statement (Note 34).

**7 Investment properties**

As at 31 December 2016, "Investment properties" refers to a property in Maputo (Mozambique).

### 7 Investment properties (Continued)

The movement occurred in this caption was as follows:

| | 2016 | 2015 |
|---|---|---|
| **Opening balance** | **973,638** | **873,075** |
| Fair value adjustments—net gains and losses | 31,959 | 100,563 |
| **Closing balance** | **1,005,597** | **973,638** |

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

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

### 8 Intangible assets

During 2016 and 2015, changes in other intangible assets were as follows:

| | Industrial property and other rights | Computer programmes | Total |
|---|---|---|---|
| **Acquisition cost** | | | |
| **Balance as at 1 January 2015** | **11,951,704** | **207,984** | **12,159,688** |
| Additions | — | 75,047 | 75,047 |
| **Balance as at 31 December 2015** | **11,951,704** | **283,031** | **12,234,735** |
| Acquisitions | — | 1,198,651 | 1,198,651 |
| Regularisation, transfer and write-off | — | (21,280) | (21,280) |
| **Balance as at 31 December 2016** | **11,951,704** | **1,460,402** | **13,412,106** |
| **Accumulated amort. and impairment losses** | | | |
| **Balance as at 1 January 2015** | **(11,951,704)** | **(11,317)** | **(11,963,021)** |
| Amortisations and impairment losses (Note 34) | — | (74,987) | (74,987) |
| **Balance as at 31 December 2015** | **(11,951,704)** | **(86,304)** | **(12,038,008)** |
| Amortisations and impairment losses (Note 34) | — | (95,629) | (95,629) |
| **Balance as at 31 December 2016** | **(11,951,704)** | **(181,933)** | **(12,133,637)** |
| Carrying amount as at 31 December 2015 | **—** | **196,727** | **196,727** |
| Carrying amount as at 31 December 2016 | **—** | **1,278,469** | **1,278,469** |

### 9 Investments in subsidiaries and associates

As at 31 December 2016 and 2015, investments in subsidiaries and associates are detailed as follows:

| | 2016 | | | |
|---|---|---|---|---|
| | % ownership | Opening balance | Increase/ Decrease | Closing baance |
| IC TAP Limited | 100% | 143,592 | — | 143,592 |
| IC SART Limited | 20% | 28,718 | — | 28,718 |
| | | 172,310 | — | 172,310 |

**9 Investments in subsidiaries and associates (Continued)**

| | 2015 | | | |
|---|---|---|---|---|
| | **% ownership** | **Opening balance** | **Increase/ Decrease** | **Closing baance** |
| IC TAP Limited | 100% | 143,592 | — | 143,592 |
| IC SART Limited | 20% | 28,718 | — | 28,718 |
| | | **172,310** | **—** | **172,310** |

**10 Other financial assets**

As at 31 December 2016 and 2015, other financial assets are detailed as follows:

| | **2016** | **2015** |
|---|---|---|
| Angola's treasury bonds | 39,653,765 | — |
| Bank deposits in Guinea Bissau | 1,812,726 | 1,838,139 |
| SITA Group Foundation | 455,915 | 455,915 |
| Salvor Hotéis Moçambique loan | 60,639 | 254,851 |
| Other | 39,684 | 39,689 |
| | **42,022,729** | **2,588,594** |
| Financial assets impairment losses | (1,827,285) | (1,852,698) |
| | **40,195,444** | **735,896** |

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

During 2014, the existent cash and cash equivalents at "Banco Internacional da Guiné Bissau" were considered as non-recoverable following the dissolution and liquidation of this institution, and thus impairment loss for the total amount was recognised.

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

The movement which occurred in this heading during 2016 and 2015 was as follows:

| | **2016** | **2015** |
|---|---|---|
| **Opening balance** | 735,896 | 1,757,766 |
| Increases | 39,653,765 | — |
| Decreases | (198,250) | (1,128,359) |
| Currency translation differences | 1,997 | 98,321 |
| Other movements | 2,036 | 8,168 |
| **Closing balance** | **40,195,444** | **735,896** |

The movement in other financial assets impairment in 2016 and 2015 is as follows:

| | **2016** | **2015** |
|---|---|---|
| **Opening balance** | 1,852,698 | 1,686,084 |
| Currency translation differences | (25,413) | 166,614 |
| **Closing balance** | **1,827,285** | **1,852,698** |

## 11 Deferred tax assets and liabilities

As mentioned in Note 1.20, the Company recorded deferred taxes related to the temporary differences between assets and liabilities for tax and accounting purposes, as well as existing tax losses carried forward as at the date of the statement of financial position.

TAP S.A. believes that the deferred tax assets recognised in the statement of financial position are recoverable, both through their use in reducing future taxable profits, based on the net income of the company budgeted for 2017 and on net income projections for subsequent years, adjusted by differences between the accounting and tax results, and through the reversal of deferred tax liabilities.

As at 31 December 2016 and 2015 the tax rate used to calculate the deferred tax assets relating to tax losses carried forward was 21%. In the case of temporary differences, the rate used was 27.5%, when it was deemed that the taxation of temporary differences in the estimated period of application of the aforesaid rate was probable.

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

The main temporary differences between accounting and taxable amounts as at 31 December 2016 and 2015, the corresponding deferred tax assets and liabilities and the respective effect on the results for 2016 and 2015 are as follows:

| | 2016 | | | |
|---|---|---|---|---|
| | **Opening balance** | **Effect in results (Note 36)** | **Effect in comprehensive income** | **Closing balance** |
| **Deferred tax assets** | | | | |
| Tax losses carried forward | 38,049,710 | (2,588,633) | — | 35,461,077 |
| Employee benefits obligations | 13,935,257 | (953,680) | 2,171,454 | 15,153,031 |
| Impairment losses in inventories | 7,643,309 | 22,479 | — | 7,665,788 |
| Impairment losses of accounts receivable | 7,284,580 | (487,590) | — | 6,796,990 |
| Tax benefits | 517,053 | (380,751) | — | 136,302 |
| Other provisions and adjustments not accepted for tax purposes | 391,699 | (264,223) | — | 127,476 |
| Derivative financial instruments (Note 23) | 285,447 | — | (110,589) | 174,858 |
| | **68,107,055** | **(4,652,398)** | **2,060,865** | **65,515,522** |
| **Deferred tax liabilities** | | | | |
| Revaluation of tangible fixed assets | 19,744,917 | (615,640) | — | 19,129,277 |
| | **19,744,917** | **(615,640)** | **—** | **19,129,277** |
| | | **(4,036,758)** | **2,060,865** | |

## 11 Deferred tax assets and liabilities (Continued)

| | 2015 | | | |
|---|---|---|---|---|
| | Opening balance | Effect in results (Note 36) | Effect in comprehensive income | Closing balance |
| **Deferred tax assets** | | | | |
| Tax losses carried forward | 8,577,384 | 29,472,326 | — | 38,049,710 |
| Employee benefits obligations | 14,156,823 | (1,033,999) | 812,433 | 13,935,257 |
| Impairment losses in inventories | 7,461,808 | 181,501 | — | 7,643,309 |
| Impairment losses of accounts receivable | 6,158,274 | 1,126,306 | — | 7,284,580 |
| Tax benefits | 1,386,840 | (869,787) | — | 517,053 |
| Other provisions and adjustments not accepted for tax purposes | 396,997 | (5,298) | — | 391,699 |
| Derivative financial instruments (Note 23) | 13,930,841 | — | (13,645,394) | 285,447 |
| | **52,068,967** | **28,871,049** | **(12,832,961)** | **68,107,055** |
| **Deferred tax liabilities** | | | | |
| Revaluation of tangible fixed assets | 20,714,021 | (969,104) | — | 19,744,917 |
| | **20,714,021** | **(969,104)** | **—** | **19,744,917** |
| | | **29,840,153** | **(12,832,961)** | |

- **Tax losses carried forward**

Under the terms of current tax legislation in Portugal, tax losses generated as of 2014 can be carried forward for a period of twelve years after their occurrence and may thus be deducted to taxable profits generated over this period, up to the limit of 70% of the taxable profit in the following years.

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

The tax losses carried forward as at 31 December 2016 are detailed as follows:

| Tax losses period | Tax losses as at 31 december 2016 | Limit year for deduction |
|---|---|---|
| 2014 | 71,616,645 | 2026 |
| 2015 | 208,529,167 | 2027 |
| | **280,145,812** | |

## 12 Other non-current receivables

As at 31 December 2016 and 2015, other non-current receivables is detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| Security deposit (Note 21) | 25,976,595 | 12,954,439 |
| TAPGER loan (Note 40) | 3,500,000 | 4,150,000 |
| Other receivables | 8,066,962 | 7,837,741 |
| | **37,543,557** | **24,942,180** |

The security deposits are constituted under the operating lease contracts for aircraft and engines, and will be returned, without interests, when the aircraft and engines are returned to their lessors. The increase verified is related to the guarantee deposits associated with the new operating lease contracts carried out in 2016, including 1,672,665 Euros with Azul S.A. (Note 40).

The loan granted to TAPGER—Sociedade de Gestão e Serviços, S.A. (“TAPGER”) earns interest at normal market rates.

## 13 Inventories

As at 31 December 2016 and 2015, the detail of the inventories is as follows:

| | 2016 | 2015 |
|---|---|---|
| Raw, materials, inputs and consumables (Note 27) | 64,248,659 | 61,280,894 |
| Products and work in progress (Note 28) | 7,870,071 | 5,545,255 |
| Inventory impairment losses | (27,875,592) | (27,793,851) |
| | **44,243,138** | **39,032,298** |

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

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

The movement of Inventory impairment losses in 2016 and 2015 is as follows:

| | 2016 | 2015 |
|---|---|---|
| **Opening balance 1 January** | 27,793,851 | 27,133,848 |
| Increases (Note 31) | 101,000 | 930,833 |
| Reversals (Note 31) | (6,408) | (211,814) |
| Utilisation | (12,851) | (59,016) |
| **Closing balance 31 Decemeber** | **27,875,592** | **27,793,851** |

## 14 Other current receivables

As at 31 December 2016 and 2015, other current receivables details as follows:

| | 2016 | 2015 |
|---|---|---|
| Other receivables | 840,959,345 | 860,151,801 |
| Trade receivables | 246,551,539 | 199,157,047 |
| Advances to suppliers (Note 40) | 19,813,550 | 3,410,415 |
| Accrued income | 16,056,585 | 17,239,992 |
| Deferred costs | 11,891,844 | 7,829,352 |
| Receivables impairment losses | (67,408,327) | (65,433,309) |
| | **1,067,864,536** | **1,022,355,298** |

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

**14 Other current receivables (Continued)**

- **Other receivables**

As at 31 December 2016 and 2015, the amount recorded under the caption "Other receivables" details as follows:

| | 2016 | 2015 |
|---|---|---|
| Related parties (Note 40) | 798,303,698 | 817,911,946 |
| Employees | 12,425,309 | 10,448,708 |
| Interline and other invoicing | 10,245,865 | 11,432,725 |
| Receivables from suppliers | 5,015,830 | 4,782,473 |
| Other receivables—doubtful accounts | 4,205,299 | 4,212,001 |
| VAT of representations | 1,649,256 | 2,495,991 |
| Other | 9,114,088 | 8,867,957 |
| | **840,959,345** | **860,151,801** |
| Impairment | (4,201,773) | (4,212,000) |
| | **836,757,572** | **855,939,801** |

- **Trade receivables**

As at 31 December 2016 and 2015, the amount recorded under the caption "Trade receivables" corresponds to:

| | 2016 | 2015 |
|---|---|---|
| Private entities | 96,615,334 | 70,556,201 |
| Travel agencies | 41,163,037 | 55,667,829 |
| Related parties (Note 40) | 18,442,971 | 16,617,367 |
| Airline companies | 14,186,806 | 13,606,169 |
| Other | 21,815,479 | 4,208,290 |
| Trade receivables—doubtful accounts | 54,327,912 | 38,501,191 |
| | **246,551,539** | **199,157,047** |
| Impairment | (63,206,554) | (61,221,309) |
| | **183,344,985** | **137,935,738** |

The increase in private entities is mainly due to the increase in ticket sales in the last months of 2016, when compared to the same period of the previous year, as well as to the exchange rate effect resulting from the appreciation of the real against the euro.

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

- **Accrued income**

As at 31 December 2016 and 2015, the amount recorded under the caption "Accrued income" is detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| Services to airline companies | 11,573,373 | 7,288,889 |
| Mail revenue | 1,801,000 | 942,000 |
| Sale of miles to partners | 1,260,094 | 1,731,606 |
| Related parties (Note 40) | 1,151,563 | 7,069,009 |
| Other | 270,555 | 208,488 |
| | **16,056,585** | **17,239,992** |

## 14 Other current receivables (Continued)

- **Deferred costs**

The amount recorded under the caption "Deferred costs", as at 31 December 2016 and 2015, is detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| Aircraft leases | 7,857,060 | 4,865,721 |
| Comissions | 2,721,883 | 1,905,653 |
| Other | 1,312,901 | 1,057,978 |
| | **11,891,844** | **7,829,352** |

Commissions refer to the values paid to agents for tickets sold but which have not yet been used and have not expired until 31 December 2016 and 2015.

- **Receivables impairment losses**

The movement occurred in this caption during 2016 and 2015 is as follows:

| | 2016 | 2015 |
|---|---|---|
| **Opening Balace 1 January** | 65,433,309 | 60,252,356 |
| Increases (Note 31) | 4,209,970 | 6,484,735 |
| Decreases (Note 31) | (2,234,952) | (794,011) |
| Utilisation | — | (509,771) |
| **Closing balance 31 December** | **67,408,327** | **65,433,309** |

## 15 State and other public entities

As at 31 December 2016 and 2015, the caption is detailed as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Current assets | Current liabilities | Current assets | Current liabilities |
| Fare Compensation | 1,473,509 | — | 1,353,531 | — |
| Income Tax | 10,073,390 | (32,706) | 4,579,918 | (23,701) |
| Income Tax—Withholdings made to third parties | — | (14,045,215) | — | (7,934,154) |
| VAT | 5,070,836 | — | 3,971,115 | — |
| Social Security Contributions | — | (14,877,104) | — | (8,505,346) |
| Other | — | (58,582) | 25,884 | — |
| | **16,617,735** | **(29,013,607)** | **9,930,448** | **(16,463,201)** |

As at 31 December 2016 and 2015, the value recorded under the heading "Fare Compensation" includes the part of the fare subsidised by the Portuguese State for the routes of the Autonomous Region of the Azores until 29 March 2015, in the total amount of Euro 515,723 and Euro 449,641, respectively. These values correspond to tickets sold by "TAP S.A." which may be used on "TAP S.A." or other airline flights. This caption also includes receivable amount from the Portuguese State of Euro 957,786 and Euro 903,890, respectively, relative to flights between the islands of the Autonomous Region of the Azores. The figures for the second semester of 2014 and the years of 2015 and 2016 have not yet been verified and audited by the Portuguese Authorities or approved by the Government. However, no significant corrections to the values recorded by the Company are expected.

The Company recognises, annually, under the caption Sales and services rendered, grants receivable from the Portuguese State which reimburses the fare of the ticket for passengers to or from the Azores, since passengers are covered by the applicable legal regime. The amount recognised each year corresponds to the Company's estimation for the amount receivable for tickets flown by those passengers. It should be noted that, due to liberalization of Azores airspace, with effects from 29 March 2015, the responsibility of reimbursement request was transferred to the passengers.

**15 State and other public entities (Continued)**

As at 31 December 2016, the VAT receivable refers, essentially, to reimbursement requests, which have not yet been received, relative to the months of November and December 2016.

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

**16 Cash and cash equivalents**

As at 31 December 2016 and 2015, cash and cash equivalents is detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| Bank deposits available on demand | 45,251,586 | 38,993,283 |
| Term deposits | 10,948,386 | 72,687,861 |
| Other deposits | 18,117,200 | 18,666,703 |
| Monetary means in progress | 701,147 | 260,833 |
| Cash | 45,263 | 35,982 |
| **Cash and cash equivalent in the statement of financial position** | **75,063,582** | **130,644,662** |
| **Restricted cash** | **537,734** | **4,177,461** |
| **Bank overdrafts (Note 21)** | **(279,650)** | **—** |
| **Cash and cash equivalents in the statement of cash flows** | **75,321,666** | **134,822,123** |

The bank deposits in Angola as at 31 December 2016, in the amount of Euro 35,902,665 (31 December 2015: Euro 27,691,232), are currently experiencing difficulties in repatriating the funds. In this regard, a current credit line was negotiated with a financial institution, limited to Dollar 20 million, which provides the Company with the amounts withheld in Angola. The bank deposits stand as collateral on the referred loan obtained. Additionally, the aforementioned cash will also be used to pay the local expenses of the air transport operation.

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

**Restricted cash**

Despite TAP attempts on the referred funds repatriation, during 2015 TAP S.A. verified the existence of new data and unfavourable indicators to the repatriation of funds held in Venezuela, such as:

- More than one year has passed without any transfer of funds being authorised by the Venezuelan authorities despite the several payment promises given by different political representatives of that country to the Company;
- The sharp deterioration of Venezuela economic environment and consequently significant increase of its country-risk;
- The unsuccessful negotiation from IATA and from several Governments of the aviation companies that operate in Venezuela.
- The pressure perpetrated, fundamentally the second semester of 2015 onwards, by several local suppliers in order to: (i) demand the use of the SIMADI exchange rate for the payment of invoices denominated in US dollars; (ii) increase the price of invoices denominated in Venezuelan bolivars to a rate equivalent to the use of such exchange rate and (iii) charge, in dollars, invoices that traditionally were paid in Venezuelan bolivars, restricting significantly the Company ability to spend locally the funds retained at the exchange rate correspondent to the one applied at the time of sale.

**16 Cash and cash equivalents (Continued)**

In this context, accompanying its peers, the Board of Directors understands that the best estimate for the exchange rate of restricted cash in Venezuela as at 31 December 2015 was SIMADI rate, which represented the recognition of a negative exchange variation (198,7 VEF/USD) in the amount of Euro 91,393,729 in 2015 (Note 33).

During 2016, the continued deterioration of the country's economic situation led to a significant depreciation of the SIMADI rate (673.76 VEF/USD as of 31 December 2016). Consequently, at this date, it is the Board of Directors' understanding that the SIMADI rate is the best estimate for the exchange rate of Venezuelan restricted cash, which represented the recognition of a negative exchange rate variation in the approximate amount of Euro 2.6 million in the period ended 31 December 2016.

**17 Share Capital**

As at 31 December 2016 and 2015, the share capital of TAP S.A. was fully underwritten and paid up, represented by 8,300,000 shares with a nominal value of 5 Euros, fully owned by TAP—Transportes Aéreos Portugueses, SGPS, S.A..

**18 Supplementary capital contributions and reserves**

**Supplementary capital contributions**

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

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

**Reserves**

As at 31 December 2016 and 2015, the captions "Legal reserves", "Hedge reserves" and "Other reserves" are detailed as follows:

| | Legal reserves | Hedge reserves (Note 23) | Other reserves |
|---|---|---|---|
| **1 January 2015** | **8,300,000** | **(36,726,762)** | **(200,588)** |
| Increases | — | (752,542) | — |
| Variation through income statement | — | 36,726,762 | — |
| **31 December 2015** | **8,300,000** | **(752,542)** | **(200,588)** |
| Increases | — | (460,990) | — |
| Variation through income statement | — | 752,542 | — |
| **31 December 2016** | **8,300,000** | **(460,990)** | **(200,588)** |

- **Legal reserves**

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

This reserve cannot be distributed, except in the case of the Company's liquidation, but can be incorporated into the share capital or used to absorb losses after all other reserves have been depleted.

As at 31 December 2016 and 2015, the legal reserve was fully constituted in accordance with the commercial legislation in force.

**18 Supplementary capital contributions and reserves (Continued)**

- **Hedge reserves**

The negative amount of Euro 460,990 presented under the caption "Hedge reserves" corresponds to the fair value of the financial instruments classified as hedging accounting recorded in accordance with the accounting policy described in Note 1.11., net of tax, in the amount of Euro 174,858 (Note 11 and 23).

- **Other reserves**

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

**19 Post-employment benefits obligations**

As mentioned in Note 1.21., TAP S.A. is responsible for the payment of post-employment benefits to retired, pre-retired and still in active employees.

- **Retirement pension supplements and early retirement instalments**

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

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

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

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

- Pilots recruited before 31 May 2007: the pension plan includes the seniority bonus guaranteed by the State (of 15% or 10%, according to the starting date of the contributory career) and the possibility of an additional bonus (up to 25% or 30%) as an option for the beneficiary upon retirement (this additional bonus of up to 25% will be paid by the Company);
- Pilots recruited as of 1 June 2007: the pension plan consists of a defined contribution scheme of 7.5% of the base remuneration effectively earned (14 times a year), of which 80% is paid by the Company. 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 Company has recorded all its liabilities related to past services for the payment of pension supplements and early retirement benefits relative to the defined benefit plan.

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

In order to cover the liabilities related to the defined benefit plan, the Company concluded a contract of participation in the VIVA open pension fund. As of 2011, the cost related to retirement pension supplements, constituted since 1998, is assumed by this participation. Annual expenditure on pensions is determined in accordance with the actuarial study, reviewed and adjusted annually according to the

**19 Post-employment benefits obligations (Continued)**

updating of salaries and the evolution of the participant group. Costs relative to retirement supplements constituted by December 1997, early retirement instalments and the portion of pilot retirement supplements, which exceeds the limit referred to in the preceding paragraph, are assumed directly by TAP S.A. and covered by a specific provision.

- **Seniority bonus—PNT**

The Company Agreement concluded between TAP S.A. and SPAC establishes that the Company 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 the Company on behalf of the pilots. The main conditions of the collective retirement policy agreed with the insurance company, describing this Retirement Benefits Plan for Pilots, are as follows:

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

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

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

- Pilots recruited before 31 May 2007: the one-off seniority bonus is maintained, but shall only be paid if, on the retirement date, the person is entitled to the full pension, with the possibility of increasing the capital for every additional year of service after the full pension age has been reached;
- Pilots recruited as of 1 June 2007: there is no entitlement to seniority bonus.

- **Health care**

The Company ensures that both pre-retired and early-retired employees, below the age of 65, are provided with a health care plan providing access to medical care at reduced prices. In addition, the Company provides its retired employees with access to medical services of 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 the Company.

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

**19 Post-employment benefits obligations (Continued)**

**Assumptions used in the evaluation of liabilities**

The liabilities of the Company were calculated through actuarial studies reported as at 31 December 2016 and 2015, prepared by independent entities, using the projected unit credit method and essentially based on the following financial and demographic assumptions:

| | 2016 | 2015 |
|---|---|---|
| Mortality table | TV-88/90 | TV-88/90 |
| Invalidity table | EKV 1980 | EKV 1980 |
| Discount rate | 2.00% | 2.50% |
| Growth rate | | |
| Wages | 1.50% | 1.50% |
| Pensions | 1.00% | 1.00% |
| Fund yield rate | 2.00% | 2.50% |
| Trend of medical costs | 1.50% | 1.50% |

Liabilities for 2016 and 2015 are detailed as follows:

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | VIVA Pensions | Before 1997 | Assets | Medical Acts | Seniority Bonus | England Representation | Total |
| Liabilities from past services | | | | | | | |
| —Active employees | 358,994 | — | 2,313,409 | — | 67,776,644 | — | 70,449,047 |
| —Early retirement | 61,024 | — | 367,125 | 31,965 | — | — | 460,114 |
| —Retired | 9,958,909 | 35,423,540 | — | 2,908,567 | — | 16,133,290 | 64,424,306 |
| Fair value of the funds | (16,280,096) | — | — | — | (49,144,977) | (14,806,466) | (80,231,539) |
| **Deficit / (surplus)** | **(5,901,169)** | **35,423,540** | **2,680,534** | **2,940,532** | **18,631,667** | **1,326,824** | **55,101,928** |

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | VIVA Pensions | Before 1997 | Assets | Medical Acts | Seniority Bonus | England Representation | Total |
| Liabilities from past services | | | | | | | |
| —Active employees | 323,860 | — | 1,840,538 | — | 58,921,140 | — | 61,085,538 |
| —Early retirement | 82,571 | — | 456,200 | 44,870 | — | — | 583,641 |
| —Retired | 9,950,631 | 37,197,209 | — | 2,957,464 | — | 15,858,992 | 65,964,296 |
| Fair value of the funds | (16,792,465) | — | — | — | (44,526,613) | (15,640,736) | (76,959,814) |
| **Deficit / (surplus)** | **(6,435,403)** | **37,197,209** | **2,296,738** | **3,002,334** | **14,394,527** | **218,256** | **50,673,661** |

According to the actuarial study carried out by an independent entity, the best estimate of contributions to the pension benefit plans, for the following financial year, is Euro 6,679,135.

As at 31 December 2016 and 2015, the defined benefit plans of the Company in Portugal (excluding the Representation in England) covered 2,143 and 2,180 active beneficiaries, respectively. The total number of retired former employees entitled to a supplementary retirement pension, as at 31 December 2016 and 2015, was 806 and 838 beneficiaries, respectively.

As at 31 December 2016, the average maturity of the liabilities related to the defined benefit plan for the VIVA open pension fund is 12 years (2015: 10.8 years), and for the Seniority Bonus plan it is 12 years (2015: 13 years).

**19 Post-employment benefits obligations (Continued)**

**Sensitivity analysis**

- **Annual discount rate**

An increase (decrease) of 0.25% in the annual discount rate of the defined benefit plans of the VIVA open pension fund and Seniority Bonus would correspond to the following impacts on the Company's liabilities as at 31 December 2016:

| | Rate | VIVA Pensions* | Seniority Bonus |
|---|---|---|---|
| **Annual discount rate of pensions** | 2.00% | 48,483,001 | 67,776,644 |
| 0,25% increase in the discount rate | 2.25% | 47,419,698 | 65,274,808 |
| 0,25% decrease in the discount rate | 1.75% | 49,591,011 | 70,400,763 |

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

- **Rate of growth of medical costs**

If the growth rate of medical care costs increases or decreases by one percentage point, the respective impact on the Company's liabilities as at 31 December 2016 and 2015 is as follows:

| | Rate | 2016 | 2015 |
|---|---|---|---|
| **Annual growth rate of medical costs** | 1.50% | 2,940,532 | 3,002,334 |
| 1% increase in the growth rate of medical costs | 2.50% | 3,192,148 | 3,262,365 |
| 1% decrease in the growth rate of medical costs | 0.50% | 2,718,105 | 2,772,890 |

**Evolution of liabilities from past services**

The movement of the liabilities from past services, reflected in the statement of financial position, as at 31 December 2016 and 2015, is as follows:

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | VIVA Pensions | Before 1997 | Assets | Medical Acts | Seniority Bonus | England Representation | Total |
| Liabilities at the beginning of the year | 10,357,062 | 37,197,209 | 2,296,738 | 3,002,334 | 58,921,140 | 15,858,992 | 127,633,475 |
| Currency translation differences | — | — | — | — | — | (1,779,708) | (1,779,708) |
| Values recorded through profit or loss for the year. | | | | | | | |
| Current services | 31,123 | — | — | — | 3,733,528 | — | 3,764,651 |
| Net interest | 258,925 | 743,944 | 243,407 | 75,058 | 1,250,068 | 866,172 | 3,437,574 |
| Remeasurements | 521,669 | 1,165,612 | 140,389 | (136,860) | 4,329,294 | 1,757,808 | 7,777,912 |
| Benefits paid | (789,852) | (3,683,225) | — | — | (457,386) | (569,974) | (5,500,437) |
| **Responsibilities at the end of the year** | **10,378,927** | **35,423,540** | **2,680,534** | **2,940,532** | **67,776,644** | **16,133,290** | **135,333,467** |

**19 Post-employment benefits obligations (Continued)**

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | VIVA Pensions | Before 1997 | Assets | Medical Acts | Seniority Bonus | England Representation | Total |
| Liabilities at the beginning of the year | 11,311,298 | 39,834,974 | 2,258,340 | 3,202,812 | 51,203,390 | 15,767,107 | 123,577,921 |
| Values recorded through profit or loss for the year: | | | | | | | |
| Current services | 56,727 | — | — | — | 3,343,705 | — | 3,400,432 |
| Net interest | 282,782 | 995,874 | 56,459 | 80,070 | 1,369,293 | 91,885 | 2,876,363 |
| Remeasurements | (732,977) | 266,091 | (18,061) | (280,548) | 3,922,234 | — | 3,156,739 |
| Benefits paid | (560,768) | (3,899,730) | — | — | (917,482) | — | (5,377,980) |
| **Responsibilities at the end of the year** | **10,357,062** | **37,197,209** | **2,296,738** | **3,002,334** | **58,921,140** | **15,858,992** | **127,633,475** |

**Evolution of funds allocated to pensions benefit schemes**

In 2016 and 2015 the fund assets evolution was as follows:

| | 2016 | | | |
|---|---|---|---|---|
| | VIVA Pensions | Seniority Bonus | England Representation | Total |
| Opening balance | 16,792,465 | 44,526,613 | 15,640,736 | 76,959,814 |
| Contributions in the year | — | 4,200,000 | — | 4,200,000 |
| Net interest | 277,483 | 1,113,165 | 1,111,916 | 2,502,564 |
| Benefits paid | (789,852) | (457,386) | (569,974) | (1,817,212) |
| Remeasurements | — | (237,415) | 119,132 | (118,283) |
| Currency translation differences | — | — | (1,495,344) | (1,495,344) |
| **Closing balance** | **16,280,096** | **49,144,977** | **14,806,466** | **80,231,539** |

| | 2015 | | | |
|---|---|---|---|---|
| | VIVA Pensions | Seniority Bonus | England Representation | Total |
| Opening balance | 16,954,303 | 39,595,412 | 15,548,851 | 72,098,566 |
| Contributions in the year | — | 4,656,362 | 91,885 | 4,748,247 |
| Net interest | 398,930 | 989,885 | — | 1,388,815 |
| Benefits paid | (560,768) | (917,482) | — | (1,478,250) |
| Remeasurements | — | 202,436 | — | 202,436 |
| **Closing balance** | **16,792,465** | **44,526,613** | **15,640,736** | **76,959,814** |

The composition of the funds and its category as at 31 December 2016 and 2015 is as follows:

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Fair value level | VIVA Pensions | Seniority Bonus | England Representation | Total |
| Shares | 1 | 4,994,600 | — | 9,377,692 | 14,372,292 |
| Bonds | 1 | 4,964,596 | 47,896,694 | 4,019,011 | 56,880,301 |
| Public debt | 1 | 4,858,835 | — | — | 4,858,835 |
| Real estate | 1 | 546,633 | 383,331 | — | 929,964 |
| Liquidity | 1 | 915,432 | 864,952 | — | 1,780,384 |
| Other current investments | 1 | — | — | 1,409,763 | 1,409,763 |
| | | **16,280,096** | **49,144,977** | **14,806,466** | **80,231,539** |

**19 Post-employment benefits obligations (Continued)**

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Fair value level | VIVA Pensions | Seniority Bonus | England Representation | Total |
| Shares | 1 | 4,920,926 | — | 9,906,077 | 14,827,003 |
| Bonds | 1 | 4,860,724 | 43,658,344 | 4,245,462 | 52,764,530 |
| Public debt | 1 | 4,965,528 | — | — | 4,965,528 |
| Real estate | 1 | 586,625 | 347,308 | — | 933,933 |
| Liquidity | 1 | 1,458,662 | 520,961 | — | 1,979,623 |
| Other current investments | 1 | — | — | 1,489,197 | 1,489,197 |
| | | **16,792,465** | **44,526,613** | **15,640,736** | **76,959,814** |

**Expenses related to pensions and other post-employment benefits**

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

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | VIVA Pensions | Before 1997 | Assets | Medical Acts | Seniority Bonus | England Representation | Total |
| Current Services | 31,123 | — | — | — | 3,733,528 | — | 3,764,651 |
| Net interest | (18,558) | 743,944 | 243,407 | 75,058 | 136,903 | (245,744) | 935,010 |
| | **12,565** | **743,944** | **243,407** | **75,058** | **3,870,431** | **(245,744)** | **4,699,661** |

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | VIVA Pensions | Before 1997 | Assets | Medical Acts | Seniority Bonus | England Representation | Total |
| Current Services | 56,727 | — | — | — | 3,343,705 | — | 3,400,432 |
| Net interest | (116,148) | 995,874 | 56,459 | 80,070 | 379,408 | 91,885 | 1,487,548 |
| | **(59,421)** | **995,874** | **56,459** | **80,070** | **3,723,113** | **91,885** | **4,887,980** |

As previously mentioned, the pilots admitted after 1 June 2007, benefit from a defined contribution plan. During 2016, a cost was recognised in the caption Post-employment benefits obligations costs in the amount of Euro 1,136,447 (2015: Euro 1,169,359), relative to the contributions made during the year in favour of its employees.

The expenses relative to pensions and other post-employment benefits for 2016 and 2015 are recorded under the caption Post-employment benefits obligations costs in income statement.

**19 Post-employment benefits obligations (Continued)**

**Remeasurement gains/losses**

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

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | VIVA Pensions | Before 1997 | Assets | Medical Acts | Seniority Bonus | England Representation | Total |
| **Remeasurements** | | | | | | | |
| Return of assets, excluding amounts included in net income | — | — | — | — | 237,415 | (119,132) | 118,283 |
| | **—** | **—** | **—** | **—** | **237,415** | **(119,132)** | **118,283** |
| (Gains)/losses due to changes in financial assumptions | 477,854 | 1,402,582 | 160,106 | 167,753 | 5,135,062 | — | 7,343,357 |
| (Gains)/losses due to experience | 43,815 | (236,970) | (19,717) | (304,613) | (805,768) | 1,757,808 | 434,555 |
| | **521,669** | **1,165,612** | **140,389** | **(136,860)** | **4,329,294** | **1,757,808** | **7,777,912** |
| **Total remeasurements** | **521,669** | **1,165,612** | **140,389** | **(136,860)** | **4,566,709** | **1,638,676** | **7,896,195** |

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | VIVA Pensions | Before 1997 | Assets | Medical Acts | Seniority Bonus | England Representation | Total |
| **Remeasurements** | | | | | | | |
| Return of assets, excluding amounts included in net income | — | — | — | — | (202,436) | — | (202,436) |
| | **—** | **—** | **—** | **—** | **(202,436)** | **—** | **(202,436)** |
| (Gains)/losses due to changes in demographic assumptions | — | — | — | — | (211,082) | — | (211,082) |
| (Gains)/losses due to experience | (732,977) | 266,091 | (18,061) | (280,548) | 4,133,316 | — | 3,367,821 |
| | **(732,977)** | **266,091** | **(18,061)** | **(280,548)** | **3,922,234** | **—** | **3,156,739** |
| **Total remeasurements** | **(732,977)** | **266,091** | **(18,061)** | **(280,548)** | **3,719,798** | **—** | **2,954,303** |

The remeasurement gains/losses were recognised directly in the Company's comprehensive income.

**20 Provisions**

During 2016 and 2015, changes in provisions were as follows:

| | Provision for legal claims | Other | Total |
|---|---|---|---|
| **1 January 2015** | **10,768,785** | **1,443,625** | **12,212,410** |
| Increases | 2,847,043 | — | 2,847,043 |
| Reversals | (2,498,138) | (19,264) | (2,517,402) |
| **31 December 2015** | **11,117,690** | **1,424,361** | **12,542,051** |
| Increases | 1,170,373 | — | 1,170,373 |
| Reversals | (1,109,017) | (960,812) | (2,069,829) |
| **31 December 2016** | **11,179,046** | **463,549** | **11,642,595** |

**20 Provisions (Continued)**

In 2016 resulted gains of Euro 899,456 and in 2015 resulted a loss of Euro 329,641 recorded under the caption "Provisions" in the income statement.

- **Provision for legal claims**

Provisions for legal claims are recognised in accordance with the Company's and its legal advisors risk assessments, based on historical success rates by type of legal action and probability of unfavourable outcomes for the Company. As at 31 December 2016, the existent provision, in the amount of Euro 11,179,046, aims to cover the risk of several lawsuits filed against the Group, in Portugal and foreign countries.

**21 Borrowings**

- **Current and non-current borrowings**

As at 31 December 216 and 2015, Borrowings are detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| **Non-current** | | |
| Bank loans | 444,051,065 | 519,975,144 |
| **Bank debt** | **444,051,065** | **519,975,144** |
| Financial leases | 83,567,551 | 190,036,026 |
| **Other debt** | **83,567,551** | **190,036,026** |
| **Total non-current debt** | **527,618,616** | **710,011,170** |

| | 2016 | 2015 |
|---|---|---|
| **Corrente** | | |
| Bank loans | 196,923,423 | 106,219,980 |
| Bank overdrafts (Note 16) | 279,650 | — |
| **Bank debt** | **197,203,073** | **106,219,980** |
| Financial leases | 110,264,074 | 70,823,152 |
| **Other debt** | **110,264,074** | **70,823,152** |
| **Total current debt** | **307,467,147** | **177,043,132** |

- **Net debt**

As at 31 December 2016 and 2015, net debt is detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| **Borrowings** | | |
| Non-current | 527,618,616 | 710,011,170 |
| Current | 307,467,147 | 177,043,132 |
| | **835,085,763** | **887,054,302** |
| **Cash and cash equivalents (Note 16)** | | |
| Cash | 45,263 | 35,982 |
| Bank deposits available on demand | 45,251,586 | 38,993,283 |
| Other deposits | 29,766,733 | 91,615,397 |
| | **75,063,582** | **130,644,662** |
| **Net debt** | **760,022,181** | **756,409,640** |

**21 Borrowings (Continued)**

- **Bank loans**

As at 31 December 2016 and 2015, bank loans are detailed as follows:

| | 2016 | 2015 | Reference rate |
|---|---|---|---|
| **Non-current** | | | |
| Montepio Geral Bank Loan | 113,179,080 | 39,490,328 | Euribor 3 m |
| CGD Bank Loan | 96,834,469 | 121,461,829 | Euribor 6 m |
| BIC Bank Loan | 79,922,802 | 79,951,367 | Euribor 3 m |
| BCP Bank Loan | 49,416,415 | 74,009,035 | Euribor 3 m |
| Novo Banco Bank Loan | 41,945,933 | 66,737,616 | Euribor 3 m |
| PK Bank Loan | 24,688,734 | — | Euribor 3 m |
| Deutsche Bank Loan | 22,178,541 | 77,550,847 | Fixed rate |
| Banco Popular Bank Loan | 15,885,091 | 15,858,457 | Euribor 6 m |
| BPI Bank Loan | — | 24,941,462 | Euribor 6 m |
| Santander Bank Loan | — | 19,974,203 | Euribor 12 m |
| | **444,051,065** | **519,975,144** | |
| **Current** | | | |
| Deutsche Bank Loan | 56,793,772 | 73,280,148 | Taxa fixa |
| BCP Bank Loan | 25,222,276 | 124,450 | Euribor 3 m |
| BPI Bank Loan | 25,214,055 | 16,534 | Euribor 6 m |
| CGD Bank Loan | 25,179,782 | 209,494 | Euribor 6 m |
| Novo Banco Bank Loan | 25,157,525 | 371,335 | Euribor 3 m |
| Santander Bank Loan | 19,983,387 | — | Euribor 12 m |
| BIC credit line | 18,976,133 | 18,372,881 | Libor 6 m |
| Montepio Geral Bank Loan | 268,538 | 132,551 | Euribor 3 m |
| PK Bank Loan | 80,346 | — | Euribor 3 m |
| Banco Popular Bank Loan | 47,609 | 49,497 | Euribor 6 m |
| Anticipation of Brazil's revenues—with resourse | — | 13,663,090 | Fixed rate |
| | **196,923,423** | **106,219,980** | |
| **Bank debt** | **640,974,488** | **626,195,124** | |

In the context of re-privatization process, accordingly to the Direct Sale Agreement complemented with the Debt Service Agreement on Economic and Financial Stability of TAP, referred in Introduction, on 12 November 2015 TAP SA bank debt was restructured, being the main changes related to the maturity of the loans. A new bank debt restructuration is currently in progress (See Introduction).

The remunerated bank loans, by maturity and type of interest rate, as at 31 December 2016 and 2015, is detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| Up to 1 year | 196,923,423 | 106,219,980 |
| 1 to 2 years | 7,300,538 | 173,918,610 |
| 2 to 3 years | 89,296,994 | 7,353,699 |
| 3 to 4 years | 97,713,655 | 82,549,861 |
| 4 to 5 years | 93,119,657 | 84,292,567 |
| Over 5 years | 156,620,221 | 171,860,407 |
| | **640,974,488** | **626,195,124** |

### 21 Borrowings (Continued)

| | 2016 | 2015 |
|---|---|---|
| **Variable rate** | | |
| Up to 1 year | 140,409,303 | 19,276,742 |
| 1 to 2 years | — | 118,659,084 |
| 2 to 3 years | 81,903,014 | — |
| Over 3 years | 339,969,510 | 323,765,213 |
| | **562,281,827** | **461,701,039** |
| **Fixed rate** | | |
| Up to 1 year | 56,514,120 | 86,943,238 |
| 1 to 2 years | 7,300,538 | 55,259,526 |
| 2 to 3 years | 7,393,980 | 7,353,699 |
| Over 3 years | 7,484,023 | 14,937,622 |
| | **78,692,661** | **164,494,085** |
| | **640,974,488** | **626,195,124** |

The detail of the bank loans, by functional currency, as at 31 December 2016 and 2015 is as follows:

| | 2016 | 2015 |
|---|---|---|
| Loans in EUR | 621,998,355 | 594,159,153 |
| Loans in USD—Note 3 | 18,976,133 | 18,372,881 |
| Loans in BRL—Note 3 | — | 13,663,090 |
| | **640,974,488** | **626,195,124** |

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

- **Financial leases**

The Company records the assets acquired under financial leases as tangible fixed assets. As at 31 December 2016 and 2015, the Company had commitments arising from financial leases liabilities as described in Note 6, with the corresponding principal being included in the statement of financial position under the caption "Borrowings", as follows:

| | 2016 | 2015 |
|---|---|---|
| **Financial leases debt** | | |
| Basic equipment | 193,803,964 | 260,841,787 |
| Other tangible fixed assets | 27,661 | 17,391 |
| | **193,831,625** | **260,859,178** |
| **Capital future payments** | | |
| Up to 1 year | 110,264,074 | 70,823,152 |
| 1 to 5 years | 83,567,551 | 190,036,026 |
| | **193,831,625** | **260,859,178** |

**21 Borrowings (Continued)**

The financial leases liabilities, by maturity and type of interest rate, as at 31 December 2016 and 2015, are detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| Up to 1 year | 110,264,074 | 70,823,152 |
| 1 to 2 years | 41,466,984 | 106,718,992 |
| 2 to 3 years | 31,333,304 | 41,241,542 |
| 3 to 4 years | 10,767,263 | 31,446,686 |
| 4 to 5 years | — | 10,628,806 |
| | **193,831,625** | **260,859,178** |

| | 2016 | 2015 |
|---|---|---|
| **Variable rate** | | |
| Up to 1 year | 13,549,635 | 28,031,820 |
| 1 to 2 years | 16,315,347 | 13,320,497 |
| 2 to 3 years | 5,902,579 | 16,225,589 |
| Over 3 years | — | 6,162,701 |
| | **35,767,561** | **63,740,607** |
| **Fixed rate** | | |
| Up to 1 year | 96,714,439 | 42,791,332 |
| 1 to 2 years | 25,151,637 | 93,398,495 |
| 2 to 3 years | 25,430,725 | 25,015,953 |
| Over 3 years | 10,767,263 | 35,912,791 |
| | **158,064,064** | **197,118,571** |
| | **193,831,625** | **260,859,178** |

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

| | 2016 | 2015 |
|---|---|---|
| Financial leases in EUR | 105,515,855 | 154,401,184 |
| Financial leases in USD (Note 3) | 88,315,770 | 106,455,749 |
| Financial leases in BRL (Note 3) | — | 2,245 |
| | **193,831,625** | **260,859,178** |

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

Some borrowings have real guarantees, namely financial leases, loan from BIC and Montepio (Note 6)

- **Operating Leases**

As referred to in Note 1.25., these liabilities are not recorded in the Company's statement of financial position. Company's operating leases contracts have different periods which may reach up to 7 years, which may be extended through the explicit consent of the contracting parties.

As at 31 December 2016, 35 aircrafts (Note 6) and four engines were under operating lease contracts.

As at 31 December 2016 and 2015, the financial commitments assumed by TAP S.A relative to operating lease contracts for aircraft and engines reached the total of Euro 342,113,766 (Dollar 369,482,868) and Euro 342,014,004 (Dollar 366,639,013), respectively. (Note 38).

**21 Borrowings (Continued)**

The payment schedule for the operating lease agreements are detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| Up to 1 year | 102,602,488 | 85,276,335 |
| 1 to 2 years | 89,827,171 | 76,959,874 |
| 2 to 3 years | 66,941,301 | 67,239,711 |
| 3 to 4 years | 37,035,706 | 52,476,117 |
| Over 4 years | 45,707,100 | 60,061,967 |
| | **342,113,766** | **342,014,004** |

These contracts require security deposits which, as at 31 December 2016 and 2015, reached a total of Euro 25,976,595 and Euro 12,954,439 respectively (Note 12). These deposits shall be returned when each of these aircraft is handed back to its lessor.

- ***Financial covenants***

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

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

**22 Other payables**

As at 31 December 2016 and 2015, the caption "Other payables" is detailed as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Suppliers | 160,427,907 | — | 152,634,012 | — |
| Accrued costs | 189,613,410 | 104,842,841 | 156,135,241 | 82,980,974 |
| Deferred income | 65,998,963 | — | 63,584,980 | — |
| Advances from customers | 1,336,576 | — | 1,173,832 | — |
| Other | 98,229,981 | 635,848 | 68,092,265 | 1,037,989 |
| | **515,606,837** | **105,478,689** | **441,620,330** | **84,018,963** |

- **Suppliers**

The heading "Suppliers" is detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| Suppliers—current | 98,882,645 | 117,549,267 |
| Suppliers—Related parties (Note 40) | 30,869,993 | 20,617,808 |
| Suppliers—invoices pending | 30,675,269 | 14,466,937 |
| | **160,427,907** | **152,634,012** |

**22 Other payables (Continued)**

- **Accrued costs**

As at 31 December 2016 and 2015, the caption "Accrued costs" is detailed as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Remunerations | 59,225,458 | — | 52,217,836 | — |
| Maintenance reserves | 22,568,656 | 104,842,841 | 14,415,992 | 82,980,974 |
| Remunerations—air crew | 14,321,863 | — | 7,163,467 | — |
| Navigation charges | 12,347,889 | — | 13,081,799 | — |
| Aircraft fuel | 11,312,886 | — | 12,833,799 | — |
| Special sales charges | 10,359,723 | — | 7,603,765 | — |
| Related parties (Note 40) | 8,058,026 | — | 176,762 | — |
| *Booking fees* | 4,848,750 | — | 565,784 | — |
| Maintenance and repair of materials | 3,461,499 | — | 7,212,975 | — |
| Handling services | 2,868,367 | — | 3,841,392 | — |
| Specialised work | 2,821,651 | — | 3,635,117 | — |
| Passenger boarding taxes | 2,134,289 | — | 3,014,906 | — |
| Air charter | 1,701,557 | — | 128,969 | — |
| Landing charges | 1,320,782 | — | 600,917 | — |
| Insurance payable | 1,102,560 | — | 1,783,092 | — |
| Other accrued expenses | 31,159,454 | — | 27,858,669 | — |
| | **189,613,410** | **104,842,841** | **156,135,241** | **82,980,974** |

The increase verified in maintenance is due, essentially, to the sale and leaseback operation of 3 aircrafts A330 that occurred during the first half of 2016, for the average period of 3 years, which represented an increase of contractual obligations at this date.

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

- **Deferred income**

The caption "Deferred income", as at 31 December 2016 and 2015, is detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| Customer loyalty program | 42,971,811 | 41,995,320 |
| Work for aviation companies | 22,226,871 | 20,613,632 |
| Related parties (Note 40) | 383,872 | 381,639 |
| Other deferred income | 416,409 | 594,389 |
| | **65,998,963** | **63,584,980** |

Under the application of IFRIC 13—Customer loyalty programme, the attribution of miles to customers who are members of the "TAP Victoria" customer loyalty programme is deferred based on the unit value of the mile, as perceived by the customer (Note 1.26).

The amount of Euro 22,226,871 (2015: Euro 20,613,632), recorded under the caption "Work for aviation companies", refers to advanced billing of maintenance work for third parties that was in progress as at 31 December 2016.

**22 Other payables (Continued)**

- **Other—current**

As at 31 December 2016 and 2015, the caption "Other—current" was detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| Rates and taxes | 72,461,266 | 56,778,632 |
| Fixed assets suppliers | 5,957,769 | 1,079,100 |
| Personnel | 1,770,026 | 144,621 |
| Trade receivables—credit | 1,746,566 | 1,320,331 |
| Work accident indemnities | 873,155 | 778,528 |
| Payroll payable | 559,349 | 674,559 |
| Related parties (Note 40) | 550,730 | 17,482 |
| Indemnities | 176,048 | 136,606 |
| Other | 14,135,072 | 7,162,406 |
| | **98,229,981** | **68,092,265** |

The caption of rates and taxes refers, essentially, to amounts payable to several entities, related to rates charged to customers on the issued tickets. The variation observed is related to the variation of the caption liabilities from unused flight documents due to the increase in the number of tickets issued in the second half of the year when compared to the same period of the previous year.

- **Other—non-current**

As at 31 December 2016 and 2015, this caption refers to the fair value of the derivative financial instruments, namely interest rate swaps, in the amount of Euro 635,848 and Euro 1,037,989, respectively (Note 23).

**23 Derivative financial instruments**

As of December 31, 2016 and 2015, the Company had negotiated the following derivative financial instruments related to interest rate swaps classified as hedge instruments:

| | 2016 | 2015 |
|---|---|---|
| | Liabilities | Liabilities |
| Interest rate *Swaps*—non-current (Notes 4 and 22) | 635,848 | 1,037,989 |
| | **635,848** | **1,037,989** |

As of December 31, 2016 and 2015, the fair value of derivative financial instruments is detailed as follows:

| | | | 2016 | 2015 |
|---|---|---|---|---|
| | Start | Maturity | Net | Net |
| Interest rate *Swaps* | 26-11-2009 | 26-11-2019 | (635,848) | (1,037,989) |
| | | | **(635,848)** | **(1,037,989)** |

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

### 23 Derivative financial instruments (Continued)

The interest rate and jet fuel derivative financial instruments, classified as hedging instruments, presented the following evolution during the years ended December 31, 2016 and 2015:

| | Liabilities | |
|---|---|---|
| | Current | Non-Current |
| **Fair value as at 1 January 2015** | **(49,165,679)** | **(1,491,924)** |
| Acquisitions during the year—payment/(revenue) | 35,240,919 | — |
| Payment/(revenue) of swaps during the year | 52,272,147 | 548,641 |
| Revenue/(payment) of swaps retained through profit or loss | (87,513,066) | (548,641) |
| Increase/(decrease) of fair value reflected in equity | 49,165,679 | 453,935 |
| **Fair value as at 31 December 2015** | **—** | **(1,037,989)** |
| Acquisitions during the year—payment/(revenue) | — | — |
| Payment/(revenue) of swaps during the year | — | 469,345 |
| Revenue/(payment) of swaps retained through profit or loss | — | (469,345) |
| Increase/(decrease) of fair value reflected in equity | — | 402,141 |
| **Fair value as at 31 December 2016** | **—** | **(635,848)** |

### 24 Liabilities from unused flight documents

As at 31 December 2016 and 2015, the Company's liabilities relative to unused flight documents were as follows:

| | 2016 | 2015 |
|---|---|---|
| Passengers | 317,316,825 | 270,516,517 |
| Cargo | 549,973 | 551,508 |
| | **317,866,798** | **271,068,025** |

The variation verified in this caption is related to the joint effect of the increase of the timing of anticipation of purchase date when compared to the flight date and the increase in the number of tickets sold.

During 2016 and 2015, based on the partial and periodic analyses of this heading (Note 1.26), adjustments were made to the revenue from passenger and cargo transport in the amount of Euro 74,553,017 (3.5% of revenue from flown tickets) and Euro 73,214,087 (3.3% of revenue from flown tickets), respectively, which were recognised under the caption "Sales and services rendered".

### 25 Gains and losses in associates

During 2016 and 2015, the caption Gains and losses in associates is detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| **Received dividends** | | |
| IC SAFIT | 26,772 | — |
| | **26,772** | **—** |

**26 Other operational income**

During 2016 and 2015, this caption is presented as follows:

| | 2016 | 2015 |
|---|---|---|
| Gains from tangible fixed assets | 16,740,560 | 25,543,537 |
| Suplementary income | 10,016,219 | 11,732,957 |
| Recovered warehouse material | 4,729,456 | 7,770,736 |
| Sale of miles—TAP Victoria Program | 3,185,315 | 8,546,831 |
| Commissions | 3,002,945 | 3,357,927 |
| Publicity | 2,609,755 | 3,766,338 |
| Currency translation differences | 2,071,306 | — |
| Other grants | 1,105,650 | 582,702 |
| Gains from inventories | 216,418 | 83,117 |
| Aircraft rental | 85,820 | 67,108 |
| Other operating income | 286,901 | 412,041 |
| | **44,050,345** | **61,863,294** |

The variation in gains from tangible fixed assets is mainly due to the gain resultant from the disposal of three A330 aircrafts in a sale and leaseback operation during the first half of 2016, amounting to Euro 16,261,025 (Note 6), compared to the capital gain in 2015 from the sale of six A319 aircrafts in the amount of Euro 24,207,268.

The caption "Supplementary income" presents the following composition as at 31 December 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Rents and subleases | 4,493,405 | 4,604,300 |
| Services rendered (third parties) | 1,360,012 | 1,405,801 |
| *Booking fees* | 886,872 | 1,525,790 |
| Other | 3,275,930 | 4,197,066 |
| | **10,016,219** | **11,732,957** |

**27 Cost of goods sold and materials consumed**

The cost of goods sold and materials consumed in 2016 and 2015 was as follows:

| | 2016 | 2015 |
|---|---|---|
| Inventories—opening balance (Note 13) | 61,280,894 | 58,791,796 |
| Purchase goods | 101,086,892 | 89,170,062 |
| Adjustment of inventories | 57,000 | 380,093 |
| Inventories—closing balance (Note 13) | (64,248,659) | (61,280,894) |
| | **98,176,127** | **87,061,057** |

The cost of goods sold and materials consumed has increased 13% in 2016, when compared to last year, due to the consumption increase of materials in maintenance and engineering activities in Portugal, despite the decrease in the activity for third parties, due to the fact that the activity for the company itself increased, namely with the 11 phase-in of the year 2016, which resulted in a significant consumption of materials for aircraft adaptation and modification.

**28 Variation in production**

The variation in production in 2016 and 2015 was as follows:

| | 2016 | 2015 |
|---|---|---|
| Inventories—opening balance (Note 13) | (5,545,255) | (14,172,752) |
| Adjustment of inventories | (4,969) | 38,223 |
| Inventories—closing balance (Note 13) | 7,870,071 | 5,545,255 |
| | **2,319,847** | **(8,589,274)** |

**29 Materials and services consumed**

As at 31 December 2016 and 2015, this caption is detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| Aircraft fuel | 433,819,436 | 660,310,154 |
| Handling services | 153,292,368 | 154,336,912 |
| Navigation charges | 141,846,833 | 151,730,214 |
| Specialised work | 139,231,098 | 122,753,722 |
| Operating leases of aircraft and spare parts | 118,596,675 | 76,815,025 |
| Maintenance and repair of flight equipment | 110,776,059 | 97,750,307 |
| Chartering of aircraft | 83,286,812 | 74,182,246 |
| In-flight expenses | 82,431,939 | 84,850,753 |
| Landing charges | 76,361,564 | 74,232,860 |
| Commissions | 34,426,740 | 36,211,567 |
| Special sales charges—air transport | 28,025,630 | 26,678,670 |
| Accommodation and meals during stopovers | 25,214,908 | 26,584,295 |
| Operational irregularities | 24,412,899 | 25,202,937 |
| Air traffic control charges | 22,634,930 | 20,749,315 |
| Facilities at airports | 22,242,860 | 16,895,840 |
| Advertising and publicity | 21,018,824 | 13,921,412 |
| Baggage, cargo and mail charges | 13,767,494 | 16,271,744 |
| Ground costs related to executive class passengers | 8,850,155 | 7,606,873 |
| Rental costs | 6,454,370 | 6,790,156 |
| Maintenance and repair of other assets | 6,326,472 | 6,982,977 |
| Fees | 4,153,286 | 4,181,242 |
| Insurance | 4,130,986 | 4,974,598 |
| Transport of goods | 3,748,334 | 3,035,024 |
| Communication | 3,238,869 | 3,653,889 |
| Travel costs | 2,409,637 | 2,102,798 |
| Surveillance and security | 2,084,558 | 1,936,154 |
| Other costs | 10,769,898 | 10,645,594 |
| | **1,583,553,634** | **1,731,387,278** |

The decrease in external supplies and services expenses is mainly due to the decrease in fuel expenses, considering the effect of the reduction in the average jet fuel price and the fact that in 2015 losses were recognised for financial derivative instruments contracted in 2014, which caused losses of Euro 80 million in 2015, which hasn't occurred in 2016 (see Note 3).

On the other hand, the increase in operating leases expenses is justified by the increase in the average number of aircrafts under operating lease, specifically the fact that, at the end of the year 2015, 6 A319 aircrafts were included in this lease scheme, 5 A330 aircrafts, and the formalisation of an ACMI contract with White and Portugália, as referred in Note 6.

**30 Employee costs**

Employee costs during 2016 and 2015 were as follows:

| | 2016 | 2015 |
|---|---|---|
| Remunerations | | |
| Statutory Bodies | 25,803 | 1,731,041 |
| Employees | 468,240,194 | 456,058,901 |
| | **468,265,997** | **457,789,942** |
| Fixed remuneration | 261,183,203 | 258,658,062 |
| Variable remuneration | 100,370,131 | 92,384,731 |
| Social security contributions | 74,725,533 | 72,141,155 |
| Insurance | 11,010,141 | 11,527,844 |
| Social action costs | 9,998,081 | 9,629,861 |
| Work accident insurance | 4,011,776 | 4,434,677 |
| Meals allowance | 2,738,446 | 2,757,268 |
| Indemnities | 1,428,873 | 2,886,200 |
| Uniform and work clothes | 1,157,909 | 1,328,083 |
| Displaced personnel costs | 649,191 | 653,683 |
| Training and recruitment | 414,642 | 573,891 |
| Other expenses with employees | 578,071 | 814,487 |
| | **468,265,997** | **457,789,942** |

Employee costs amounted to Euro 468 million, which increased 2% when compared in the previous year. The increase in employee costs is mainly due to the restitution of employee seniorities and the compensation of pilots and cabin crew verified in 2016.

As at 31 December 2016 and 2015, the average number of active employees, divided between Headquarters and Representations, is as follows:

| | 2016 | 2015 |
|---|---|---|
| **Head office** | | |
| Ground employees | 982 | 968 |
| Flight employees | 933 | 937 |
| Cabin Crew employees | 2,543 | 2,574 |
| Maintenance and engineering employees | 1,906 | 1,881 |
| Other | 465 | 473 |
| **Representations** | | |
| Angola | 32 | 35 |
| UK/Ireland | 27 | 29 |
| Germany | 30 | 28 |
| France | 39 | 43 |
| Switzerland | 14 | 16 |
| Belgium / Luxembourg | 15 | 17 |
| Spain | 53 | 55 |
| Italy | 32 | 32 |
| USA | 39 | 35 |
| Brazil | 143 | 143 |
| Venezuela | 25 | 24 |
| Other | 59 | 66 |
| | **7,337** | **7,356** |

**31 Impairment in inventories and receivables**

For the years ended as at 31 December 2016 and 2015, this caption is detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| Inventory impairment (Note 13) | 94,592 | 719,019 |
| Receivables impairment (Note 14) | 1,975,018 | 5,690,724 |
| | **2,069,610** | **6,409,743** |

**32 Other operational costs**

The caption other operational costs is detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| Taxes | 4,291,831 | 5,973,364 |
| Financial services | 3,433,661 | 3,139,568 |
| Credit card fraudulent usage | 1,694,013 | 112,665 |
| Losses from tangible fixed assets | 1,584,479 | 2,492,234 |
| Contributions | 902,123 | 618,912 |
| Inventory losses | 278,388 | 424,987 |
| Currency translation differences | — | 48,011,123 |
| Internally generated assets | (558,705) | (608,457) |
| Other | 184,653 | 280,590 |
| | **11,810,443** | **60,444,986** |

During 2015 the costs on currency translation differences resulted from the combined effect of the depreciation of the Brazilian Real and appreciation of the dollar in respect of the Euro.

**33 Non-recurring items**

In the context described in Note 16, as at 31 December 2015, the Board of Directors considered that the best estimate for the exchange rate of cash held in Venezuela was the SIMADI rate, which resulted in the recognition of a negative exchange variation in the amount of Euro 91,39,729, recorded under this caption, since it reflects a situation considered as non-recurring, considering its nature and magnitude in the context of the Company's financial statements.

**34 Depreciation and amortisation costs**

For the years ended as at 31 December 2016 and 2015, this caption is detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| Tangible fixed assets depreciation (Note 6) | | |
| Buildings and other constructions | 5,249,572 | 5,264,329 |
| Basic equipment | 44,198,960 | 50,877,552 |
| Transport equipment | 111,402 | 109,863 |
| Tools and utensils | 507,577 | 508,093 |
| Administrative equipment | 918,944 | 860,503 |
| Other tangible fixed assets | 185,912 | 186,509 |
| | **51,172,367** | **57,806,849** |
| Intangible assets amortization (Note 8) | | |
| Computer programmes | 95,629 | 74,987 |
| | **95,629** | **74,987** |
| | **51,267,996** | **57,881,836** |

**34 Depreciation and amortisation costs (Continued)**

Depreciation and amortisation costs reduced by 11% in 2016, mainly as a result of the reduction in the number of aircrafts owned by the Company or acquired under a financial lease (Note 6).

**35 Finance income and costs**

In 2016 and 2015, finance income and costs are detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| Interest costs | 31,771,339 | 41,684,278 |
| Interest income | (49,773,870) | (51,199,051) |
| Net currency translation differences | 2,734,274 | 16,575,115 |
| Other financial costs and losses | 1,914,124 | 4,018,696 |
| | **(13,354,133)** | **11,079,038** |

Financial expenses, excluding currency translation differences, amounted to approximately Euro 34 million. The overall financial results of the Company was further increased by unfavourable currency translation differences arising from the appreciation of the Dollar in 2016 and 2015.

The amount of interest costs on loans is net of capitalised interest on tangible fixed assets (Euro 6,890,372 as of 31 December 2016).

**36 Income tax for the year**

The Company is subject to Corporate Income Tax (IRC) based on its individual net income, at the rate of 21% plus a surcharge at the maximum rate of 1.5% on taxable profit, thus reaching an aggregate rate of 22.5%. This rate is increased by 3% on the portion of taxable profit which is greater than Euro 1.5 million and less than Euro 7.5 million, by 5% on the portion of taxable profit which is greater than Euro 7.5 million and less than Euro 35 million, and by 7% on the portion of taxable profit which is greater than Euro 35 million, giving rise to an aggregate maximum tax rate of 29.5%.

In the calculation of the taxable profits, to which the tax rates referred to above are applied, the amounts not accepted for tax purposes are added and subtracted to the accounting results. These differences between the results for accounting and tax purposes may have a temporary or permanent nature.

Under the terms of article 88 of the Corporate Income Tax Code, the Company is subject to autonomous taxation on some expenses, at the tax rates listed therein.

In accordance with legislation in force, the Company income tax returns are subject to review and correction by the tax authorities for a period of four years (social security can be reviewed for five years), except when there are tax losses carried forward, tax benefits have been granted or there are claims or appeals in progress where, depending on the circumstances, the period can be extended or suspended. The Board of Directors believes that any corrections resulting from reviews / inspections by the tax authorities of these tax returns will not have a significant effect on the financial statements as at 31 December 2016 and 2015.

As at 31 December 2016 and 2015, the caption "Income tax for the year" is detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| Deferred taxes (Note 11) | 4,036,758 | (29,840,153) |
| Current taxes | 462,294 | 7,754,268 |
| Differences from tax estimates | (682,464) | 1,219,719 |
| | **3,816,588** | **(20,866,166)** |

**36 Income tax for the year (Continued)**

The reconciliation of the effective tax rate for 2016 and 2015 is detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| Net income/(loss) before income tax | 37,334,394 | (119,872,786) |
| Nominal tax rate | 27.5% | 21.0% |
| Expected tax | 10,266,958 | (25,173,285) |
| Permanent differences | (5,966,948) | (4,666,868) |
| Autonomous taxation | 199,042 | 7,754,268 |
| Insufficient/(surplus) estimate of taxes for the previous year | (682,464) | 1,219,719 |
| | **3,816,588** | **(20,866,166)** |
| Effective tax rate | 10% | 17% |

The effective tax rate was 10% as at 31 December 2016, mainly due to the difference of the gain from the sale and leaseback operation mentioned in Note 6, for accounting and tax purposes.

**37 Earnings per share**

There are no convertible financial instruments on the shares of TAP S.A., so there is no dilution of results.

| | 2016 | 2015 |
|---|---|---|
| Net income/(loss) for the year | 33,517,806 | (99,006,620) |
| Wheighted average number of shares | 8,300,000 | 8,300,000 |
| Basic and diluted earnings per share | 4.0 | (11.9) |

**38 Commitments**

- **Purchase commitments**

The acquisition of 53 aircrafts (39 A320 NEO Family and 14 A330 NEO) to be received between 2018 and 2025 is contracted with Airbus SAS ("Airbus"). This order is due to the novation to TAP S.A. of the previously negotiated acquisition agreement and signed between Airbus and DGN Corporation.

A commitment was also signed with CFM International Inc. on the acquisition of 83 LEAP-A1 reactors, including 5 reserve reactors, which will equip the new fleet of A320 NEO Family aircrafts.

- **Other commitments**

Once the need to add several aircrafts was identified both for replacement and for compliance with the scheduled expansion of the network, several commitments were signed during the last quarter of the year with several entities, namely with regard to the incorporation in the fleet of TAP SA of 1 A321-200, 1 A320-200 and 3 A330-300.

An intent letter was also signed in December 2016, establishing the conditions for the financing of pre-delivery payments to Airbus, in respect of some of the aircraft listed in the above mentioned acquisition agreement, with subsequent operating lease to TAP SA. An intent letter incorporating 4 A330-900 and 1 A320Neo was also signed in February 2017, with 2 of the A330-900 aircraft currently under the purchase agreement signed between Airbus and TAP SA, including the financing of the advances to be made to Airbus as pre-delivery payments.

As at 31 December 2016, there were financial commitments, assumed by the Company, related to operating leases of aircrafts and reactors, in the amount of Euro 342,113,766 (Euro 342,014,004 at 31 December 2015) (Note 21).

## 39 Contingencies

- **Contingent assets and liabilities**

As at 31 December 2016 and 2015, the Company have no contingent assets for disclosure.

TAP SGPS and TAP SA were notified on 10 November 2016 by a "Notice of Objections" issued by the European Commission—Directorate General for Competition, concerning the fares charged by TAP SA and SN Brussels on the Lisbon-Brussels route, considering the existing code-share agreements. At this moment and until 6 March 2017, TAP has to present its defence. The TAP Group understands that there are no substantiated indications of any breach and therefore an outflow of resources is not probable to be required.

- **Pledged Guarantees**

As at 31 December 2016 and 2015, the pledged guarantees are detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| **Bank guarantees provided by Head office** | | |
| Aircrafts | 47,357,023 | 45,873,662 |
| Natwest—Acquiring relative to credit cards | 2,452,755 | 2,861,230 |
| Fuel | 2,198,677 | 3,018,527 |
| Portuguese State—Operation of the Azores routes | 1,653,985 | 1,653,985 |
| Labour Court | 1,053,188 | 1,329,434 |
| Other | 11,938,267 | 7,700,158 |
| **Bank guarantees provided by Representations** | 3,505,120 | 3,470,146 |
| | **70,159,015** | **65,907,142** |

The real guarantees provided under loan agreements are disclosed in Note 21.

## 40 Related Parties

As at 31 December 2016 and 2015, the balances and transactions with related parties are detailed as follows:

| | 2016 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | TAP SGPS | Azul S.A. | TAPGER | Portugálla | SPdH | Megasis | TAP ME Brasil | LFP | Cateringpor | UCS | Total |
| **Balances:** | | | | | | | | | | | |
| Trade receivables (Note 14) | 102 | 1,436,185 | — | 477,302 | 576,247 | 348,275 | 14,763,783 | 770,769 | 30,649 | 39,659 | 18,442,971 |
| Advances to suppliers | — | — | — | — | — | — | 13,370,111 | — | — | — | 13,370,111 |
| Accrued income (Note 14) | 25,693 | — | — | 1,125,860 | — | 10 | — | — | — | — | 1,151,563 |
| Other receivables | | | | | | | | | | | |
| Non-current (Note 12) | — | 1,672,665 | 3,500,000 | — | — | — | — | — | — | — | 5,172,665 |
| Current (Note 14) | 793,133,730 | 347,343 | 188,116 | 195,448 | 667,043 | 307,772 | 2,828,041 | 115,524 | 432,739 | 87,942 | 798,303,698 |
| | **793,159,525** | **3,456,193** | **3,688,116** | **1,798,610** | **1,243,290** | **656,057** | **30,961,935** | **886,293** | **463,388** | **127,601** | **836,441,008** |
| Suppliers (Note 22) | (6,297,547) | — | — | (6,657,287) | (764,789) | (2,772,241) | (7,119,364) | — | (6,975,761) | (283,004) | (30,869,993) |
| Advances to customers | — | — | — | — | — | — | — | — | — | — | — |
| Accrued costs (Note 22) | — | — | — | (1,421,515) | (6,630,768) | — | (5,743) | — | — | — | (8,058,026) |
| Deferred income (Note 22) | — | — | — | — | (100,812) | (15,378) | — | (42,010) | (197,631) | (28,041) | (383,872) |
| Other payables | | | | | | | | | | | |
| Current (Note 22) | — | — | — | — | (15,912) | (518,045) | — | — | — | (16,773) | (550,730) |
| | **(6,297,547)** | **—** | **—** | **(8,078,802)** | **(7,512,281)** | **(3,305,664)** | **(7,125,107)** | **(42,010)** | **(7,173,392)** | **(327,818)** | **(39,862,621)** |
| **Transactions:** | | | | | | | | | | | |
| Sales and services rendered | — | 586,776 | 500,000 | 1,582,106 | 6,296,662 | 2,325,900 | 850,171 | 3,806,495 | 1,498,826 | 843,807 | 18,290,743 |
| Materials and services consumed | (5,096,908) | (6,797,261) | — | (73,631,587) | (79,670,962) | (31,936,755) | (6,386,934) | — | (39,642,733) | (3,600,489) | (246,763,629) |
| Interest obtained | 46,988,005 | — | 187,787 | — | — | — | — | — | — | — | 47,175,792 |
| | **41,891,097** | **(6,210,485)** | **687,787** | **(72,049,481)** | **(73,374,300)** | **(29,610,855)** | **(5,536,763)** | **3,806,495** | **(38,143,907)** | **(2,756,682)** | **(181,297,094)** |

## 40 Related Parties (Continued)

| | 2015 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | TAP SGPS | Azul S.A. | TAPGER | Portugálla | SPdH | Megasis | TAP ME Brasil | LFP | Cateringpor | UCS | Total |
| **Balances:** | | | | | | | | | | | |
| Trade receivables (Note 14) | — | — | 882,500 | 177,511 | 948,073 | 214,799 | 13,370,483 | 703,812 | 238,198 | 81,991 | 16,617,367 |
| Advances to suppliers . . . | — | — | — | — | — | — | 775,044 | — | — | — | 775,044 |
| Accrued income (Note 14) . | — | — | — | 6,979,652 | 48,092 | 2,439 | — | 38,826 | — | — | 7,069,009 |
| Other receivables | | | | | | | | | | | |
| Non-current (Note 12) . . | — | — | 4,150,000 | — | — | — | — | — | — | — | 4,150,000 |
| Current (Note 14) . . . . | 814,946,205 | — | 329 | 29,744 | 58,030 | 286,029 | 2,377,778 | 7,532 | 180,636 | 25,663 | 817,911,946 |
| | **814,946,205** | **—** | **5,032,829** | **7,186,907** | **1,054,195** | **503,267** | **16,523,305** | **750,170** | **418,834** | **107,654** | **846,523,366** |
| Suppliers (Note 22) . . . . . | — | — | — | (5,446,331) | (6,830,111) | (3,057,834) | (240,470) | — | (4,792,769) | (250,293) | (20,617,808) |
| Advances to customers . . . | — | — | — | — | (88) | — | — | — | — | — | (88) |
| Accrued costs (Note 22) . . | — | — | — | — | (176,762) | — | — | — | — | — | (176,762) |
| Deferred income (Note 22) | — | — | — | — | (100,273) | (16,777) | — | (40,433) | (196,160) | (27,996) | (381,639) |
| Other payables | | | | | | | | | | | |
| Current (Note 22) . . . . | — | — | — | — | (1,495) | (562) | — | — | — | (15,425) | (17,482) |
| | **—** | **—** | **—** | **(5,446,331)** | **(7,108,729)** | **(3,075,173)** | **(240,470)** | **(40,433)** | **(4,988,929)** | **(293,714)** | **(21,193,779)** |
| **Transactions:** | | | | | | | | | | | |
| Sales and services rendered | — | — | 500,000 | 1,565,921 | 6,276,189 | 2,419,126 | 564,166 | 4,175,092 | 1,685,916 | 893,320 | 18,079,730 |
| Materials and services | | | | | | | | | | | |
| consumed . . . . . . . . . | — | — | — | (60,566,479) | (77,491,795) | (32,969,583) | (7,152,844) | — | (37,916,211) | (3,402,456) | (219,499,368) |
| Interest obtained . . . . . . | 45,246,394 | — | 207,500 | — | — | — | — | — | — | — | 45,453,894 |
| | **45,246,394** | **—** | **707,500** | **(59,000,558)** | **(71,215,606)** | **(30,550,457)** | **(6,588,678)** | **4,175,092** | **(36,230,295)** | **(2,509,136)** | **(155,965,744)** |

TAP Group subsidiaries, associates and jount ventures are considered related parties, as identified in the Group's consolidated financial statements.

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

Members of the Board of Directors are remunerated exclusively by the functions performed at TAP SGPS, and are not remunerated by the functions performed at TAP S.A., from 2016 onwards.

## 41 Costs with audit and statutory audit

As at 31 December 2016 and 2015, fees for audit, statutory audit services and tax advisory services are detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| Audit and statutory audit . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 221,031 | 214,236 |
| Tax advisory . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 74,604 | 19,655 |
| | **295,635** | **233,891** |

## 42 Subsequent events

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

In addition, since the beginning of 2017, Atlantic Gateway and Parpública have been working together with the TAP Group on the suspensive conditions established in the Share Purchase Agreement, in order to allow, in the short term, the conclusion of the transaction provided for in the same agreement, as a result of which Parpública is to become the holder of 50% of the share capital of TAP SGPS.

**43 Note added for translation**

The accompanying financial statements are a translation of financial statements originally issued in Portuguese. In the event of any discrepancies the Portuguese version prevails.

| CHARTERED ACCOUNTANT | BOARD OF DIRECTORS |
|---|---|
| Sandra Candeias Matos da Luz | Fernando Abs da Cruz Souza Pinto<br>*Chairman* |
| | David Humberto Canas Pedrosa<br>*Member* |
| | Maximilian Otto Urbahn<br>*Member* |

***Auditors' Report***

***(Free translation from the original in Portuguese)***

***Report on the audit of the financial statements***

***Opinion***

We have audited the financial statements of Transportes Aéreos Portugueses, S.A. (the Entity), which comprise the statement of financial position as at December 31, 2016 (which shows total assets of Euro 2,025,341,802 and total shareholders' equity of Euro 136,416,308 including a net profit of Euro 33,517,806), the statement of income, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Transportes Aéreos Portugueses, S.A. as at December 31, 2016, and its financial performance and its 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 financial statements" section below. In accordance with the law we are independent of the Entity 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.

***Responsibilities of management and supervisory board for the financial statements***

Management is responsible for:

a) the preparation of the financial statements, which present fairly the financial position, the financial performance and the cash flows of the Entity in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Entity's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Entity's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure process of the Entity's financial information.

*PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda.*
*Sede: Palácio Sottomayor, Rua Sousa Martins, 1 - 3º, 1069-316 Lisboa, Portugal*
*Tel +351 213 599 000, Fax +351 213 599 999, www.pwc.pt*
*Matriculada na CRC sob o NUPC 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*

***Auditor's responsibilities for the audit of the financial statements***

Our responsibility is to obtain reasonable assurance about whether the 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 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and

f) communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

***Report on other legal and regulatory requirements***

***Director's report***

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our understanding that the Director's report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited financial statements and, taking into account the knowledge and assessment about the Entity, no material misstatements were identified.

February 28, 2017

PricewaterhouseCoopers & Associados
—Sociedade de Revisores Oficiais de Contas, Lda.
Represented by:

António Joaquim Brochado Correia, R.O.C.

***(This is a translation, not to be signed)***