TAP GROUP

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

2020

MANAGEMENT REPORT
AND
CONSOLIDATED ACCOUNTS

A STAR ALLIANCE MEMBER

CONSOLIDATED

MANAGEMENT REPORT

2020

TAP GROUP

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1. CORPORATE GOVERNANCE

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

1.1 Governing Bodies

Under the terms of article 9 of TAP SGPS’ Articles of Association, the Company's governing bodies are the General Assembly, the Board of Directors, the Supervisory Board and the Certified Public Accountant or the Company of Certified Public Accountants.

Three-year period 2018-2020

Through deliberation at the General Assembly on January 31, 2018.

General Assembly Committee

Chairman	António Macedo Vitorino (*)
	As per decision of the General Assembly of November 10 *2020*
Company Secretary	Ana Maria Sirgado Malheiro

Pursuant to number 1 of article 12 of the Company’s Articles of Association

(*) *Appointed to the remaining period of 2018-2020 in the General Assembly of November 10 2020 following the resignation of Diogo Patrício de Melo Perestrelo with effect from November 3 2020.*

Competencies of the General Assembly

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

The following are competencies of the General Assembly, under the terms of article 11 of TAP SGPS Articles of Association:

- To assess and deliberate on the management report of the Board of Directors, the balance sheet, the annual accounts and the opinions of the supervisory body, and deliberate on the application of the results of the financial year;
- To elect and dismiss the members of the General Assembly Committee, the Board of Directors, the Supervisory Board, as well as the respective chairmen and vice-chairmen, if any, and the Certified Public Accountant or the Company of Certified Public Accountants, in this case on a proposal from the Supervisory Board;
- To decide on any changes to the Company’s Articles of Association, including increases and reductions in share capital, merger, division, transformation and/or dissolution of the Company;
- To deliberate on the remuneration of the members of the governing bodies and define the remuneration policy of management bodies members, including the criteria and performance standards for the assessment of the variable component of remuneration, in the case of directors with executive positions, and may, for this purpose, appoint a remuneration committee;

- To decide on the provision and reimbursement of supplementary capital contributions and all related conditions, including in the form of shareholder loans, without prejudice to the conditions laid down in Article 17 of the Company's Articles of Association, including in the form of shareholder loans, and all conditions related thereto;
- To decide on matters relating to the management of the Company, when so required by the Board of Directors;
- To decide on any other matters for which the meeting has been called.

General Assembly Meetings

The TAP SGPS General Assembly met four times over the course of 2020: on 2 March, 30 June, 3 September and 10 November.

Board of Directors

31 December 2020

Chairman	Miguel Jorge Reis Antunes Frasquilho
Director	António José Vasconcelos Franco Gomes de Menezes
Director	Ana Maria Almeida Leite de Pinho Macedo Silva (****)
Director	Bernardo Luís Amador Trindade
Director	Diogo Campos Barradas de Lacerda Machado
Director	Esmeralda da Silva Santos Dourado
Director	Maximilian Otto Urbahn
Director	Raffael Guarita Quintas Alves (*)
Director	Ramiro José Oliveira Sequeira (**)
Director	Alexandra Margarida Vieira Reis (***)
Director	José Manuel Silva Rodrigues (***)

(*) Raffael Guarita Quintas Alves resigned as Director of the Board of Directors, with effect from 15 January 2021.

(**) Following the resignation of the Director Antonoaldo Grangeon Trancoso Neves, the Board of Directors, at a meeting of 16 September 2020, decided to co-opt Ramiro José Oliveira Sequeira, to replace him, with effect from 17 September 2020, for the remainder of the 2018-2020 triennial, a decision that was ratified at the General Meeting held on 10 November 2020.

(***) Following the resignation of the Directors Humberto Manuel dos Santos Pedrosa and David Humberto Canas Pedrosa, the Board of Directors, at its meeting of 30 September 2020, decided to co-opt José Manuel Silva Rodrigues and Alexandra Margarida Vieira Reis with effect from 30 September 2020, for the remainder of the 2018-2020 triennial, a decision that was ratified at the General Meeting held on 10 November 2020.

(****) Ana Maria Almeida Leite de Pinho Macedo Silva resigned from the position of Director of the Board of Directors, with effect from 31 December 2020.

David Gary Neeleman resigned as Director of the Board of Directors, with effect from 2 October 2020.

Duties of the Board of Directors

The Board of Directors is composed of 8 (eight) to 12 (twelve) members, depending on the decision of the respective General Meeting.

The Board of Directors is responsible for representing TAP SGPS and performing all the necessary acts to ensure the management of its business. The Board of Directors is responsible, in particular and in accordance with Article 17 of the Articles of Association of TAP, SGPS for the following:

- Manage the corporate business and perform all acts and operations relating to the corporate purpose which do not fall within the powers attributed to the other corporate bodies of the Company;
- Represent the Company in court and out of court, as plaintiff and defendant, with the power to withdraw, transact and confess in any legal proceedings, as well as to enter into arbitration agreements;
- Acquire in any form and dispose of or encumber rights or assets, movable or immovable;
- Incorporate companies and subscribe, acquire, by original or derivative title, encumber and dispose of shareholdings;
- Enter into loan agreements on the national or foreign financial markets;
- Decide on the issue of bonds or other debt securities;
- Establish the technical and administrative organisation of the Company and its internal rules of operation, in particular on personnel and their remuneration;
- Appoint representatives with the powers deemed appropriate, including those to delegate;
- Appoint the Company Secretary;
- Set the objectives and management policies of the Company;
- Draw up business plans and annual budgets, including the operating, investment and financial components, and annual reports and accounts, and promote the participation of the Company's services in the drafting of the sustainability report;
- Approve the TAP Group strategic and restructuring project and its revisions or updates;
- Exercise any other powers conferred upon it by law, the Articles of Association or the General Meeting.

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

In addition, pursuant to Article 18 of the Articles of Association, the following powers are conferred on the Chairman of the Board of Directors:

- Represent the Board of Directors;
- Summon and chair the respective meetings;
- Ensure the correct implementation of the Board of Directors' resolutions.

In the event of his or her absence, the Chairman of the Board of Directors will be replaced by the member of the Board of Directors whom he or she has appointed for that purpose.

In accordance with article 22(2) of the Articles of Association of the Company, the Chairman of the Board of Directors has the casting vote in the resolutions of the Board of Directors when the number of directors elected to the Board of Directors is even, in accordance with article 395(3) of the Companies Code.

According to the provisions of article 19(1) of the TAP SGPS Articles of Association, regarding the delegation of powers, *"The Board of Directors may delegate, within the limits established by law, the day-to-day management of the Company to one or more delegated directors or an Executive Committee"*.

Board of Directors' Meetings

In accordance with article 21 of the Articles of Association of the Company, the Board of Directors must meet at least once every quarter, and meet extraordinarily whenever convened by its chairman, by two directors or at the request of the supervisory body. The Board of Directors held 48 meetings during 2020.

Executive Committee

31 December 2020

Chief Executive Officer Ramiro José Oliveira Sequeira

Appointed on 17 September 2020, through resolution of the Board of Directors of 16 September 2020

Director Alexandra Margarida Vieira Reis

Appointed on 30 September 2020, through resolution of the Board of Directors of 30 September 2020

Director Raffael Guarita Quintas Alves

Resigned as Director of the Board of Directors, with effect from 15 January 2021.

Duties of the Executive Committee

The Board of Directors decided to approve the delegation of the Company's day-to-day management in the Executive Committee, giving the Company's Executive Committee the following powers:

- Draft the budget proposal to be submitted annually to the Board of Directors for approval by 30 November of the year preceding the year to which the budget relates (except for the 2021 budget proposal for which the deadline does not apply), and any updates or revisions thereof, which must also be submitted to the Board of Directors for prior approval, including the assumptions of any such updates or revisions;
- Financial, operational, administrative and human resources management of the Company, in accordance with the annual budget and its updates or revisions, excluding the fleet and network plan, and subject to the following limits:

a) Approval of any investments or other capital expenses of the Company and/or of any company in which it holds an interest, with an individual or aggregate amount not higher than 0.25% of TAP Group's consolidated revenue, or not greater than EUR 5 million, whichever of those limits is lower;

b) Acquisition, encumbrance or disposal of the Company's assets and/or of any company in which it holds an interest, with an individual or aggregate amount not higher than 0.25% of TAP Group's consolidated revenue, or not greater than EUR 5 million, whichever of those limits is lower;

c) Acquisition, encumbrance, leasing, disposal or transfer of other assets by the Company or any other entity of the TAP Group, provided that the total amount is not greater than EUR 5 million, individually or in the aggregate;

d) Contracting, modification or termination of any loan or issue of debt securities, of an individual amount not exceeding EUR 5 million, to which the Company and/or any of the companies in which it holds an interest are a party, unless included and duly specified in the annual budget, in which case the individual amount may not exceed 0.25% of the total assets of the TAP Group;

e) Approval, modification or early repayment of any supplementary capital contributions of an individual amount not exceeding EUR 5 million, payable by or to the Company or payable by or to any other TAP Group company;

f) Negotiation and conclusion of contracts to which the Company or any other company of the TAP Group is party, which do not have the nature of the contracts relating to the matters described in the preceding points and provided that their individual amount does not exceed EUR 2.5 million;

g) Decisions on any financial applications provided that the individual or aggregate amount is not greater than EUR 10 million;

h) Open bank accounts, negotiate financial conditions with the banks, make payments, make deposits or withdraw money from the Company's bank accounts, in accordance with the other powers delegated to it;

- Liaison and management of the institutional relationship with external entities, in coordination and articulation with the Board of Directors, including representing the Company before all Courts, namely civil, criminal, administrative, labour and tax Courts in all instances, appointing a lawyer when necessary or convenient, submitting pleadings, requests, applications, contestations, counterclaims, presenting evidence and filing both ordinary and extraordinary appeals; transacting and withdrawing in any Court, in all civil, criminal, administrative, labour and tax lawsuits, with the broadest powers, on behalf of the Company.

Executive Committee Meetings

In accordance with article 5 of the Rules of Procedure of the Executive Committee, adopted at a meeting of the Board of Directors on 18 November 2020, the Executive Committee meets whenever convened by its Chair or by two of its members, which should be at least weekly and a monthly calendar or annual meetings may be established.

The Executive Committee cannot decide unless the majority of its members are present or duly represented.

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

Specialised committees of the Board of Directors

As provided for in article 19 of the Articles of Association, the Board of Directors may set up committees, in particular on financial matters or strategic matters, as well as *ad hoc* committees, the members of which will be mainly directors, executive or otherwise, depending on what is decided when they are set up.

Audit and Financial Matters Committee

Set up by decision of the Board of Directors at the meeting of 18 June 2018

Chair	Esmeralda da Silva Santos Dourado
Member	António José Vasconcelos Franco Gomes de Menezes
Member	Alexandra Margarida Vieira Reis (*)
Member	Raffael Guarita Quintas Alves (**)

(*) Appointed by decision of the Board of Directors at the meeting of 14 October 2020

(**) Raffael Guarita Quintas Alves resigned as Director of the Board of Directors, with effect from 15 January 2021.

Duties of the Audit and Financial Matters Committee

1. The Audit and Financial Matters Committee ("AFMC") is created with the aim of supporting the Board of Directors in the matters that are specially entrusted to it.
2. Without prejudice to the legal powers conferred on the Supervisory Board, the Audit and Financial Matters Committee is responsible for monitoring, advising and reporting to the Board of Directors, by performing the following tasks:
   a) monitor the activities of the Executive Committee within the scope of the functions listed below, under terms to be agreed upon;
   b) ensure compliance with legal provisions and the Articles of Association;
   c) monitor the economic and financial situation of the Company;
   d) monitor the preparation process, the quality and integrity of financial information, in particular the information contained in the Company's accounting documents;
   e) monitor the procedure for examining and choosing the external auditor;
   f) monitor the audit of the accounts and the audit of the Company's accounting documents;
   g) ensure the independence of the external auditor;

h) monitor the preparation of the annual internal audit and control plan;

i) monitor and supervise the internal audit work carried out by the Directorate for Internal Audit of the organisational structure of Transportes Aéreos Portugueses, S.A., which will functionally report to the Audit and Financial Matters Committee, and it must send its reports and information to this Committee;

j) monitor the internal audit, internal control, compliance and risk management systems.

3. The members of the Audit and Financial Matters Committee shall also:

   a) issue a briefing note or a non-binding report on any matter submitted to it by the Board of Directors or the Executive Committee;

   b) present to the Board of Directors any matter to be considered by it, in connection with its role;

   c) propose any amendments to this Regulation.

4. The chair of the Audit and Financial Matters Committee is specifically responsible for coordinating the activities of the body by convening and directing its meetings, requesting and receiving all information and documentation necessary for the Committee to carry out its duties.

5. In order to ensure alignment with good market practice, including the necessary exemption and independence of internal audit work in all subsidiary companies of the TAP Group, any internal audit area within TAP Group companies will also report functionally to the Audit and Financial Matters Committee, in relation to inspection audits.

Activity of the Audit and Financial Matters Committee

Over the period under review, the Audit and Financial Matters Committee held 13 meetings, in compliance with and in accordance with the provisions of the rules governing it. Other members of the Board of Directors and, by means of invitation or request, several members of other corporate bodies, management and personnel of TAP Group participated in meetings of this Committee, as well as consultants and third parties of recognised competence and expertise, to provide advice, clarification and technical input on relevant matters.

Several topics within the scope of the two major areas of competence were addressed at the meetings of this Audit and Financial Matters Committee.

Of note in the Auditing field was the preparation and monitoring of the annual plan (and unscheduled audits), the TAP Group's Corporate Risk Management (CRM), and compliance. A number of specific issues such as cybersecurity, Safety & Human Factors, the Procure to Pay project, monitoring of the activity of TAP M&E Brazil, SPDH, among others, have also received particular attention from this Committee.

With regard to Financial Matters, the COVID-19 pandemic conditioned the issues to be dealt with, leading to considerable impacts on TAP's operational capacity and also introducing an enormous framework of uncertainty for the air transport sector in general. The pandemic has greatly aggravated the economic and financial situation of the TAP Group by imposing the need for emergency aid requested from the Portuguese Republic and approved by the European Commission ("EC").

This topic has become the focus of AFMC meetings. The TAP Group's State Aid was formalised in a Financing Agreement and a Supplementary Agreement to that Financing Agreement, as set out in the EC([1]) guidelines. The detailed monthly use of funds (made available by the Portuguese Republic) by accounting items should be included in the various Usage Requests (PULs) and a report on the implementation of the Liquidity Plan ("REPL") should also be regularly (monthly) issued. That report presents to the General Directorate of the Treasury and Finance the actual use of the funds and the reasons for deviations from the PUL, enabling the monitoring of monthly cash consumption. This process has been followed up and monitored by AFMC, subject to the issuing by this Committee of a Recommendation to the Board of Directors on its approval to be later sent to the Monitoring Trustee, and subsequently forwarded to the General Directorate of the Treasury and Finance.

It was established that the funding period, initially six months, would be extended by agreement between the parties that concluded the EC-approved Financing Agreement, on the assumption that a restructuring plan will be prepared and submitted for approval to this entity, within the same deadline. That plan was submitted on 10 December 2020.

The topics addressed by AFMC also include regular monitoring, advice and reporting of the development of the Company's economic and financial situation (i.e. monthly, quarterly, half-yearly and annual corporate accounts), with the frequent involvement of the External Auditor, Monitoring Trustee and the Supervisory Board, as well as the process for preparing and monitoring the budget and subsequent forecasts, issues related to debt, financing needs and cash flow developments (e.g. covenants, loans, bond issues).

Audit and Financial Matters Committee Meetings

Pursuant to article 4 of the Audit and Financial Matters Committee Rules of Procedure, the Committee must meet quarterly and extraordinarily whenever summoned by its Chair or by any of its members. The Audit and Financial Matters Committee held 13 meetings over the course of 2020.

Strategy Committee

Set up by decision of the Board of Directors at the meeting of 18 June 2018

Chair	Diogo Campos Barradas de Lacerda Machado
Member	Ramiro José Oliveira Sequeira (*)
Member	Bernardo Luís Amador Trindade
Member	Alexandra Margarida Vieira Reis (*)

(*) Appointed by decision of the Board of Directors at the meeting of 14 October 2020

Duties of the Strategy Committee

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

(1) European Commission guidelines for 2014 on State aid for rescuing and restructuring non-financial undertakings in difficulty.

The following are the duties of the Strategy Committee, under the terms of article 2 of the Rules of Procedure of the Strategy Committee, approved by the Board of Directors at its meeting of 18 June 2018:

- Monitor the achievement of the partial targets defined in the Strategic Project;
- Issue a briefing note or a non-binding report on the achievement of the partial targets defined in the Strategic Project or on specific topics within the scope of its tasks, when requested by the Board of Directors or by the Executive Committee;
- Prepare a briefing note or non-binding report on compliance with the Strategic Project's targets, whenever appropriate;
- Draw up an annual report for the Board of Directors containing an assessment of the Committee's work carried out over the previous financial year.

Activity of the Strategy Committee

Over the period under review, the Strategy Committee held 3 ordinary meetings, in compliance with the provisions of the Rules of Procedure governing it. Other members of the Board of Directors and, by means of invitation or request, several members of other corporate bodies, management and personnel of TAP Group participated in meetings of this Committee, as well as consultants and third parties of recognised competence and expertise, to provide advice, clarification and technical input on relevant matters.

As of August 2020, the duties and main function of the Strategy Committee were essentially absorbed by the Steering Committee, which conducted the stucturing, preparation and drafting of the Restructuring Plan Proposal that was submitted to and approved by the Board of Directors in December 2020. A large number of working meetings of the Steering Committee were held during that five-month period, involving all the members of the Strategy Committee on an ongoing basis.

Several issues of strategic importance and/or relevance to the TAP Group were addressed at the meetings of the Strategy Committee, with particular focus on the procedures for drawing up the 2021-2025 Restructuring Plan and Strategic Plan, the monitoring of dossiers such as Cooperation Agreements, renegotiations with aircraft fleet lessors, and the evolution of the air transport business according to international body projections (IATA, AEA, Eurocontrol). These were some of the issues examined and discussed, among other specific issues with strategic impact, in a tragic year for the business and activity of TAP Group and the air transport industry in general.

Strategy Committee Meetings

Pursuant to article 3 of the Strategy Committee Rules of Procedure, the Committee must meet quarterly and extraordinarily whenever summoned by its Chair or by any of its members. The Strategy Committee held 3 ordinary meetings throughout 2020.

Human Resources Committee

Set up by decision of the Board of Directors at the meeting of 27 June 2019

Chair Ramiro José Oliveira Sequeira (*)

Member	Alexandra Margarida Vieira Reis (*)
Member	Bernardo Luís Amador Trindade
Member	Ana Pinho Macedo Silva (**)

(*) Appointed by decision of the Board of Directors at the meeting of 14 October 2020

(**) Resigned as Director of the Board of Directors, with effect from 31 December 2020.

Duties of the Human Resources Committee

Pursuant to the provisions of article 2 of the Rules of Procedure of the Human Resources Committee, approved by the Board of Directors in a meeting held on 3 September 2019, the following are the duties, among others, of the Human Resources Committee:

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

Activity of the Human Resources Committee

The Human Resources Committee held, during the period under review, an ordinary meeting on 10 February 2020, still in the pre-Covid-19 pandemic period. In addition to all of its members, other members of the Board of Directors were also present in the meeting of this Committee, as well as, by means of an invitation, TAP Group managers, personnel, and consultants of recognised expertise, in order to provide consultancy, clarifications, and add technical input on the relevant issues addressed. The topics discussed at the Human Resources Committee meeting were the performance management model, KPIs evolution and the salary benchmark.

Human Resources Committee Meetings

Pursuant to article 3 of the Human Resources Committee Rules of Procedure, the Committee must meet twice a year and extraordinarily whenever it is summoned by its Chair, on his/her own initiative, or at the request of any of the other members. The Human Resources Committee held one ordinary meeting during 2020.

Company Secretary

By appointment of the Company's Board of Directors at the meeting of 31 January 2018

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

Supervision of the Company

By decision of the General Meeting of 31 January 2018

Supervisory Board

Mandate (Start - End)	Position	Name	Appointment	Mandates held in the Company	
				No.	Date first appointed
2018-2020	Chair	Sérgio Sambade Nunes Rodrigues	General Meeting of 31.Jan.2018	2	12.Nov.2015
	Member	Baker Tilly, PG & Associados, SROC, S.A.	General Meeting of 31.Jan.2018	2	12.Nov.2015
	Member	Susana Nereu de Oliveira Ribeiro (*)	General Meeting of 31.Jan.2018	1	31.Jan.2018
	Deputy	Maria Helena Maio Ferreira de Vasconcelos (**)	General Meeting of 31.Jan.2018	1	31.Jan.2018

(*) Susana Nereu de Oliveira Ribeiro resigned with effect from 31 December 2020.

(**) Maria Helena Maio Ferreira de Vasconcelos resigned with effect from 28 February 2021.

Statutory Auditor

By decision of the General Meeting of 2 March 2020

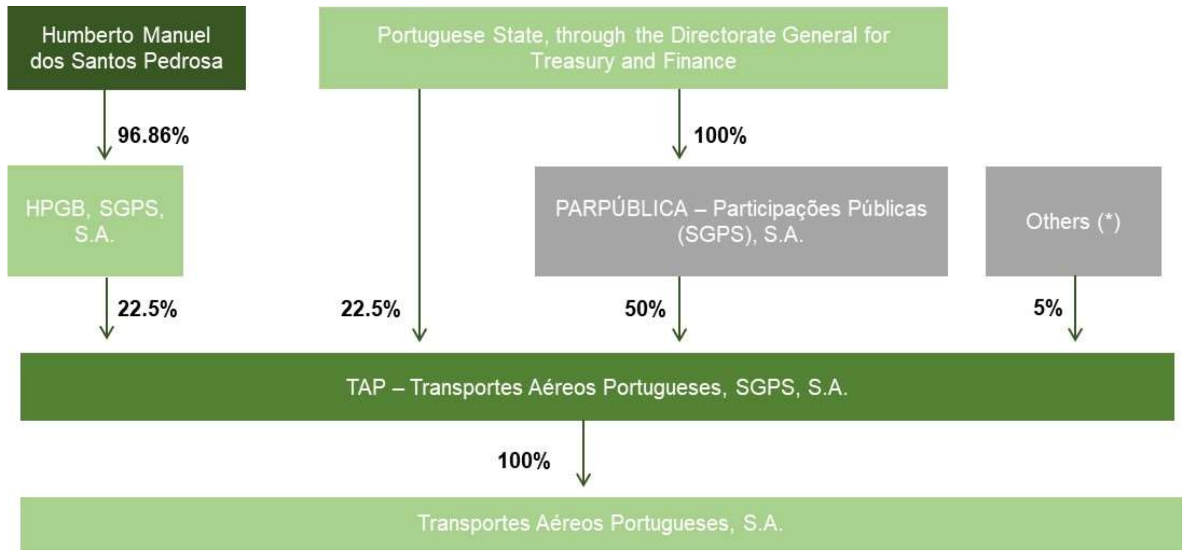
Permanent	PricewaterhouseCoopers & Associados, SROC, Lda., represented by António Joaquim Brochado Correia and Hugo Miguel Patrício Dias
Deputy	Carlos José Figueiredo Rodrigues

2. SHAREHOLDING STRUCTURE OF TAP GROUP

As of December 31 2020, shareholding structure of TAP - Transportes Aéreos Portugueses, SGPS, S.A. was the following:

- Parpública owns 750,000 ordinary shares, representing 50% of the share capital and voting rights of TAP SGPS;
- The Portuguese state, through the Treasury and Finance Directorate-General, owns 337,500 ordinary shares, representing 22.5% of the share capital, voting rights and economic rights of TAPSGPS;
- HPGB owns 337,500 ordinary shares representing 22.5% of the share capital, voting rights and economic rights of TAP SGPS;

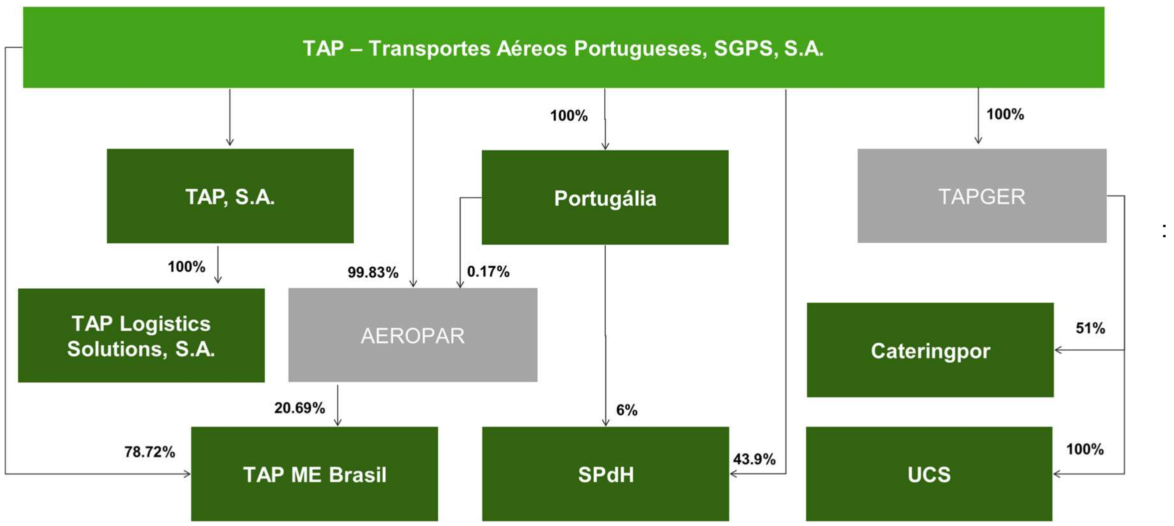
- A number of shareholders jointly hold 75,000 ordinary shares, representing 5% of the share capital, voting rights and economic rights of TAP SGPS.



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

3. GROUP STRUCTURE AND CONSOLIDATION METHOD

As of December 31, 2020 TAP Group had the following structure:



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

- TAP–Transportes Aéreos Portugueses, SGPS, S.A. ("TAP", "TAP Group" or "Group")
  - Transportes Aéreos Portugueses S.A. ("TAP, S.A.")
  - TAP Logistics Solutions, S.A.

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

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

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

4. ACTIVITY EVOLUTION IN 2020

4.1. Introduction

- **Operations and the profit of 2020 were significantly impacted by the drop in activity seen from March onwards, as a result of the COVID-19 pandemic**, which globally affected the civil aviation sector in an unprecedented manner. **The number of passengers, which had grown for four consecutive years**, fell by 72.7%**,** slightly less than the fall in demand in Europe (measured in RPK), which fell by 74.1% (IATA - Industry Statistics, November 2020). TAP's ticket revenue fell by 70.9% in 2020, compared to a global decrease in the industry of about 69%.

- **In January and February 2020, the main operational and financial indicators showed a very positive trajectory of improvement, halted by the pandemic**. The number of passengers transported in those two months increased by 13.4% YoY (being that number higher than the total passengers carried in the remaining months of the year), and the EBITDA margin increased by 12.9 p.p. The operational, commercial (forward bookings) and financial indicators before the outbreak of the pandemic anticipated a positive year for 2020.

- **TAP acted with agility and speed at the first signs of the pandemic's impact, as well as to the various mobility and border restrictions that were imposed throughout the year**, especially in the second and fourth quarter of the year. Many of the restrictions were lifted from June to September, only to be reinstated from September onwards. TAP has adjusted its capacity offer since the pandemic began, thus minimising variable operating costs and preserving cash. It has been able to constantly adapt to the constraints imposed, monitoring the evolution of demand and the pandemic in the different destinations and adapting its network and operations accordingly. However, ticket sales and bookings have been severely affected by the restrictions imposed.

- **In addition to the adjustment of capacity, several other measures were taken to preserve the Company's liquidity**. These include the suspension or postponement of non-critical investments and the postponement of aircraft delivery, renegotiation of contracts and payment deadlines with suppliers and lessors, cutting ancillary expenses, not renewing fixed-term employment contracts, which resulted in an effective workforce reduction of more than 1,100 employees, suspension of salary progressions, adherence to the simplified layoff regime and extraordinary support for the gradual resumption of activity, and the implementation of temporary unpaid leave programmes. Out of the negotiations with providers, we highlight the agreement reached with Airbus, which changed the delivery dates of 15 new-generation aircraft, allowing for a CAPEX reduction of approximately USD 1,000 million between 2020-2022.

- **The speed with which some of these measures were taken at the beginning of the pandemic enabled TAP to maintain sufficient liquidity until the State aid was formally provided**. The State aid comprised financing granted by the Portuguese State to TAP of EUR 1,200 million, the first tranche of which was received on 17 July 2020**.** The subsequent tranches of this financing were received until 31 December 2020, which led the Company to end 2020 with a strong liquidity position of EUR 534.6 million.

- **TAP never failed to ensure territorial continuity, even during the lockdown period, and whenever restrictions did not prevent such, it ensured transport to countries of the Portuguese diaspora as**

well as repatriation flights for national citizens. In close cooperation with the Portuguese Government, the embassies and ANAC, TAP ensured repatriation flights and has also invested in the humanitarian transport of medical cargo, essential for fight against COVID-19, in a test of great flexibility and resilience for TAP's employees. TAP has also faced the challenge of coordinating the sudden stoppage and preservation of more than 90 aircraft in national territory, which was a major undertaking of the operational and maintenance areas, in collaboration with airport infrastructure.

- **TAP was and is committed to ensuring the resumption of operations in a safe and sustainable manner.** Measures to protect the health and safety of its customers and crew were implemented from the start, following the guidelines from the relevant authorities and in close coordination with UCS (TAP Group's Health Care Unit). The disinfection of aircraft and work environments as well as the testing of the crew has become part of the Company's routines. TAP maintained its commitment to operational safety in a particularly complex and demanding year for the industry. The early analysis of scenarios in a coordinated manner and with reference to the main industry stakeholders (aeronautical authorities, regulatory bodies, organisations, aircraft manufacturers and operators), supported the planning of operations and decision-making by management, based on the level of risk, enabling humanitarian, operational and business needs to be met, with high standards of operational safety.

- **TAP responded to the increased demand of the cargo segment during 2020** which**,** unlike the passenger segment**,** recorded a decrease in revenue of only 8.5% compared to 2019**.** In addition to the increase in traditional cargo, TAP conducted flights carrying medical supplies to unusual destinations namely to China, and the Company carried out the conversion of some passenger aircraft to *cargo-only*.

- **The second half of 2020 was marked by the preparation of a Restructuring Plan, approved by the Board of Directors on 2 December 2020 and submitted to the European Commission for review on 10 December 2020.** This plan sets out the pillars and strategic lines that will ensure TAP's sustainability and profitability considering the new demand scenario, from the adaptation of the workforce, routes and fleet, as well as the adaptation of the TAP product to the current and post-COVID 19 reality. As such, the Restructuring Plan aims to ensure the survival and sustainability of TAP Group, while ensuring that it continues to contribute to the Portuguese economy. The Restructuring Plan foresees that TAP shall achieve a balanced operating result until 2023, ensuring that it is able to meet its financial commitments in their maturities.

- **Negotiations with the European Commission to approve the restructuring plan are under way** at this stage and should soon be concluded.

The Board of Directors expresses its profound gratitude to all Employees, for their effort, dedication and spirit of mission in the current context, as well as the focus and commitment to ensure the recovery, sustainability and the future of TAP Group.

4.2. Sector Environment

Economic Framework

Macro Indicators % YoY	2019	2020E	2020E vs 2019
Real GDP Growth			
Global	2.8%	-4.4%	-7.2 p.p.
Euro Area	1.3%	-7.2%	-8.5 p.p.
Portugal	2.2%	-10.0%	-12.2 p.p.
North America	1.9%	-4.9%	-6.8 p.p.
South America	-0.2%	-8.1%	-7.9 p.p.
Africa	3.3%	-2.6%	-5.9 p.p.
Middle East	-0.4%	-6.6%	-6.2 p.p.
Asia-Pacific	4.4%	-2.3%	-6.7 p.p.
Trade Growth			
Global	1.0%	-9.6%	-10.6 p.p.

Source: IMF (February 2021), IMF - World Economic Outlook Update (January 2021).

The global economy contracted in 2020 compared to the previous year, with an estimated decrease in world GDP of -4.4% (vs. an increase of 2.8% in 2019). Portugal's economy, highly dependent on tourism (a sector greatly impacted by the pandemic), is expected to register a larger contraction, in the region of -10.0%. Similarly, global trade reversed the growth trend recorded in 2019, and is expected to contract by -9.6% in 2020.

Exchange rate EUR 1 to	FY 2019	1Q 2020	2Q 2020	3Q 2020	4Q 2020	FY 2020	FY2019 vs. FY2020
USD	1.119	1.103	1.101	1.169	1.193	1.142	2.0%
BRL	4.413	4.917	5.920	6.282	6.438	5.894	33.6%

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

Over the course of 2020 the EUR appreciated against the USD, with the average exchange rate up 2.0% year-on-year. During the year, the EUR/USD exchange rate reached a low of 1.0707 in the 1st quarter, far from the value recorded on the last day of 2020, when the exchange rate stood at 1.227. In the same direction, the EUR appreciated against the BRL in 2020, with the average EUR/BRL exchange rate increasing significantly by 33.6% from the year 2019. The poor performance of the Brazilian Real was attributed to the unstable political scenario, as well as the economic and public health crisis caused by the COVID-19 pandemic.

Oil and derivatives in USD	FY 2019	1Q 2020	2Q 2020	3Q 2020	4Q 2020	FY 2020	FY2019 vs. FY2020
Brent (USD/bbl)	64.0	50.6	31.4	42.7	44.6	42.3	-33.9%
Jet Fuel (USD/mT)	631.7	483.8	242.2	335.8	374.3	360.3	-43.0%

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

Brent prices exhibited high levels of volatility in 2020, ranging from 68.91 USD/bbl to 19.33 USD/bbl, with the average price decreasing by -33.9% compared to the previous year. Similarly, the average price of Jet Fuel decreased by -43.0% compared to the average price in 2019. This sharp drop is explained by the strong contraction in demand for oil and its derivatives, which in turn was due to international mobility restrictions and the drop in economic activity caused by the COVID-19 pandemic.

Airline Sector Overview

Regions	Capacity (ASK) % YoY			Passenger Traffic (RPK) % YoY			Net Profit, USD billion		
	2019	2020E	2020E vs 2019	2019	2020E	2020E vs 2019	2019	2020E	2020E vs 2019
Global	**3.4%**	**-56.5%**	**-59.9 p.p.**	**4.2%**	**-65.9%**	**-70.1 p.p.**	**26.4**	**-118.5**	**-144.9**
Europe	3.5%	-62.1%	-65.6 p.p.	4.2%	-69.9%	-74.1 p.p.	6.5	-26.9	-33.4
North America	2.9%	-50.2%	-53.1 p.p.	4.0%	-65.2%	-69.2 p.p.	17.4	-45.8	-63.2
Latin America	3.0%	-58.3%	-61.3 p.p.	4.2%	-62.1%	-66.3 p.p.	-0.7	-5	-4.3
Asia-Pacific	4.4%	-53.9%	-58.3 p.p.	4.7%	-61.9%	-66.6 p.p.	4.9	-31.7	-36.6
Africa	4.5%	-61.0%	-65.5 p.p.	4.7%	-68.8%	-73.5 p.p.	-0.3	-2	-1.7
Middle East	0.1%	-63.3%	-63.4 p.p.	2.3%	-72.2%	-74.5 p.p.	-1.5	-7.1	-5.6

Source: IATA - Industry Statistics (November 2020), IATA - Air Passenger Market Analysis (December 2020).

The repercussions on commercial aviation as a result of the severe global economic contraction caused by the COVID-19 pandemic are quite noticeable, with a generalised decrease in most of the sector's performance metrics. The industry's overall capacity, measured by ASKs, decreased by 56.5% in 2020, following a 3.4% increase in 2019. The capacity reduction occurred in all world regions. In turn, the RPK metric, which measures passenger demand, also underwent an unprecedented reduction (-65.9% in 2020, following a 4.2% increase in 2019). Consequently, net income in the sector declined significantly, with negative results expected across all regions totalling USD -118.5 billion, down from USD 26.4 billion in 2019.

Global Revenue USD billion	2019	2020E	2020E vs 2019
Passenger	**612.0**	**191.0**	**-68.8%**
Yield, % YoY	-3.0%	-8.0%	-5.0 p.p.
Load Factor, %	82.6%	64.8%	-17.8 p.p.
RPK, % YoY	4.2%	-65.9%	-70.1 p.p.
Cargo	**102.4**	**117.7**	**14.9%**
Yield, % YoY	-5.0%	30.0%	35.0 p.p.
Load Factor, %	46.7%	54.5%	7.8 p.p.
CTK, % YoY	-3.2%	-11.5%	-8.3 p.p.

Source: IATA - Industry Statistics (November 2020), IATA - Air Cargo Market Analysis (December 2020).

The main indicators highlight the decline in the sector, mainly in passenger transport, in which there was a -68.8% fall in revenue compared to 2019. Passenger yield underwent a reduction of -8.0% in 2020, after falling -3.0% the previous year, and the passenger load factor decreased from 82.6% to 64.8% in 2020 (-17.8 p.p.). The reduction in CTKs (cargo tonne kilometres) in the cargo segment was offset by a 7.8 p.p. increase in cargo load factor and a 35 p.p. increase in cargo yield in 2020. Overall revenue in this segment increased by 14.9% in 2020 as a result.

4.3. Operating and Financial Performance

Operating Performance

TAP, SGPS, S.A. Consolidated	2020	2019	Change	
			Abs.	%
Passenger ('000)	4,661.9	17,051.9	-12,390.0	-72.7%
RPK (million)	11,884.7	42,065.4	-30,180.7	-71.7%
ASK (million)	18,387.8	52,527.2	-34,139.4	-65.0%
Load Factor (%)	64.6	80.1	-15.4 p.p.	n.m.
Block Hours	147,436	409,522	-262,086	-64.0%
Number of Departures	47,990	136,705	-88,715	-64.9%
Average Stage Length (km)	2,043.5	1,955.9	87.6	+4.5%
Active Staff (end of period) [1]	9,711	10,952	-1,241	-11.3%
TAP SA	8,106	9,006	-900	-10.0%
TAP ME Brasil	423	559	-136	-24.3%
Other Companies	1,182	1,387	-205	-14.8%

1) Includes personnel active and in simplified *layoff*.

The main operating indicators maintained, in the first two months of 2020, the positive trend observed in the second half of 2019, registering an expressive improvement in the number of passengers carried (+13.4% YoY), with demand expressed by RPKs recording growth of 18.1% YoY. Capacity (measured in ASKs) increased 15.0% YoY. Load factor improved by 1.9 p.p. YoY.

However, the drop in operations seen from March 2020, because of the pandemic, led to huge decreases in the consolidated operating indicators of 2020. For the year as a whole, TAP registered a 72.7% fall in passengers carried and the capacity, measured in ASKs, decreased by 65.0%. It should be noted that TAP's operation was residual in the months of April to June, with a decrease of capacity in that quarter of 98%, compared with the same quarter of 2019. The year-on-year variations in terms of ASKs were smaller from that date onwards, but still down -79% and -69% in Q3 and Q4 2020, respectively. Passenger demand, expressed in RPKs, suffered a 71.7% decrease in the year, resulting in a load factor of 64.6% in 2020, which compares with 80.1% in 2019 (-15.4 p.p.).

Financial Performance

TAP, SGPS, S.A. Consolidated EUR million	2020	2019	Change	
			Abs.	%
Operating Income	**1,072.1**	**3,345.1**	**-2,273.0**	**-68.0%**
Passenger	849.3	2,913.9	-2,064.6	-70.9%
Maintenance	82.2	234.3	-152.1	-64.9%
Cargo and mail	125.8	137.4	-11.6	-8.5%
Gains/Losses in Associated Companies	-12.9	1.7	-14.6	<-200%
Other operating income	27.8	57.9	-30.1	-52.1%
Operating Costs	**2,160.2**	**3,286.5**	**-1,126.2**	**-34.3%**
Aircraft fuel	260.7	789.7	-528.9	-67.0%
Traffic operating costs	333.0	743.2	-410.2	-55.2%
Employee costs	478.2	751.9	-273.7	-36.4%
Aircraft maintenance costs	34.9	60.8	-25.9	-42.6%
Cost of materials consumed	51.2	185.2	-134.0	-72.3%
Commercial, communication and marketing costs	69.2	153.1	-83.9	-54.8%
Impair. losses in inventories, receiv. and provisions	82.9	-2.5	85.4	>+200%
Other operating expenses	144.6	179.7	-35.1	-19.5%
Restructuring	96.6	6.0	90.6	>+200%
Other non recurrent items	10.4	0.7	9.8	>+200%
Depreciation, amortisation and impairment losses	598.4	418.7	179.7	+42.9%
EBIT (Operating Result)	**-1,088.2**	**58.6**	**-1,146.8**	**<-200%**
EBIT margin	***-101.5%***	***1.8%***	**-103.3 p.p.**	**n.m.**
Recurring EBIT [1)]	**-981.1**	**65.3**	**-1,046.4**	**<-200%**
Recurring EBIT Margin	***-91.5%***	***2.0%***	**-93.5 p.p.**	**n.m.**
Interest and similar income	1.8	3.2	-1.4	-43.5%
Interests and similar expenses	-250.7	-178.3	-72.5	+40.7%
Overhedge Costs - Covid Effect	-165.3	0.0	-165.3	n.m.
Net currency exchange	155.0	-22.9	177.9	>+200%
Earnings before taxes	**-1,347.3**	**-139.3**	**-1,208.0**	**<-200%**
Income tax	-70.8	34.1	-105.0	<-200%
Net income/ (loss)	**-1,418.2**	**-105.2**	**-1,313.0**	**<-200%**
Net Income/loss - TAP, S.A.	-1,230.3	-95.6	-1,134.7	<-200%
Net Income/loss - SPdH	-26.0	5.8	-31.8	<-200%
Net Income/loss - TAPGER	-1.0	1.7	-2.7	-158.8%
Net Income/loss - Portugália	-14.0	7.1	-21.1	<-200%
Net Income/loss - Aeropar e TAP M&E Brasil	-31.3	-14.7	-16.6	-112.9%
EBITDA	**-489.7**	**477.3**	**-967.0**	**<-200%**
EBITDA Margin	***-45.7%***	***14.3%***	**-59.9 p.p.**	**n.m.**
Recurring EBITDA [2)]	**-382.7**	**484.0**	**-866.7**	**<-200%**
Recurring EBITDA Margin	***-35.7%***	***+14.5%***	**-50.2 p.p.**	**n.m.**

1) Recurring EBIT = Operating Result + Restructuring costs + Other non recurring itens.

2) Recurring EBITDA = Operating Result + Depreciation, amortisation and impairment losses + Restructuring costs + Other non recurring itens.

In the first two months of 2020, the main financial indicators showed the positive trajectory of growth and revenue increase of TAP, with total operating income increasing by 17.5% YoY and EBITDA increasing by 127% in EUR 52.4 million YoY, corresponding to an EBITDA margin of 2.4%, which represented an improvement of 12.5 p.p. on the same period of the previous year. **However, with the proliferation of the pandemic from March onwards, and despite some recovery of activity in the second half of 2020, total operating revenues of 2020**

decreased by 68.0% YoY. The decrease in ticket revenues was 70.9%. EBITDA dropped EUR 974.2 million YoY in the year to EUR -496.9 million, and the Operating Result (EBIT) fell EUR 1,146.8 million to EUR -1,088.2 million.

Operating Results

Total operating income during 2020 amounted to EUR 1,072.1 million, a decrease of EUR 2,273.0 million (-68.0%) on the operating income of 2019. This reduction was mainly due to the EUR 2,064.6 million (-70.9%) decrease in passenger revenue and the decline in the maintenance activity for third parties, which recorded a decrease of EUR 152.1 million (-64.9%) compared with the same period of the previous year.

By geographical segment, the largest declines relate to the destinations with the greatest restrictions on movement imposed over the course of the year. Ticket revenues on routes to/from Africa were those with a lower percentage reduction (-61.6% YoY), followed by mainland Portugal and the islands (-67.1% YoY), South Atlantic (-69.0% YoY), North Atlantic (-70.7% YoY), and Europe (-74.1% YoY).

Portugal's maintenance and engineering area was also strongly impacted by the pandemic falling by 64.9% to EUR 82.2 million as a result of a sharp reduction in the business for third parties. In Brazil, the impact was also strong with a fall of 54.0% in the revenues than amounted to EUR 16.1 million.

The cargo and mail segment (TAP Air Cargo, responsible for TAP's cargo business) was the best performing segment in 2020, as its revenue registered a decrease of only EUR 11.6 million YoY (-8.5%) totalling EUR 125.8 million in revenue, despite the volumes of cargo and mail having decreased by around 40%.

Total operating expenses amounted to EUR 2,160.2 million in 2020, a decrease of EUR 1,126.2 million (-34.3%) YoY, mainly explained by the significant reduction in variable costs pegged to operations, as a result of the Company's quick decision to adjust capacity and the negotiations held with suppliers and lessors, as well as the reduction in personnel costs.

The following decreases are noteworthy: aircraft fuel costs (EUR -528.9 million YoY), traffic operating costs (EUR -410.2 million YoY), as a result of the reduced activity from March 2020, and personnel costs (EUR -273.7 million YoY), also a result of the company's decreased activity and through the reduction of the workforce by the non-renewal of fixed-term contracts, the use of the simplified layoff measure and, more recently, application of the extraordinary support for the gradual resumption of activity. These measures have been applied across the board at the Company.

The other cost items also suffered significant decreases, although with lower absolute values. Aircraft maintenance expenses decreased by EUR -25.9 million YoY in 2020, as a result of the shutdown of a large part of TAP's fleet and consequent reduction of the associated maintenance costs. The decrease in the costs of materials consumed by EUR -134.0 million YoY (-72.3%) essentially results from the decrease in the maintenance activity for third parties, when compared with the previous year. The EUR -84.0 million YoY (-54.8%) decrease in commercial, marketing and communication costs mainly results from the reduction in the Company's sales, and consequent reduction in commissions and other directly associated costs. The impairments item mostly reflects impairments from ME Brazil.

As a result of the pandemic, the Company has already set up a provision amounting to almost all the restructuring costs item in the amount of EUR 96.6 million.

The increase of depreciations, amortisations and impairment losses by EUR 85.4 million YoY, is mainly due to the fleet renewal effort in recent years, notwithstanding the deferrals of aircraft deliveries agreed with Airbus and the agreements with lessors.

As a result of all these items, there was a decrease in EBITDA of EUR 967.0 million YoY to EUR -489.7 million and in the Operating Result (EBIT) of EUR 1,146.8 million YoY to EUR -1,088.2 million in 2020. When adjusted for non-recurring items and restructuring costs, these items present values of EUR -382.7 million (recurring EBITDA) and EUR -981.1 million (recurring EBIT).

Financial Income and Net Income/Loss

The increase in Interest and Similar Expenses by EUR 72.5 million YoY in the year (+40.7%) was largely due to the increase in the interest component associated with operating leasing (lease liabilities without purchase option) and financial leasing (lease liabilities with purchase option), as well as an increase in the cost of financing, due to the aforementioned heavy investment made in renewing the fleet in recent years and as a result of the sector's economic context.

The net loss for the year was EUR 1,418.2 million. It was positively impacted by the exchange rate differences item (EUR 155.0 million) related to the appreciation of the EUR against the USD (with a strong impact on future rents and largely no cash effect during the year), which more than offset the penalisation from devaluation of the BRL against the EUR. As a negative impact should be noted the recognition of the Jet Fuel overhedge, in the amount of EUR 165.3 million, as a result of the drop in activity caused by the COVID-19 pandemic.

Financial Position

TAP, SGPS, S.A. Consolidated EUR million	31-Dec-20	31-Dec-19	Variação	
			Abs.	%
Total Assets	**4 147.0**	**4 449.8**	**-302.8**	**-6.8%**
Tangible fixed assets	3 253.5	3 381.2	-127.7	-3.8%
Current Assets	893.4	1 068.5	-175.1	-16.4%
Equity	**-2 127.7**	**-580.8**	**-1 546.9**	**<-200%**
Total Liabilities	**6 274.6**	**5 030.6**	**1 244.1**	**+24.7%**
Non-current liabilities	3 207.1	3 340.5	-133.4	**-4.0%**
Current Liabilities	3 067.5	1 690.0	1 377.5	**+81.5%**

The negative change in Equity for 2020 (EUR -1,546.9 million) is mainly explained by the net loss for the period (EUR -1,418.2 million) and the change in the fair value reserve relating to Jet Fuel hedging (EUR -39.3 million).

Financing and Lease Liabilities

TAP, SGPS, S.A. Consolidated EUR million	31-Dec-20	31-Dec-19	Variação	
			Abs.	%
Financial Debt	**2 762.5**	**1 479.6**	**1 282.9**	**+86.7%**
Bank Loans & Bonds	1 112.8	1 204.3	-91.5	-7.6%
Portuguese State Loan	1 210.8	0.0	1 210.8	n.m.
Lease liabilities with purchase option	438.9	275.3	163.6	+59.4%
Cash and cash equivalents	**534.6**	**435.0**	**99.5**	**+22.9%**
Net Financial Debt	**2 227.9**	**1 044.5**	**1 183.4**	**+113.3%**
Lease liabilities without purchase option	**1 929.0**	**2 095.7**	**-166.7**	**-8.0%**

Gross financial debt (which excludes lease liabilities without purchase option) recorded an increase of EUR 1,282.9 million during 2020, which was mainly due to (i) the loan received from the Portuguese State through the State aid approved by the European Commission in the amount of EUR 1,210.8 million (considering the capitalisation of interest), and (ii) the increase in lease liabilities with purchase option in the amount of EUR 163.6 million as a result of the financing of new aircraft that joined the fleet in 2020, resorting to this source of financing. On the contrary, bank and bond loans fell by EUR 91.5 million.

The cash and cash equivalents item was EUR 534.6 million at 31 December 2020, to which the available liquidity of credit card receivables in Brazil must be added, amounting to EUR 27.2 million on this date (considering the EUR/BRL exchange rate on 31 December 2020). This cash position reflects the receipt of the last tranche of the interest-bearing loan from the Portuguese State.

Lease liabilities without purchase option decreased by EUR 166.7 million (-8.0%) during 2020 as a result of negotiations with lessors, which mainly focused on the deferral of rent payments and maintenance reserves, as well as the renegotiation of future rent amounts.

Lastly, should be referred that TAP SA, like other companies of the airline sector with a rating, also suffered a downgrade in March 2020. The long-term issuer credit rating assigned to TAP SA by S&P Global Ratings Europe Limited ("S&P") changed to B- (CreditWatch negative) and the Corporate Family Rating assigned by Moody's Investors Service ("Moody's") changed to Caa2 (Outlook negative).

4.4. Other Information

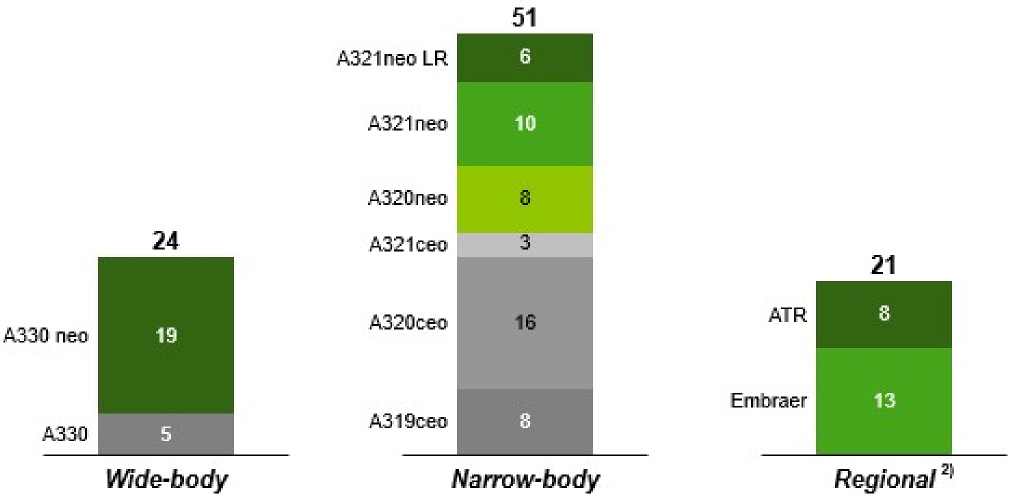
Fleet

TAP Group's fleet underwent a significant adjustment throughout 2020 as a result of the COVID-19 health crisis and taking into account the new reality of the sector. TAP ended 2020 with an operational fleet of 96 aircraft, a net decrease of 9 aircraft compared with the end of 2019, when the Company had an operational fleet of 105 aircraft.

Throughout 2020, 7 new-generation Airbus aircraft (2 A330neo, 2 A321neo LR, 2 A321neo and 1 A320neo) entered into operation and 16 aircraft (10 A319, 3 A320, 1 A321 and 2 A332) ceased to be used for operations. In the second half of the year, two A332 were converted into cargo airplanes as demand in this segment increased.

Thus, of the fleet of 96 aircraft in operation at the end of 2020, 94 aircraft were available for commercial passenger operation and 2 were allocated exclusively to cargo operations.

Composition of TAP Group operational fleet[1)] at 31 December 2020



1) The fleet in commercial operation on 31 December 2020 differs from the total fleet by 10 fewer aircraft, as it does not include aircraft in the phase-out process to be concluded in 2021 - 2 A332, 6 A319 and 2 A320

2) White fleet operated under wet-lease agreements

By the end of 2020, 57% of the mid- and long-haul operational fleet consisted of NEO-family aircraft (compared to 48% at 31 December 2019). It should also be noted that TAP has been focusing on the A321neo LR model, whose use is particularly advantageous in a low demand environment. This narrow-body aircraft has the capacity to perform long-haul flights, allowing a lower cost per flight when the passenger load factor is lower, leveraging Lisbon's unique location to perform transatlantic flights to the east coast of the US and Canada, as well as to the northeast of Brazil and to Africa.

The regional fleet has played a strategic role in the current context, and its expansion is being considered given that these are smaller aircraft and more suited to lower demand cycles.

It should be noted that, taking into consideration the effects of the pandemic, an agreement was negotiated with Airbus that amended the contracts for the purchase of aircraft of the A320neo and A330neo families. This allowed the CAPEX in the years 2020-2022 to be reduced by approximately USD 1 billion, in order to achieve better alignment with the current market climate and the prospects for recovery in the next few years. In relation to the agreement for acquisition of the A320neo family aircraft, the number of aircraft to be delivered in 2020 was reduced, postponing some deliveries to 2021. In addition, the agreement made it possible to postpone most of the deliveries originally planned for 2021 and 2022 to the period between 2025 and 2027. As regards the contract for the acquisition of A330neo aircraft, it was agreed to postpone to 2024 the two aircraft originally scheduled for delivery in 2022. This gave TAP the possibility of exchanging these aircraft by other models, which will be assessed according to the recovery in demand and the Company's future needs.

Discussions were also held with lessors to renegotiate some conditions of the aircraft lease contracts, representing almost the entire fleet, as a consequence of the slowdown in the commercial and operational activity. These negotiations in 2020 (and continuing in 2021) focused mainly on deferring payments of rent and maintenance reserves, as well as renegotiating the amounts of future rents.

Passenger Air Transport

At the beginning of 2020 TAP maintained its commitment to increase the overall profitability of its network, ensuring sustainable growth. But the impact of the pandemic forced it to totally adapt its network. Although TAP was able to increase the profitability of its routes in the first two months of 2020, by mid-March almost all operations were stopped as the pandemic struck. Nevertheless, the Company's strategy focused on the Americas and Africa, leveraged on Lisbon's geographical position that ensures greater connectivity to a wider range of destinations, permitted greater control of the losses.

In April 2020, with the lockdown, the Company was serving only 3 destinations in the Portuguese islands - namely Funchal, Ponta Delgada and Terceira. By the end of the year, the Company had restored 68 destinations (77%) in 24 countries of its 88 original destinations. In addition to ensuring territorial continuity during this lockdown period, TAP made several repatriation flights (e.g. Angola, Mozambique) in order to bring stranded Portuguese and European citizens back to their countries. TAP also conducted cargo flights to transport medical supplies to help the national health service, positioning itself as a partner in times of crisis.

TAP was able, through careful, constant analysis and modelling, to ensure its competitiveness and connectivity, even at low operating levels.

Despite the challenging environment in 2020, TAP continued to have a diversification strategy, and in July it started the route between Ponta Delgada and Boston with its narrow-body long-haul model, the A321neo LR. Montreal, in Canada, was added as a destination in August, and Maceió, in Brazil, was added in November, TAP’s 11th destination in this country.

TAP also took steps towards its first joint venture with the Brazilian airline Azul, celebrating a commercial cooperation agreement in 2020 that includes all destinations between Europe and the southern cone, namely Brazil, Argentina, Uruguay and Paraguay.

Maintenance and Engineering

In 2020, the Maintenance and Engineering Portugal area had the enormous challenge of adapting all its operational dynamics when parking of a substantial portion of the Company's fleet, and the preservation and de-preservation of aircraft, not only in Lisbon but also in other airports served by the Company, creating the conditions for the redelivery of aircraft. In addition, it modified long-haul aircraft (A330-220) so that they could carry cargo in the cabin. It also had to accompany cargo flights to destinations without maintenance assistance, in this case China, and medical cargo flights.

ME Brasil activity, exclusively concentrated in MRO business to airframe with operations only in Rio de Janeiro, was also highly impacted by airline business, in a context of uncertainty raised by acquisitions in the sector involving its clients.

Cargo

TAP not only carried cargo on regular flights in its network, but also performed more than 300 cargo-only flights to more than 30 different destinations on the 5 continents. In fact, TAP has been able to adapt to the pandemic environment by making better use of the air cargo business, moving forward with the transformation of passenger aircraft to cargo, notwithstanding maintaining cargo transportation on regular network flights (belly capacity). Cargo-only flights made a very positive contribution to the Company's fixed costs. On scheduled network flights, which continued to represent the majority of this segment's revenues, there was a progressive increase in internal belly capacity/supply throughout 2020 with the respective increase in the volume of cargo transported, registering an average load factor above the industry average.

Human Resources

The inability to predict the duration of the pandemic has been a constant factor of uncertainty, resulting in the greatest challenge in the management of human resources. The Company was forced to implement aggressive measures as a result of the effects of the pandemic, namely the dismissal of 1,042 workers (active and non-active) on expiry of the term of their fixed-term employment contracts.

TAP resorted to the simplified layoff scheme during the period from April to July 2020, as business activity was severely impacted. The Company resorted to the extraordinary support for gradual recovery from August, through a mechanism to reduce working hours by between 70% and 5% for all employees.

TAP kept employees in telework to minimise contamination by COVID-19, except in areas essential to operations. All health and safety measures were adopted in those areas essential to operations, such as the use of the PPE required and appropriate to the different activities performed, in order to protect all employees from the risk of contamination.

Thus, the TAP Group workforce at 31 December 2020 consisted of 9,711 employees active being the most relevant companies TAP SA with 8,106 employees, PGA with 586 employees, Cateringpor with 475 employees and ME Brazil with 423 employees. Considering only the Group’s active workers, there was a decrease of 11.3% in the number compared to the same period of the previous year, having all companies decreased its headcount except UCS.

5. STATE AID AND RESTRUCTURING PLAN

State Aid and Restructuring Plan

The European Commission approved a State Aid to TAP SGPS, in the form of an interest-bearing loan in the amount of EUR 1.2 billion. The objective was to provide sufficient resources for the TAP Group to meet its immediate liquidity needs, with a view to achieving a long-term viability plan. This financing had a term of 6 (six) months, unless that term is extended by agreement of the parties and with the approval of the European Commission, or if, within the referred period, a Restructuring Plan of TAP Group approved by the Board of Directors were to be finalised and submitted to the European Commission, which was in fact the case. The referred Restructuring Plan was submitted to the European Commission for approval on 10 December 2020.
In this context, TAP SA is obliged to reimburse the Loan to the Portuguese State following one of the 2 dates, whichever occurs first:

(i) in case of adoption of a decision by the European Commission on the restructuring aid conditions until 1 September 2021, on the date set for that purpose in the Restructuring Plan approved by the European Commission; or

(ii) in the event that the European Commission does not take a decision on the restructuring aid conditions by 1 September 2021.

In the Restructuring Plan approval by the European Commission, the credit used will integrate the restructuring aid established therein.

The Restructuring Plan aims to ensure the survival and sustainability of TAP Group, the preservation of jobs and of the entire ecosystem of suppliers of TAP Group, ensuring that it continues to contribute to the Portuguese economy. The plan's financial assumptions envisage obtaining a balanced operating result by 2023 and cash generation that enables the Group to meet its financial commitments on their maturities.

The Restructuring Plan was based on three axes: (i) capacity adjustment (fleet dimensioning and network optimisation); (ii) optimisation of operating costs (negotiation of leases, review of costs with third parties and adjustment of labour costs) and (iii) revenue improvement (passenger revenues and other revenues). All these initiatives aim to achieve cash flow equilibrium and, consequently, to balance the Company's capital structure.

The updated projections of reference entities of the sector were used, namely the IATA projections of 24 November 2020, considering their greater suitability to the operational reality of TAP, with a business model based on connecting flights and long-haul operations, without, however, neglecting the Eurocontrol projections (November 2020). These projections estimate that the 2019 activity figures will only again be reached in 2025, and the recovery of operations in 2021 is estimated at 50% of the 2019 operating figure.

Accordingly, and with a view to adjusting its capacity, TAP Group aims to reduce its fleet to 88 aircraft at the end of 2021, a reduction of 8% but still higher than the 75 aircraft that made up its fleet in 2015.

Savings of EUR 1.3 billion in terms of operational cost optimisation are expected by 2025, arising from fleet-related negotiations, as well as savings of EUR 200 million to EUR 225 million in 2025, when compared to 2019, in negotiations with other operational suppliers. From a labour costs perspective, there will be a reduction in headcount and personnel costs arising from the downsizing of TAP Group's operations. Voluntary measures were implemented to achieve that objective, namely voluntary redundancies, part-time work and long-term unpaid leave.

These adjustments to capacity, fleet and staff will ensure that TAP will be able to respond to the upturn as soon as it occurs, while maintaining its leadership of the Lisbon hub and its strategy of connecting Europe, the Americas and Africa.

Financing under the Restructuring Plan

The Management has been monitoring the liquidity needs supported by a short-term cash plan. That plan is regularly reviewed based on the best information available regarding the expected evolution of its activity and the estimated evolution of external drivers (constraints), i.e. fuel price, exchange rates, debt repayment agreements, limitations to the mobility of people, etc. The financing contract mentioned above has also, since July 2020, allowed TAP Group to meet its liquidity requirements.

It should be noted that the base scenario considered in the Restructuring Plan submitted to the European Commission has estimated cash requirements between 2020 and 2024 that may reach EUR 3.5 billion, of which about EUR 1 billion relate to the year 2021.

In March 2021, in the context of the negotiation of the Restructuring Plan between the Portuguese Government and the European Commission, was considered that an aid of up to EUR 463 million could be requested under the EU compensation scheme for damages suffered due to the COVID-19 pandemic in order to provide a more immediate response to TAP's current cash needs. As a consequence, the amount of the Company's cash needs included in the Restructuring Plan could be adjusted in accordance with the determined amount.

The Management believes that the preparation of the financial statements as at 31 December 2020 should be made on a going concern basis, based on (i) the approval by the European Commission, on 10 June 2020, of the State aid to TAP Group, in the form of a loan in the amount of EUR 1.2 billion, (ii) the Restructuring Plan approved by TAP Group, which presents a perspective of gradual growth of its activity, despite the relevant reduction embedded in the projections compared to its activity prior to the COVID-19 pandemic, combined with a strategy of fleet reduction, reduction of operational costs and investment, (iii) the shareholder’s financial support and/or ability to obtain external financial resources (iv) as well as the ongoing interactions with the European Commission about the adequacy of the Restructuring Plan, the fundamental purpose of which is to ensure the financial and economic sustainability, viability and continuity of the operations of TAP Group.

Taking into consideration the current situation in which TAP Group finds itself, business continuity is dependent on (i) the approval of a Restructuring Plan by the European Commission, (ii) as well as the evolution of the COVID-19 pandemic, taking into consideration the global rate of vaccination and the risk of development/appearance of strains associated with the pandemic, namely the scenario of a possible worsening of the pandemic beyond what is estimated in the Restructuring Plan that may be approved. The factors described above, considering the potential impact on the air transport sector and on the future operational activity of the Group, may lead to the need to obtain additional financial resources in relation to those estimated in the Restructuring Plan that may be approved, which represents a material uncertainty that may cast doubt on the Group's ability to maintain the continuity of its business.

Nevertheless, and taking into consideration the base scenario considered in the projections embedded in the Restructuring Plan approved by the Board of Directors in December 2020, and the expectation regarding its approval by the European Commission, the Board of Directors believes that the continuity of the business and liquidity of TAP Group is assured, based on the financing of the estimated cash requirements, on this date, for the period of twelve months.

It is the understanding of the Group's Board of Directors, without prejudice to the fact that the Restructuring Plan is, at this date, being assessed by the European Commission and subject to the ongoing talks with the Portuguese State and the Board of Directors of the Group, that the best estimate, at 31 December 2020, is reflected in the projections embedded in the Restructuring Plan approved by the Board of Directors on 2 December 2020.

It should be noted that any changes to the Restructuring Plan that may be approved by the European Commission, under the scope of the ongoing talks, could cause relevant impacts on the calculation of the recoverable value of the assets as well as on the measurement of the liabilities of the Group and, consequently, significantly affect the financial and economic position of TAP Group.

6. SUBSEQUENT EVENTS

Reduction of operations in February 2021

TAP SA informed the market and the general public on 31 January 2021 that it would suspend 93% of its operations in February 2021, compared to the same period of the previous year, due to the restrictions on flights and people's mobility imposed by the authorities of the countries where TAP operates. TAP continued to ensure national air mobility between Lisbon, Porto, Madeira and the Azores during this period, and to ensure international air connections to destinations with significant Portuguese communities - such as Newark, Boston, Toronto, Madrid, Barcelona, Malaga, Valencia, Amsterdam, Brussels, Geneva, Zurich, Luxembourg, Paris, Nice, Toulouse, Marseille, Lyon, Milan, Rome, Bissau, Conakry, Dakar, Maputo, Praia, Sao Vincente and São Tomé and Príncipe.

Entering into emergency agreements with the trade unions representing TAP workers, programme of employment measures of voluntary application and agreeing to enter into classic layoff

On 14 January 2021, Resolution 3/2021 of the Council of Ministers was published in the Official Portuguese Gazette (Diário da República), declaring that TAP SA, as well as Portugália and Cateringpor, were in a difficult economic situation. This resolution of the Council of Ministers was governed by Order 818-A/2021 of 14 January 2021 (published in the Official Portuguese Gazette on 19 January 2021), which established, *inter alia*, that TAP SA, Portugália and Cateringpor should start, in the first quarter of 2021, the negotiation process for the revision or repeal and replacement of the collective bargaining instruments to which they were party, adapting those instruments to the new competitive reality of the companies and the sector in which they operate. This negotiation process may be preceded by temporary emergency agreements to be agreed with the signatory unions, as an alternative to the substitute scheme of setting working conditions.

In accordance with this order, a joint negotiation process between trade unions, administration and the Portuguese Government has been undertaken with a view to entering into said emergency agreements, seeking to find a consensual solution for the path to make TAP's restructuring and recovery viable. On 28 February 2021, TAP SA informed the market and the general public that this process had been favourably concluded, with all unions, representing a vast majority of TAP's employees, having ratified the negotiated emergency agreements ("Emergency Agreements").

The Emergency Agreements entered into force on 1 March 2021, allowing, without prejudice to the metrics proposed under the Restructuring Plan, the protection of a greater number of jobs when compared to the substitute scheme. It has also been announced that non-union TAP SA employees benefit from a substitute scheme that is equal in all respects to the Emergency Agreements in force in the respective professional group. Thus, the wage reduction applied to ground staff and cabin crew is 25% over four years, and for flight deck crew it is 50%, decreasing steadily to 35% over four years, both reductions applicable only to wages above EUR 1,330.

Alongside with the Emergency Agreements, TAP has developed a set of labor measures based on voluntary adherence for TAP's employees, which includes mutually agreed terminations, early retirement, pre-retirement, part-time work, unpaid leaves. As of today, and although some cases are still under analysis, 791 employees adhered to the program of voluntary labor measures, which represents a resizing of about 730 jobs. Additionally, 49 employees adhered to the voluntary applications program to Portugália. The Company also has the option to adopt other types of measures to its resizing, to achieve the cost reductions forecasted in the Restructuring Plan.

TAP also announced that it would use the classic layoff, in accordance with articles 298 *et seq*. of the Labour Code. In this context, measures to reduce normal working hours or to suspend employment contracts began on 1 March 2021 and may be extended for a period of up to 12 months, under the terms and for the purposes of the provisions of article 300(3) of the Labour Code. Inclusion in this scheme will be assessed on a monthly and individual basis, with a view to identifying whether it should be maintained, altered or terminated, according to the needs of the Company.

Agreement to purchase equipment from SPDH

In a context of a cash-flow shortage at SPdH and to avoid a scenario of disruption in the continuity of the ground-handling services provided to TAP, TAP SA acquired from SPdH certain equipment, on 19 March 2021, for a total price of EUR 6.97 million. TAP SA then simultaneously leased the same equipment back to SPdH until 26 July 2022. SPdH may exercise a buyback option on that equipment until 30 May 2021, as long as certain circumstances are met.

7. OUTLOOK FOR 2021

TAP Group's business in 2021 (and the airline sector in general) will naturally depend on the evolution of the pandemic and the vaccination plan that will dictate the speed of domestic and international economic recovery, mainly in the countries that are TAP's main markets. As already mentioned, the Restructuring Plan provides for a slow recovery of the Company's activity, trying to accommodate the greater uncertainty in the sector in 2021, as projected by the sector's bodies (IATA).

Fleet

The start of operations of 4 A321neo LR and 3 A320neo is planned for 2021, implementing the strategy of focusing on smaller aircraft to reduce costs and have the operational flexibility to grow at the pace of demand, using the traditional medium-haul fleet if demand picks up more quickly, or a smaller fleet if recovery is slower.

Passenger Air Transport

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

TAP SA's capacity plans for 2021 reflect the intention to achieve a sustainable return to operations, subject to the evolution of the pandemic and subsequent lifting of mobility restrictions. It is forecast, subject to approval of the Restructuring Plan, that approximately 60-70% of the 2019 capacity may be reached by the end of the year. TAP will continue to diversify its network wherever possible, using the leverage of Lisbon's unique position, launching the first flight to Mexico, to Cancun (March), and to South Africa, Cape Town, as well as seasonal summer operations to Zagreb, Djerba, Oujda, Agadir, Monastir, Fuerteventura, Ibiza and Santiago de Compostela, optimising available capacity and maximising opportunities.

Maintenance and Engineering

The maintenance area's challenges remain in 2021, taking into account the expected slow recovery of the air transport sector. The focus will continue to be on the adequacy and organisation of the workforce, matching the services provided to market needs.

Cargo

Market prospects for the air transport of cargo in 2021 are good, and growth is expected compared with 2020 volumes. The growth of online retail and flights for transporting medicines and vaccines continue to be in heavy demand and TAP Air Cargo expects to continue to take advantage of market opportunities.

In terms of markets, the focus remains on increasing the cargo of return flights from the Americas to Europe. On the other hand, the possibility of increasing cargo capacity will certainly be a good opportunity for TAP, with the transformation of more aircraft in 2021, including narrow-body aircraft for medium-haul logistics.

TAP Group's Commitment to Portugal

During the pandemic TAP never ceased to guarantee all routes between mainland Portugal and the islands, as well as expatriate flights from various destinations of the Portuguese diaspora.

In 2021 and in the future, TAP Group intends to ensure all conditions helping tourism in Portugal to recover and develop as a result of routes and programmes that TAP is able to implement, as in the past.

Moreover, TAP Group also intends, and as soon as possible, to continue to be an active buyer from all the Portuguese companies that are its suppliers, continuing to indirectly contribute to the Portuguese economy.

TAP Group's commitment to Portugal is an assumption for its continuity.

8. RISK MANAGEMENT

Internal Control System

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

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

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

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

Main Risks

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

COVID-19 was notable in 2020 at a global level, with direct impacts on health and the national and international economic environment. Several measures were implemented to mitigate the spread of the virus, with special emphasis, given its impact on the Group's activity, to the restrictions imposed on the movement of people, which was complemented, in many countries, with mandatory confinement. In addition to the economic shock, other risks are directly or indirectly associated with the pandemic. Those risks were addressed in the World Economic Forum's 2020 Global Risks Report, which grouped the main risks into the following categories: (i) economic vulnerabilities, (ii) political tensions, (iii) social tensions, (iv) technological instability and (v) environmental.

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

Economic Vulnerabilities

TAP had forecast a growth scenario in its strategic plan for 2020. This included an increase in the number of flights and in the number of destinations (opening of new routes), namely to the American continent, in order to consolidate its position in the Brazilian market and to increase its presence in the North American market. The predicted growth was halted due to the pandemic, greatly impacted by the confinement imposed by national authorities and those of several other countries.

The consequent reduction in operations had a direct impact on the Company's liquidity, with the drop in sales and decrease in revenues, and we should also highlight the need to give refunds to passengers due to the high number of flight cancellations, as a consequence of the measures implemented at international level. A payment plan to suppliers was implemented in order to mitigate the liquidity risk. Contractual clauses were renegotiated and the management of supply chains and stocks was implemented, among other initiatives.

TAP also faces other financial risks, including those associated with the rise in the price of CO2 licences, exchange rate fluctuations, interest rate risk, credit and capital management risks.

Geopolitical Tensions

The pandemic has caused new risks to emerge. We highlight in this regard the restrictions on the movement of non-resident citizens, which has had a significant impact on the Company's main routes, generating additional challenges in terms of managing operations, supply, demand and resources.

Social Tension

The economic impact resulting from the pandemic will be a relevant factor in the increase of unemployment and in the strengthening of social inequalities. This may lead to an erosion of social cohesion, especially regarding the resizing of personnel that the company has carried out and will continue to carry out, as well as the measures which impact on employee compensation and benefits.

The TAP Group's main concern during 2020 was to implement measures to protect the health and safety of its customers and employees, with special emphasis on its crews and workers who have direct contact with passengers. Guidelines were implemented containing the main measures issued by the competent authorities, with a special focus on "TAP Clean & Safe". Emphasis was also given to training and explanatory activities, with dissemination of the rules and precautions to follow.

Technological Instability

The access to and use of digital channels for online shopping, teleworking and education became increasingly generalised, as a result of the confinement and restrictions on movement. This trend is expected to continue in the near future, although it is not without associated risks. The increased risk of fraud and digital intrusion, associated in particular to the need to adjust processes arising from the new access and communication realities, have generated new challenges for companies in the fight against cyber-attacks, with the possibility of data and information manipulation. This encompasses:

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

The new reality made it necessary and possible, from one day to the next and on a large scale, to implement teleworking in the TAP Group. Despite increasing the vulnerability to cyber-attacks, teleworking was duly followed and monitored by the area of the TAP Group responsible for IT Security. Employees had to access the infrastructures through personal devices or open channels on the internet. The IT and information security environment has changed, being necessary to ensure that all the resulting risks are mitigated.

Environmental

With the emergence of the pandemic, environmental risks, in particular climate change, have led to a growing concern for the implementation of a greener economy in which companies will have to meet environmental targets. Customers, especially the younger generations, are increasingly aware of this issue, which, combined with a power of mobilisation, may cause serious impact on organisations' reputation. In recent years, the TAP Group has significantly renewed its fleet by replacing its older aircraft with more recent and fuel-efficient models, it has implemented measures to reduce noise in airports and it is attentive to the implementation of CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation) mechanism aiming to control and reduce CO_2 emissions.

Analysis Method

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

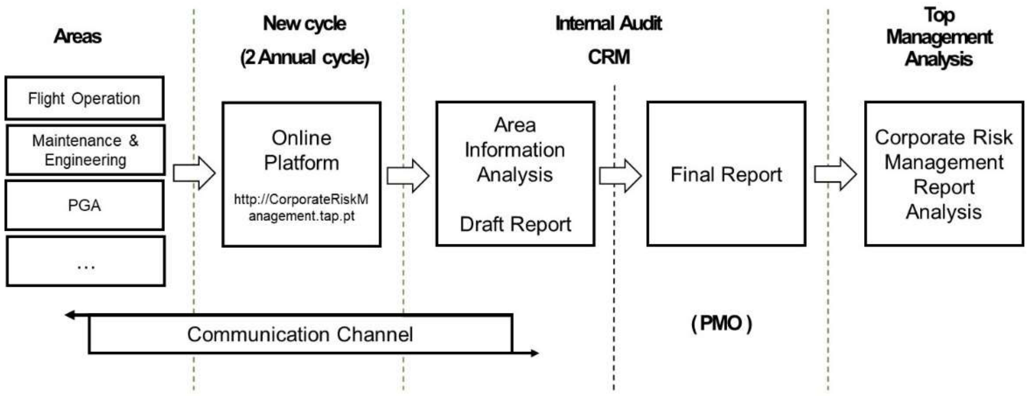
- Accept - if the level of risk monitored is within the range of variation in accordance with that established by the organisation;
- Share/Transfer - through entering into insurance contracts or outsourcing of functions;

- Mitigate - through procedures that allow the impact to be minimised, as well as controlling the process at the level of risk considered acceptable for the organisation.

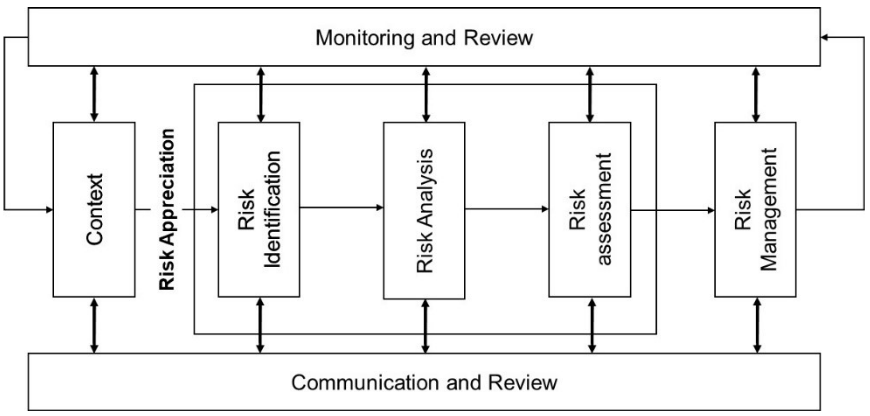
Another possible strategy is that of non-acceptance, "no go" of the process or performance, whenever the level of risk is not adequate for the intended operation and for the risk appetite profile of the organisation.

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

The CRM process entails the following phases in the flowchart:



Monitoring and review are assumptions to this described cycle, since this is the only way to guarantee the effectiveness of the cycle and the communication and consultation of all those involved, as effective prevention and mitigation is only possible in organisations where everyone feels committed to risk mitigation, reporting all situations that may lead to losses.



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

Internal							External	
Core Business Risk	**Subsidiary Processes Risk**	**Isolated Risk**	**Contractual Risks**	**Legal Risk**	**Financial Instruments Risk**	**Operacional Risks**	**External Risks**	**Market Risks**
Customers	Certifications	Isolated Risk	Contractual Changes	Litigation	Assets	Fire and Prevention	Cyber Attack	Market Attractiveness
Suppliers	Technical Factors	Conflict of Interests	Fraud and Corruption	Tax	Money Laundering	Maintenance	Natual Disasters	Competition
Real State	Mergers and Acquisitions	Internal Controls	Payment Guarantees	Legal Risk	Fuel Price	Operational [1]	Economic and Geopolitical Environment	Distribution
Commercial Organization	Indemnities	Unlawful Acts		Internal Organization	Capital	Health and Safety	Social Environment	Sector Evolution
Marketing	Informatic	Fraud			Interest Rates	IT Technologies	Epidemics	Legal Regulation
Products	Infrastructures	Information (Conf/Priv)			Treasury/Liquidity		Climatic Changes and Sustainability	New Technologies
Human Resources	Data Protection	Projects					Airport Infrastructures	New Products
Security	Public Health	Interpersonal Relationship					Taxes	Commercial Organization
		Social Responsability					Security Providers	
		Subsidiary					Partnerships	
		Instituitional Commitments					Interest Rates	

[1] Events that jeopardise the normal functioning of the Company (directly or indirectly), such as increase of the fleet and the impact on operations; increase in the number of destinations and all the preparation processes for new stopovers/circumstances; 1st customer of a new aircraft model; unavailability of IT systems critical to the activity.

Conclusions of the CRM process

The stand out areas resulting from the CRM process are the operational risk related to the pandemic and the reinforcement of the Human Resources risk and Treasury and Liquidity risk in terms of internal risks. Regarding external risks, there is the emergence of the Epidemic/Pandemic risk and the reinforcement of the Cyber-Attack, Economic and Geopolitical Environment and Airport Infrastructure risks. The following is the summary of the top six internal and external risks in 2020 and how their total weight stands compared to the previous year:

Position	Internal Risks	2020	2019
1	Operational	16%	22%
2	Human Resources	12%	10%
3	Treasury/Liquidity	7%	3%
4	Suppliers	6%	4%
5	Data Protection	6%	5%
6	Customers	5%	4%

Position	External Risks	2020	2019
1	Epidemics/Pandemics	12%	-
2	Cyber Attack	11%	10%
3	Legal Requirements	11%	12%
4	Economic and Geopolitical Environment	10%	9%
5	Airport Infrastructure	10%	7%
6	Development of the Sector	9%	8%

APPENDIX

I - MANDATORY INFORMATION

1. **Own Shares**

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

TAP did not acquire or sell any of its own shares during 2020.

TAP did not hold any of its own shares at 31 December 2020.

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

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

There were no transactions during 2020 for the purposes of Article 447 of the Portuguese Companies Code.

3. **Annual remuneration received by management and supervisory bodies of the Company in 2020**

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

Remunerations of management and supervisory bodies of the Company in 2020 amounted to EUR 2,187 thousand being EUR 2,055 thousand of the board of directors and EUR 132 thousand due to the supervisory board according to notes 27 (Personnel Costs) and 37 (Related Parties) of consolidated financial statements.

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

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

See note 37 Related Parties of the consolidated financial statements for information on credit granted to companies in which an interest is held and the respective creditor or debtor positions.

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

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

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

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

II – GLOSSARY

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

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

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

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

IATA: International Air Transport Association.

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

Punctuality: Industry standard, measured as a percentage of the number of flights departed up to 15 minutes after the time of departure published in hours.

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

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

Shop Visit: Maintenance event of an engine in workshop.

Wet lease: Contract in which an airline provides the aircraft, the complete crew, carries out maintenance and covers the aircraft insurance (ACMI-Aircraft, Crew, Maintenance and Insurance), receiving, in return, the payment for the hours operated. The company that contracts this service covers the remaining costs such as fuel, airport fees and reservations.

Yield: Passenger income divided by total number of revenue passenger kilometers (RPK), adjusted for stage length.
YoY: Year over Year.

III –CONSOLIDATED NON-FINANCIAL INFORMATION

Consolidated non financial information will be presented in a separate report at a later stage, as per article 508.º-G of Portuguese Companies Code, and will be disclosed in the internet site in the legal period.

IV – CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

2020

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

CONTENTS

CONSOLIDATED FINANCIAL POSITION STATEMENT

Amounts stated in thousand euros	Notes	2020	2019
ASSETS			
Non-current assets			
Tangible fixed assets	4	2,886,884	2,886,475
Investment properties	5	1,544	2,246
Goodwill	6	63,099	126,519
Intangible assets	7	25,199	25,537
Investments in subsidiaries and associates	8	-	1,973
Other financial assets	9	902	846
Deferred tax assets	10	130,627	132,058
Other non current assets	14	23,785	16,208
Other receivables	11	121,501	189,370
		3,253,541	**3,381,232**
Current assets			
Inventories	12	85,481	128,383
Other receivables	11	249,167	452,766
Income tax receivable	13	393	231
Other current assets	14	23,816	47,263
Other financial assets	9	-	4,880
Cash and cash equivalents	15	534,559	435,024
		893,416	**1,068,547**
Total assets		**4,146,957**	**4,449,779**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	15,000	15,000
Supplementary capital contributions	16	224,093	224,093
Other equity Instruments	16	-	36,297
Legal reserves	16	3,000	3,000
Foreign currency translation reserves	16	(106,358)	(76,359)
Hedge reserves	16	(22,921)	16,417
Equity holdings adjustment		(2,260)	(2,260)
Retained earnings	16	(819,310)	(689,323)
Group Net income/(loss) for the year	16	(1,416,744)	(105,607)
Total equity of the Group		**(2,125,500)**	**(578,742)**
Non-controlling interests	17	(2,172)	(2,053)
Total equity		**(2,127,672)**	**(580,795)**
Non-current liabilities			
Provisions	18	134,090	94,545
Restructuring provision	18	93,197	-
Borrowings	19	767,566	1,077,549
Lease liabilities with purchase option	19	397,386	239,271
Lease liabilities without purchase option	19	1,565,938	1,743,388
Post-employment benefits obligations	20	122,307	109,951
Deferred tax liabilities	10	126,615	75,125
Other payables	21	-	707
		3,207,099	**3,340,536**
Current liabilities			
Borrowings	19	1,556,077	126,735
Lease liabilities with purchase option	19	41,477	36,012
Lease liabilities without purchase option	19	363,036	352,333
Other payables	21	427,511	592,773
Income tax payable	13	17	17
Liabilities from unused flight documents	22	601,989	480,762
Other current liabilities	23	77,423	101,406
		3,067,530	**1,690,038**
Total liabilities		**6,274,629**	**5,030,574**
Total equity and liabilities		**4,146,957**	**4,449,779**

The notes are an integral part of the statement of consolidated financial position on 31 December 2020.

CONSOLIDATED INCOME STATEMENT

Amounts stated in thousand euros	Notes	2020	2019
Operating income			
Revenue			
Passenger	24	849,279	2,913,870
Maintenance	24	82,166	234,269
Cargo and mail	24	125,769	137,393
Gains and losses in associates	25	(12,868)	1,686
Other operating income	24	27,752	57,895
		1,072,098	**3,345,113**
Operating costs			
Aircraft fuel	26	(260,727)	(789,677)
Traffic operating costs	26	(333,021)	(743,221)
Employee costs	27	(478,211)	(751,927)
Aircraft maintenance costs	26	(34,883)	(60,818)
Cost of materials consumed	26	(51,202)	(185,166)
Comercial, communication and marketing costs	26	(69,204)	(153,118)
Impairment losses in inventories and receivables	28	(70,698)	(60)
Provisions	28	(12,192)	2,571
Other operating expenses	29	(144,644)	(179,704)
Restructuring	30	(96,587)	(5,979)
Other non recurrent items	31	(10,445)	(680)
Depreciation, amortisation and impairment losses	32	(598,436)	(418,694)
Operating income/(loss)		**(1,088,152)**	**58,640**
Interests and similar income	33	1,830	3,237
Interests and similar expenses	33	(250,727)	(178,258)
Overhedge costs	33	(165,281)	-
Net currency exchange	33	155,008	(22,924)
Net income/(loss) before income tax		**(1,347,322)**	**(139,305)**
Income tax for the year	34	(70,834)	34,123
Net income/(loss) for the year		**(1,418,156)**	**(105,182)**
Net income/(loss) attributable to owners of TAP SGPS		(1,416,744)	(105,607)
Net income/(loss) attributable to non-controlling interests	17	(1,412)	425
Basic results per share (euros)	16	(944.5)	(70.4)
Diluted results per share (euros)	16	(868.9)	(64.8)

The notes are an integral part of the consolidated income statement as of 31 December 2020.

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

Amounts stated in thousand euros	Notes	2020	2019
Net income/(loss) for the year		**(1,418,156)**	**(105,182)**
Items that may be reclassified to income statement:			
Gains and losses on translation of foreign operations	16	(28,514)	(1,789)
Gains and losses in derivative financial instruments - cash flow hedge	16	(52,981)	65,289
Deferred tax on derivative financial instruments - cash flow hedge	10	13,643	(19,740)
Items that will not be reclassified to income statement:			
Remeasurements of defined benefit plans	20	(30,797)	(17,431)
Deferred tax on remeasurements	10	6,225	6,458
Other comprehensive income/(loss) net of tax		**(92,424)**	**32,787**
Comprehensive income/(loss)		**(1,510,580)**	**(72,395)**
Attributable to:			
Owners of TAP SGPS		(1,510,461)	(72,888)
Non-controlling interests		(119)	493
		(1,510,580)	**(72,395)**

The notes are an integral part of the consolidated statement of comprehensive income as of 31 December 2020.

CONSOLIDATED CHANGES IN EQUITY STATEMENT

Amounts stated in thousand euros	Share Capital	Supplementary capital contributions (Note 16)	Other equity instruments	Legal reserves	Foreign currency translation reserves (Note 16)	Hedge reserves (Note 16)	Equity holdings adjustment	Retained earnings	Net income/(loss) for the year	Subtotal	Non-controlling interests (Note 17)	Total
Equity as at January 1, 2019	**15,000**	**224,093**	**36,297**	**3,000**	**(74,495)**	**(29,132)**	**(2,260)**	**(670,874)**	**(118,039)**	**(616,410)**	**(1,449)**	**(617,859)**
Transactions with owners in 2019	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(118,039)**	**118,039**	**-**	**(1,097)**	**(1,097)**
Application of net income/(loss) and distribution of profit and reserves	-	-	-	-	-	-	-	(118,039)	118,039	-	-	-
Distribution of dividends to non-controlling interests	-	-	-	-	-	-	-	-		-	(1,097)	(1,097)
Comprehensive income/(loss) in 2019	**-**	**-**	**-**	**-**	**(1,864)**	**45,549**	**-**	**99,590**	**(105,607)**	**37,668**	**493**	**38,161**
Net income/(loss) for the year	-	-	-	-	-	-	-	-	(105,607)	(105,607)	425	(105,182)
Other comprehensive income/(loss)	-	-	-	-	(1,864)	45,549	-	(10,967)	-	32,718	68	32,786
Change in accounting policy - adoption IFRS 16	-	-	-	-	-	-	-	110,557	-	110,557	-	110,557
Equity as at December 31, 2019	**15,000**	**224,093**	**36,297**	**3,000**	**(76,359)**	**16,417**	**(2,260)**	**(689,323)**	**(105,607)**	**(578,742)**	**(2,053)**	**(580,795)**
Transactions with owners in 2020	**-**	**-**	**(36,297)**	**-**	**-**	**-**	**-**	**(105,607)**	**105,607**	**(36,297)**	**-**	**(36,297)**
Application of net income/(loss) and distribution of profit and reserves	-	-	-	-	-	-	-	(105,607)	105,607	-	-	-
Prestações suplementares	-	-	(36,297)	-	-	-	-	-	-	(36,297)	-	(36,297)
Comprehensive income/(loss) in 2020	**-**	**-**	**-**	**-**	**(29,999)**	**(39,338)**	**-**	**(24,380)**	**(1,416,744)**	**(1,510,461)**	**(119)**	**(1,510,580)**
Net income/(loss) for the year	-	-	-	-	-	-	-	-	(1,416,744)	(1,416,744)	(1,412)	(1,418,156)
Other comprehensive income/(loss)	-	-	-	-	(29,999)	(39,338)	-	(24,380)	-	(93,717)	1,293	(92,424)
Equity as at December 31, 2020	**15,000**	**224,093**	**-**	**3,000**	**(106,358)**	**(22,921)**	**(2,260)**	**(819,310)**	**(1,416,744)**	**(2,125,500)**	**(2,172)**	**(2,127,672)**

The notes are an integral part of the consolidated statement of changes in equity as of 31 December 2020.

CONSOLIDATED CASH FLOW STATEMENT

Amounts stated in thousand euros	Notes	2020	2019
Operating activities:			
Receipts from customers		1,243,577	3,520,515
Payments to suppliers		(1,090,311)	(2,515,235)
Payments to employees		(494,810)	(700,059)
Short-term low-value lease payments		(6,923)	(7,408)
Income tax payment/receipt		(370)	5,104
Other receipts/payments relating to operating activities		34,628	(38,485)
Cash flow from operating activities		**(314,209)**	**264,432**
Investment activities:			
Receipts from:			
Tangible fixed assets		1,063	50,025
Financial investments	9	16,615	230,184
Investments in subsidiaries and associates		1,130	-
Interests and similar income		1,819	3,229
Dividends	8	-	2,997
Payments relating to:			
Tangible fixed assets		(54,697)	(134,627)
Intangible assets		(7,875)	(3,487)
Other financial assets	9	(113,453)	(287,094)
Cash flow from investment activities		**(155,398)**	**(138,773)**
Financing activities:			
Receipts from:			
Borrowings	19	1,226,511	702,046
Lease liabilities with purchase option	19	16,312	77,014
Payments relating to:			
Borrowings	19	(180,974)	(250,411)
Lease liabilities with purchase option	19	(35,727)	(38,919)
Lease liabilities without purchase option	19	(213,597)	(235,032)
Interests and similar costs		(62,522)	(58,739)
Dividends (non-controlling interests)		-	(967)
Overhedge fuel		(145,018)	-
Interest related to operating lease contracts		(32,390)	(103,849)
Cash flow from financing activities		**572,595**	**91,143**
Net increase (decrease) in cash and cash equivalents		102,988	216,802
Effects of exchange rate changes		(2,591)	(5,484)
Cash and cash equivalents at the beginning of the year	15	**434,162**	**222,844**
Cash and cash equivalents at the end of the year	15	**534,559**	**434,162**

The notes are an integral part of the consolidated cash flow statement as of 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS

1. TAP Group Economic Activity

The Group, consisting of TAP - Transportes Aéreos Portugueses, SGPS, SA ("TAP SGPS") and its subsidiaries. (the "TAP Group" or the "Group") has its headquarters at Lisbon Airport and is engaged in the operation of the air transport sector for passengers, freight and mail, the performance of maintenance and engineering work for its fleet and third parties, the provision of ground handling services for air transport and catering for aviation.

The main activity of the Group is the air transport of passengers, freight and mail, operating regularly in mainland Portugal and Autonomous Regions, Europe, Africa, the North Atlantic, the Mid-Atlantic and the South Atlantic. It has 20 offices in foreign countries and 4 in Portugal.

Headquarters	Lisbon Airport, Edifício 25
Share capital	EUR 15,000,000
Tax Identification No.	506 623 602

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

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

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

In compliance with the TAP Group's capitalization plan, defined in the context of the indirect reprivatisation of TAP SA's share capital conducted in 2015, on March 8, 2016, the issue, by TAP SGPS, of the issue, by TAP SGPS, of a 10-year bond loan, in the amount of EUR 120 million, convertible into up to 130,800 new special shares of equity content of TAP SGPS with a nominal unit value of EUR 10 (ten Euros). This issue consists of two series: the first (series A), in the amount of EUR 90 million, was subscribed by Azul SA on March 16, 2016, and the second (series B), in the amount of EUR 30 million, was subscribed by Parpública on June 14, 2016. The conversion of said obligations into shares representing the share capital of TAP SGPS and the constitution of guarantees under this bond issue were subject to the express authorization of the National Civil Aviation Authority (“ ANAC ”), which materialized through the resolution of the ANAC Board of Directors of December 23, 2016.

Following the aforementioned resolution by the ANAC Board of Directors of December 23, 2016, on January 12, 2017, the TAP SGPS General Meeting resolved, among others, to recognize the possibility of converting these obligations, as well as the production of the effects of the guarantee contract signed on March 14, 2016, within the scope of the same bond issue, between TAP SGPS, TAP SA, Megasis, Sociedade de Serviços e Engenharia Informática, SA (entity that was merged into TAP SA in the first half of 2019), Azul SA and Bondholders, SL. It should be noted that, (i) following the memorandum of understanding signed on July 15, 2020, between the Portuguese Republic, TAP SGPS, Parpública, Azul SA and Azul Linhas Aéreas Brasileiras, SA, Parpública and Azul SA have waived their right to convert the obligations they have subscribed to, by means of a unanimous written decision by the bondholders taken by Parpública and by Azul SA on August 26, 2020, which changed the terms and conditions applicable to the bond issue in order to eliminate said conversion right and (ii) the guarantee package originally agreed, under the terms of the bond issue documentation, was not fully constituted.

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

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

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

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

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

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

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

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

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

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

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

In order to ensure compliance with the obligations arising for the TAP Group from the loan granted by the Portuguese state, a financial pledge has been granted for all the shares representing the share capital of TAP S.A. and Portugália – Companhia Portuguesa de Transportes Aéreos, S.A. in favour of the Portuguese state, which in the event of execution will have an impact on the share structure of TAP S.A.. In addition, the Portuguese state may use any shares it holds in TAP S.A. as a result of the conversion of the credit used under the interest-bearing loan or the performance of the aforementioned pledge to carry out a capital increase in kind at TAP SGPS. To this end, in the Special General Assembly of TAP SGPS held on 3 September 2020, the decision on the increase in limited capital of the company [TAP SGPS] in kind of EUR 15,000,000 was approved up to EUR 1,200,000,000, carried out by one or more contributions in kind by the Portuguese Republic or entity indicated by it in the terms and for the purposes of Article 87 of the Companies’ Code.

Following the Ordinary General Assembly of Bond Owners, which refers to the issue of "TAP BONDS 2019-2023", with the ISIN PTTAPBOM0007, which took place on 14 September 2020, the proposal of the Board of Directors of TAP Air Portugal concerning the one-off waiver of the obligation to maintain the group relationship was approved by total domain between TAP - Transportes Aéreos Portugueses, SGPS, S.A. and Transportes Aéreos Portugueses, S.A. as a result of the potential holding, directly by the Portuguese state, of shares representing the share capital of Transportes Aéreos Portugueses, S.A.

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

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

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

In this context, TAP SGPS currently has the following share structure:

- Parpública owns 750,000 ordinary shares, representing 50% of the share capital and voting rights of TAP SGPS;
- The Portuguese state, through the Treasury and Finance Directorate-General, owns 337,500 ordinary shares, representing 22.5% of the share capital, voting rights and economic rights of TAP SGPS;
- HPGB owns 337,500 ordinary shares representing 22.5% of the share capital, voting rights and economic rights of TAP SGPS;
- A number of shareholders jointly hold a total of 75,000 ordinary shares, representing 5% of the share capital, voting rights and economic rights of TAP SGPS.

These consolidated financial statements for the period ending 31 December 2020, approved by the Board of Directors on 21 April 2021, have been prepared with the aim of being presented to the various stakeholders.

The members of the Board of Directors who sign this report state that, to the best of their knowledge, the information contained in this report has been drawn up in accordance with the applicable accounting standards, giving a true and appropriate picture of the Group's assets and liabilities, financial situation and results.

Ongoing Restructuring Plan for the TAP Group - State Aid

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

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

As part of the preparation of the Restructuring Plan that involves the key areas of the TAP Group, a steering committee was created, led by the Chairman of the Board of Directors of TAP SGPS, Dr. Miguel Frasquilho, and a strategic consultant was hired to assist TAP SGPS in the elaboration of the Plan.

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

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

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

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

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

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

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

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

The Restructuring Plan and related information contained in this document are still preliminary and pending approval by the European Commission. It should be noted that, at this date, negotiations are still ongoing with the intention of having the Restructuring Plan approved by the European Commission, which is expected to take place shortly.

1.1. COVID-19 pandemic impact

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

1.1.1 Impact on operational indicators

The evolution of the main operating indicators of the most significant subsidiary of the Group (TAP S.A.) in the year 2020 compared to 2019 are detailed as follows:

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

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

In financial year 2020, the number of passengers transported decreased by 72.7%, capacity (measured in ASKs) decreased by 65%, and demand for passenger traffic (expressed in RPKs) decreased by 71.8%, resulting in a 15.5 p.p. deterioration in load factor.

1.1.2 Impact on financial indicators

The main financial indicators for 2020 compared with 2019 are detailed as follows:

Financial indicators	2020	2019	Variation Value	Variation %
Income statement data				
Operating income	1,072,098	3,345,113	-2,273,015	-68.0%
Ticket revenue	849,279	2,913,870	-2,064,591	-70.9%
EBITDA *	-489,716	477,334	-967,050	n.a.
EBITDA Margin	*-45.7%*	*14.3%*	*-59.9p.p.*	
Operational result (EBIT)	-1,088,152	58,640	-1,146,792	n.a.
EBIT margin	*-101.5%*	*1.8%*	*-103.3p.p.*	
Cash flow statement data				
Cash flow from operating activity	-314,209	264,432	-578,641	-218.8%
Cash flow from investment activities	-155,398	-138,773	-16,625	+12.0%
Cash flow from financing activities	572,595	91,143	481,452	n.a.

	2020	2019	Variation Value	Variation %
Financial position data				
Total assets	4,146,957	4,449,779	-302,822	-6.8%
Total liabilities	6,274,629	5,030,574	1,244,055	+24.7%
Total equity	-2,127,672	-580,795	-1,546,877	n.a.

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

Financial performance in 2020 was severely impacted by the reduction in activity from March 2020 onwards as a result of the Covid-19 pandemic, with total operating income falling by 68% in the year and travel revenue falling by 70.9%. EBITDA has fallen by EUR 477 million to EUR -490 million and the Operating Profit (EBIT) from EUR 59 million to EUR -1.088 billion.

As regards the variation shown in the consolidated cash flow statement, there is a reduction of EUR 578 million in the operating cash flows, essentially resulting from the deterioration of the Group's revenue, because of the impact of the pandemic. There is a reduction in investment cash flows of EUR 17 million as a result of the reduction in investment directly associated with the reduction in activity. As regards the financing cash flows, there is an increase of EUR 481 million as a result of Portuguese state funding (see introductory Note).

1.1.3 Impact on key estimates

With regard to the impact of the Covid-19 pandemic on the Board's main estimates, the impacts are as follows:

Notwithstanding the fact that the Restructuring Plan is still being reviewed by the European Commission, and subject to any ongoing interactions by and between the State of Portugal and the Group’s board of directors, it is the understanding of the board of directors that the best estimation possible, on 31 December 2020, is the one reflected in the projections inserted to the Restructuring Plan, approved by the board of directors at the meeting held on 2 December 2020.

It should be pointed out that any contingent modifications, made to the Restructuring Plan to be approved by the European Commission, under the referred ongoing interactions, might give rise to substantial impact on the calculation of the recovery value of the assets, as well as to the measuring of the Group's debts, and therefore, create a substantial impact on Group's financial and economic status.

Restructuring provision (Note 30)

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

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

On this date, notwithstanding some cases are still under review, there have been 690 enrolments to the voluntary program of labor measures, being 70 % related with mutually agreed termination of the labor contract, 14% related with the acceptance of reduced time work regime, 8% related with workers' retirement, 6% related with anticipated retirement and 3% with leaves without compensation. These measures represent a reevaluation of 630 work posts, considering the reduced time regime workers. This program is still ongoing with the adoption of the above referred voluntary measures, as well as with the option by the Group of adopting any other type of measures for the Group's resizing, with the goal of achieving the cost reduction foreseen on the Restructuring Plan.

Therefore, on the 31st of December 2020, and having in consideration the subsequent events registered to date, the best estimate of the board of directors as to the conclusion of the ongoing negotiation processes comprises a provision related with the costs of such restructuring on the amount of EUR 93,2 million, to be implemented in 2021.

Other provisions (Note 18)

The Group maintains provisions for various contingencies (Note 2), and the Board regularly evaluates the criteria used to measure them.

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

In 2020, the Board reinforced the provision for redelivery of equipment used under non-purchase leasing contracts by approximately EUR 72 million, net of reversals, considering new information on the deadlines and costs associated with the phase-out process, as defined in the Restructuring Plan.

Impairment losses on assets of the subsidiary of TAP ME Brasil (Notes 4, 6, 11, 12 and 14)

Taking into account the difficult financial and economic situation of the TAP Group resulting from the impacts of the pandemic COVID-19, within the scope of the ongoing Restructuring Plan of the TAP Group, the abandonment of non-core activities is foreseen as a cost containment measure and reinforcement of future financial sustainability.

Given the historic economic and financial performance of the subsidiary TAP ME Brasil combined with the strong impacts of the pandemic COVID-19 on aircraft maintenance activity, as well as the operational impacts for the subsidiary resulting from the TAP Group strategy described in the Restructuring Plan, the Grupo TAP's management is analyzing put, restructuring or discontinuity options for said subsidiary.

In view of the current outlook for that subsidiary within the scope of the TAP Group's ongoing Restructuring Plan, and in view of the existing recoverable value outlook, to date, considering the operational uncertainties and associated legal contingencies, the Group proceeded to record a loss for impairment on the totality of the assets of the subsidiary TAP ME Brasil that contribute to the consolidated of the TAP Group, which amounted to a total amount of EUR 113,489 thousands broken down as follows: (i) EUR 44,934 thousands of goodwill and EUR 7,177 thousands of tangible fixed assets, which are recorded in the income item “depreciation, amortization and impairment losses” and (ii) EUR 24,868 thousands from other non-current accounts receivable, EUR 16,361 thousands from inventories and EUR 20,149 thousands from other accounts receivable and other current assets, which are recorded in the income item “impairment of accounts receivable and inventories”.

Current asset impairment losses (Notes 11, 12 and 28)

The Group maintains provisions for impairment losses on some current assets (Note 2), and the Board regularly evaluates the criteria used to measure them.

As a result of the declaration of the pandemic and the resulting effects on economic activity, in particular in the civil aviation sector, the need to increase the depreciation losses (i) of accounts receivable and other assets in the amount of EUR 53.4 million (Note 11), resulting from the increased risk of recoverability identified in some customers as well as the accounts receivable and other assets of the subsidiary TAP ME Brasil, by EUR 28,489 thousands (Note 28) and (ii) inventories at EUR 21.6 million (Note 12), arising from the reduction in rotation and the expectation of the use of some items used in the repair of own and third-party fleets, as well as the value of inventories from the subsidiary TAP ME Brasil (EUR 16.4 million).

Non-current asset impairment losses – Air fleet (Notes 4 and 6)

As of 31 December 2020, the total committed assets, non-current, related with air fleet, subject to impairment testing under IAS 36 whenever there are signs of impairment, it amounts to EUR 2,847 million, including EUR 63,099 thousands of goodwill.

The World Health Organization's declaration of a pandemic has resulted in a number of limitations on population mobility, plus the economic and social effects of the pandemic itself, resulting in a sharp decline in the Group's activities, and the Board understands that there is a need to perform the respective impairment tests of non-current assets under analysis.

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

Additionally, and considering the anticipation of the delivery to lessors of 2 aircraft on lease but without buy-out option, contracted at the end of 2020 under the scope of the Covid-19 pandemic, at the end of 31 December 2020, it has been acknowledged depreciations not previously foreseen related with the losses in its retrievability, in the amount of EUR 37,588 thousand, comprising rent depreciation, maintenance, maintenance reserves and redelivery (see Note 32).

Consequently, and taking into account the approval of the Restructuring Plan by the TAP SGPS Board of Directors on 2 December 2020, related with 2021-2025, based on its submission to the European Commission on 10 December 2020, comprising a group of assumptions related with medium and long term evolution of the air fleet, level of activity and operational performance, inserted into the present scenario due to the uncertainty factor associated with the future evolution of Covid -19 pandemic, and its impacts on the civil aviation activity, the same was the basis for the air transport tangible and intangible assets assessment made by the Board of Director on 31 December 2020.

Notwithstanding the fact that the Restructuring Plan is still being reviewed by the European Commission, and subject to any ongoing interactions by and between the State of Portugal and the Group's board of directors, it is the understanding of the board of directors that the best estimation possible, on 31 December 2020, is the one reflected in the projections inserted to the performed impairment test.

It should be noted that contingent modifications, made to the Restructuring Plan to be approved by the European Commission, under the referred ongoing interactions, might give rise to substantial impact on the calculation of the amount recoverable of the Group's air fleet, and therefore, impact on a substantial manner the Group's financial and economic status.

It should also be pointed out that current expectations regarding the recovery of air transport in the light of the expectations at the time of the approval of the restructuring plan by the Board of Directors do not alter the conclusions regarding the analysis carried out in the impairment test with reference to 31 December 2020.

Hedge accounting (Note 21)

Until the outbreak of the Covid-19 pandemic, the Group had as policy to reduce the risk of volatility in the price of fuel used in air transport by concluding jet fuel derivatives contracts, usually negotiating contracts up to 12 months and covering between 50% and 60% of the estimated monthly consumption. The Group apply hedge accounting when the requirements of IFRS 9 are met.

With the reduction of air transport activity resulting from the Covid-19 pandemic and based on the best available information, the Board has reviewed the short-term fuel consumption assumptions and identified that some existing contracts related with coverage operations that did not meet the requirements under IFRS 9, on the account of future transactions that are now very unlikely to occur. Regarding IFRS 9, in these cases the coverage accounting was disrupted.

The losses associated with such disruption were recognized in a separate line under the title over hedge costs, in accordance with the Group's accounting policy.

In the year ending 31 December 2020, the exercise registered EUR 165 million related to over hedge costs, EUR 151 million related to contracts terminated during the exercise period and EUR 14 million regarding to the fair value of the contracts that are currently in force that are still in over hedge (Note 33), which contracts might still be subject to any variations according to the jet fuel price fluctuation and the fuel consumption premises.

Deferred Taxes (Note 10)

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

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

The Group registered assets relating to deferred taxes regarding tax losses reported on 2014, 2015, 2018 and 2019 exercises, amounting to EUR 76,9 million, which amount the Group expects to recover, considering the projections of future profits to be subject to taxes, included to the 2021-2025 period, in accordance with the Restructuring Plan approved by the Board of directors on 2 December 2020.

It should be noted that contingent modifications, made to the Restructuring Plan to be approved by the European Commission, under the referred ongoing interactions, might give rise to substantial impact on the calculation of the amount recoverable of the assets under deferred taxes, and therefore, impact on a substantial manner the Group's financial and economic status.

As a result of the impacts of Covid-19 on the Group's activity, an estimated tax loss of EUR 1,212 million was assessed during the 2020 exercise, for which it was not recognized the respective assets by deferred taxes, considering its magnitude and extension in the period on which the same could be recovered, in accordance with the international accounting rules and financial report. Any registration of this nature will fall within the scope of the Restructuring Plan and the General Shareholders' Meeting, which has yet to comment on this matter.

In addition, it should be noted that, taking into account the group's perspective for the operations of the subsidiary TAP ME Brasil, deferred tax assets of this subsidiary are also not recorded.

Unused tickets (Note 22)

On 31 December 2020 and 2019, the total outstanding unused tickets amounted to approximately EUR 602 million and EUR 480.8 million respectively. The amount of unused tickets was, on 31 December 2020, significantly impacted by the effects of the Covid-19 pandemic.

As a result of the reduction in activity after April 2020 and the cancellation of flights imposed on the aviation sector and the Group, the unused tickets on 31 December 2020 include amounts relating to flights not completed by that date, while the Group remains responsible for providing the service in the future or for refunds.

Within this framework, the Board of Directors has reviewed the policy on the use of unused tickets, in particular as regards the possibility of rescheduling flights without additional cost and the reimbursement of flights with vouchers of a higher value and extended validity periods, which together with the cancellation of flights due to the COVID-19 pandemic, resulted in an increase in liabilities recorded on December 31, 2020.

The criteria used to estimate the value of unused tickets have been revised in accordance with the above policy, including, among other, differentiated estimates of future refund vouchers and future use of flights. Any changes to the policy on the use of unused tickets and relevant new information may result in the Board changing its estimates regarding the amount of this liability.

Customer loyalty programme (Note 23)

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

In 2020, in order to mitigate the impacts caused by the pandemic, TAP extended by 12 months the validity of the miles allocated to customers, to miles expiring between March and September 2020 and as a caution it did not change the “stand-alone price” calculated in 2019. This measure had an impact on the obligation registered with the loyalty program, increasing the liabilities by approximately EUR 6 million. If the redemption of miles, in the coming years, does not reach the pre-pandemic COVID-19 historical values and the commercial strategy does not involve the attribution of new validity extensions, the results of the Group may register a positive impact.

1.1.4 Covid-19 pandemic effect mitigating measures

Since the beginning of the Covid-19 pandemic, the Group has adopted liquidity protection measures, namely suspension or postponement of non-critical investments, renegotiation of contracts and payment deadlines with suppliers and lessors, cutting of ancillary expenses, suspension of hiring and promotions, non-renewal of fixed-term employment contracts, as well as adherence to the furlough scheme and extraordinary support for the progressive resumption of activity, and the implementation of temporary unpaid leave programmes.

Providers and lessors

As a consequence of the slowdown in commercial and operational activity, there were also contacts with lessors for contractual renegotiation of some conditions of aircraft lease agreements, which represented almost the entire fleet. These negotiations, which took place in 2020 (and will continue in 2021), focused mainly on the deferral of rent payments and maintenance reserves, as well as on the renegotiation of future rent amounts, keeping in mind in these negotiations the possible future need for fleet reduction resulting from the Restructuring Plan. As of December 31, 2020, the number of overdue installments unpaid to lessors was EUR 27.1 million and was classified under the caption “Liabilities with no purchase option”, and the reduction in “Liabilities with no purchase option” resulting from the referred renegotiations already concluded up to 31 December 2020 was EUR 100.6 million (Note 19).

It should be noted that, taking into account the effects of the pandemic, it was negotiated with Airbus an agreement that amended the aircraft acquisition contracts for the A320neo and A330neo families, making it possible to reduce CAPEX in the years 2020-2022 by approximately USD 1,000 million, in order to achieve a better alignment with the current market momentum and the prospects of recovery for the coming years. With regard to the A320neo aircraft acquisition contract, the number of aircraft to be delivered in 2020 decreased, postponing some deliveries to 2021. Additionally, the agreement allowed the postponement of most deliveries originally planned for 2021 and 2022 for the period between 2025 and 2027. In respect of the contract for the acquisition of A330neo aircraft, it was agreed to postpone to 2024 regarding the 2 aircraft with delivery originally scheduled for 2022, guaranteeing TAP the deferral of the commitments with the payment of Pre-Delivery Payments and the possibility of exchanging these aircraft for other models, to be assessed based on the resumption of demand and the future needs of the Company.

Lay-off

As an exceptional and temporary measure to protect jobs, within the scope of the Covid-19 pandemic, the Group joined the measure set out in Decree-Law no. 10-G/2020, of 26 March, in its current wording, consisting of the temporary reduction of the normal work period or suspension of the employment contract (simplified lay-off programme). Between 1 August 2020 and 30 November 2020, the Group joined the new mechanism that succeeds the simplified lay-off, referred to as extraordinary support to the progressive recovery, regulated under the terms of the Economic and Social Stabilisation Programme, approved by cabinet Resolution No. 41/2020 of 6 June, namely the measures to support progressive recovery set out in section 2.2.1. ("Extraordinary Support to Progressive Recovery”).

In financial year 2020, as a result of joining the support schemes identified above, estimated personnel cost savings of EUR 133 million were recorded, including the effect of non-payment of Social Security contributions, the financial support provided by Social Security and the reduction of wage costs according to the lay-off scheme adopted for each worker.

Government Support

In accordance with the European Commission's approval on 10 June of the Portuguese government granting state aid to the TAP Group for the amount of EUR 1.2 billion (Introductory Note), the Board of Directors, together with external advisers, prepared a long-term restructuring plan to demonstrate the Group’s economic viability. This plan includes a set of more long-term structural and implementation measures aimed at mitigating the effects of the Covid-19 pandemic on the Group's operating activity and financial situation, which is awaiting European Commission approval.

Meanwhile, the Company joined a set of economic supports that the Portuguese government organised in the context of the Covid-19 pandemic, namely: (i) the exceptional and temporary regime for compliance with tax obligations and social security contributions, in the context of the Covid-19 pandemic, set out in Decree-Law no. 10-F/2020 of 26 March, in its current wording; (ii) the application of the exceptional and temporary regime of suspension of judicial, administrative and tax deadlines, pursuant to Law No. 1-A/2020 of 19 March, in its current wording, and (iii) the exceptional regime for the protection of company credits, in the context of the Covid-19 pandemic, set out in Decree-Law 10-J/2020 of 26 March, in its current wording.

1.1.5. Continuity of operations

On 10 June 2020, the European Commission approved state aid from the Portuguese government to the TAP Group amounting to EUR 1.2 billion, formalised through remunerated financing of EUR 946 million to TAP SA, to which an additional EUR 254 million (Introductory Note) was added. This funding will be for 6 (six) months, unless the deadline is extended by agreement of the parties and with the approval of the European Commission or if, within that period, a restructuring plan of the TAP Group approved by the board is finalised and submitted to the European Commission. This restructuring plan was submitted to the European Commission for approval on 10 December 2020.

TAP is therefore obliged to repay the Loan to the Portuguese state on a later date, whichever of the two occurs earlier:

(i) in the event of a decision by the European Commission on the conditions for restructuring aid by 1 September 2021, at the date set out for that purpose in the restructuring plan approved by the European Commission; or

(ii) if no decision is taken by the European Commission on the conditions for restructuring aid by 1 September 2021.

As the Restructuring Plan is approved by the European Commission, the Credit Used will be part of the restructuring aid included in it.

The Board of Directors has been monitoring the liquidity needs supported by a short-term cash plan, which is regularly reviewed based on the best information available regarding the expected evolution of its activity and the estimated evolution of external *drivers* (constraints) (i.e. fuel price, exchange rates, debt repayment agreements, limitations to the mobility of people, etc.), as well as the signature of the financing contract mentioned above that has since July 2020 supplied TAP's liquidity needs.

It should be noted that the base scenario considered in the restructuring plan submitted to the European Commission shows estimated cash needs between 2020 and 2024 of up to EUR 3.5 billion, of which around EUR 1 billion relates to 2021.

As part of the negotiation of the Restructuring Plan between Portugal and the European Commission in March 2021, it was accepted that aid of up to EUR 463 million could be notified under the Community compensation scheme for damages suffered as a result of the Covid-19 pandemic in order to provide a more immediate response to TAP’s current cash-flow needs. As a result, the company's cash-flow needs in the Restructuring Plan should be adjusted to the amount determined.

The Board of Directors believes that the preparation of the financial statements as at 31 December 2020 should be carried out on a going concern basis, based on (i) the European Commission's approval of the State aid to TAP Group on 10 June 2020 in the form of a loan of EUR 1.2 billion, (ii) the Restructuring Plan approved by the TAP Group, which shows a gradual growth of its activity, despite the significant reduction embedded in the projections compared to its activity prior to the Covid-19 pandemic, combined with a fleet reduction strategy, reduction of operating and investment costs, (iii) shareholder financial support and/or ability to obtain external financial resources (iv) as well as the ongoing interactions with the European Commission regarding the adequacy of the Restructuring Plan, the fundamental purpose of which is to ensure the financial and economic sustainability, viability and continuity of the Company's operations.

In view of the Group TAP current situation, the continuity of operations is dependent on (i) the European Commission's approval of a Restructuring Plan, (ii) the evolution of the Covid-19 pandemic, taking into account the overall rate of vaccination and the risk of development / appearance of variants associated with the pandemic, in particular the scenario of a possible worsening of the pandemic beyond that which is estimated in the Restructuring Plan to be approved. In view of the potential impacts on the air transport sector and the Group's future operating activity, the above factors may lead to the need to obtain additional financial resources compared to those estimated in the Restructuring Plan to be approved, which represents material uncertainty that may pose considerable doubts about the Group's ability to maintain the continuity of its operations.

Nevertheless, and taking into account the baseline scenario considered in the projections embedded in the restructuring plan approved by the Board and the expectation that the European Commission will approve it, the Board of Directors believes that the continuity of the TAP Group's operations and liquidity is assured, based on the funding of estimated cash needs at this time for the twelve-month period.

The financial statements do not include any adjustments to the possibility that the assumption of continuity was not appropriate.

2. Accounting policies and metrics

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

2.1. Preparation bases

The financial statements relate to the year ending 31 December 2020 and have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union ("IFRS" - formerly 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 the former Standing Interpretations Committee (SIC), in force on the date of preparing the financial statements. From now on, all of those standards and interpretations will be generically called 'IFRS'.

These financial statements have been prepared as an on-going concern from the Group's books and accounting records and based on historical cost, except for financial derivatives and investment properties, which are recorded at fair value.

In preparing the financial statements in accordance with IFRS, the Board of Directors has used critical estimates, assumptions, and judgments that impact on the value of assets and liabilities and the recognition of income and expenses for each reporting period. Although these estimates are based on the best information available at the time of preparing the financial statements, current and future outcomes may differ from these estimates. Key assertions involving a higher level of judgment or complexity, or the most significant assumptions and estimates for the preparation of such financial statements, are outlined in Note 2.34.

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

2.2. New rules, changes to standards and mandatory interpretations on 31 December 2020

The application of the new standards, interpretations, and changes to existing standards identified below, which became effective on 1 January 2020, are as follows:

Description	Alteration	Effective date
1. New standards, changes to effective standards as of 1 January 2020		
• IFRS 3 - Business combinations	Alteration of business definition	1 January 2020
• IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform - phase 1	Introduction of exemptions from hedge accounting so that the reform of reference interest rates does not affect hedge accounting	1 January 2020
• IAS 1 - Presentation of financial statements; IAS 8 - Accounting policies, changes in accounting estimates and errors	Update of the definition of "material" in the application of the rules to financial statements as a whole	1 January 2020
• Conceptual structure - Changes in reference to other IFRS	Change to some IFRS on cross-references and clarification on the application of new definitions of assets / liabilities and expenses / income	1 January 2020
2. Standards (new and changed) that become effective on or after 1 January 2021, already endorsed by the EU		
• IFRS 16 - Rent subsidies related to Covid-19	Exempt from accounting for rebates allocated by lessors related to Covid-19, as modifications	1 June 2020
• IFRS 4 - Deferral of IFRS 9 application	End of deferral from the start of application of IFRS 9 for entities with insurance business, postponed until 1 January 2023	1 January 2021
3. Standards (new and changed) that become effective on or after 1 January 2021, not yet endorsed by the EU		
• IAS 1 - Presentation of financial statements - Classification of liabilities	Classification of a liability as current or non-current, according to the right that an entity must defer its payment. New definition of "settlement" of a liability	1 January 2023
• IAS 16 - Revenues obtained before entry into operation	No right to deduct income from the sale of items produced during the testing phase from the acquisition cost of tangible assets	1 January 2022
• IAS 37 - Onerous contracts - costs to comply with a contract	Clarification on the nature of the expenses to consider in determining whether a contract has become onerous	1 January 2022

Description	Alteration	Effective date
• 2018 - 2020 Improvement Cycle	Specific and one-off changes to IFRS 1, IFRS 9, IFRS 16 and IAS 41	1 January 2022
• IFRS 3 - Conceptual Structure References	Update to the references to the Conceptual Framework and clarification on the recording of provisions and contingent liabilities in a business combination	1 January 2022
• IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest rate benchmark reform - phase 2	Additional exemptions related to the impacts of the benchmark interest rate reform ("IBOR"), and especially the replacement of a reference interest rate with another alternative in negotiated financial instruments	1 January 2021
• IFRS 17 - Insurance contracts	New accounting for insurance contracts, reinsurance contracts, and investment contracts with discretionary participation characteristics	1 January 2023
• IFRS 17 - Insurance contracts (amendments)	Inclusion of changes to IFRS 17 in areas such as: i) scope; ii) aggregation level of insurance contracts; iii) recognition; iv) measurement; v) modification and derecognition; vi) presentation of the statement of financial position; vii) recognition and measurement of the Income Statement; and viii) disclosures	1 January 2023

The new and changed rules referred to above in point 1, which became effective on 1 January 2020, did not impact the financial statements of the Group for the financial year ending 31 December 2020. The new and changed rules referred in point 2 and 3, it is not estimated that they will have relevant impact in the financial statements of the Group.

2.3. Comparability of financial statements

The financial statements of 31 December 2019, presented for comparative purposes, are fully comparable.

2.4. Consolidation perimeter

Subsidiaries

Subsidiaries are the entities over which the Group has control.

The Board of Directors considers that there is control over an entity when the Group is exposed and/or entitled, as a result of its involvement, to the return of the entity's activities and is able to affect that return through existing control over that entity, in particular when it directly or indirectly owns more than half of the voting rights.

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

Third-party participation in the equity and net income of those companies is shown separately in the consolidated statement of financial position and the consolidated income statement respectively under the heading "Uncontrolled Interests" (Note 17).

Entities included in the consolidation perimeter are detailed below:

Name	Head office	Core business	Shareholders	% share capital held 2020	% share capital held 2019
TAP - Transportes Aéreos Portugueses, SGPS, S.A.	Lisbon	Management and administration of holdings	Parpública	50.00%	50.00%
			República Portuguesa	22.50%	n.a.
			HPGB	22.50%	n.a.
			Atlantic Gateway	n.a.	45.00%
			Outros acionistas	5.00%	5.00%
Transportes Aéreos Portugueses, S.A. ("TAP SA")	Lisbon	Aeronautical activities	TAP SGPS	100.00%	100.00%
TAPGER - Sociedade de Gestão e Serviços, S.A. ("TAPGER")	Lisbon	Provision of management services	TAP SGPS	100.00%	100.00%
Portugália - Companhia Portuguesa de Transportes Aéreos, S.A. ("Portugália")	Lisbon	Aeronautical activities	TAP SGPS	100.00%	100.00%
Cateringpor - Catering de Portugal, S.A. ("Cateringpor")	Lisbon	Catering	TAPGER	51.00%	51.00%
Tap Logistics Solutions, S.A	Lisbon	Provision of courier services	TAP SA	100.00%	100.00%
U.C.S. - Cuidados Integrados de Saúde, S.A. ("UCS")	Lisbon	Provision of health care services	TAPGER	100.00%	100.00%
Aeropar, Participações, S.A. ("Aeropar")	Brazil	Management and administration of holdings	TAP SGPS	99.83%	99.83%
			Portugália	0.17%	0.17%
TAP – Manutenção e Engenharia Brasil, S.A. (ex-VEM) ("TAP M&E Brasil")	Brazil	Maintenance and aeronautical engineering	TAP SGPS	78.72%	78.72%
			Aeropar	20.69%	20.69%

On 20 March 2019, TAPGER and TAP S.A. entered into a contract to purchase and sell Megasis' entire share capital for EUR 1,791 thousands. On 2 May 2019, Megasis' merger by incorporation into TAP S.A. was recorded, with its accounting and tax effects backdated to 1 January 2019.

TAP S.A. set up TAP Logistics Solutions, S.A. ("TAP Logistics"), which operates in the freight and mail activity on 30 December 2019.

The purchase method is used to register the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets transferred, the equity instruments issued, and the liabilities incurred or assumed at the date of acquisition.

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

Identifiable assets acquired, liabilities, and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date, regardless of uncontrolled interests. The excess of acquisition cost over the fair value of the Group's share, the identifiable assets and liabilities acquired, is recorded as goodwill (Note 6).

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

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

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

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

When there is less than 100% control acquisition, in the application of the purchase method, uncontrolled interests can be measured at fair value or in proportion to the fair value of the acquired assets and liabilities, and that option is defined in each transaction.

Subsequent transactions for the disposal or acquisition of shares in uncontrolled interests, which do not imply change of control, do not result in the recognition of gains, losses, or goodwill, and any difference between the transaction value and the book value of the transacted holding is recognised in equity.

Equity and net profit, corresponding to the participation of third parties in subsidiary undertakings, are shown separately in the consolidated statement of financial position and in the consolidated income statement respectively under the heading of uncontrolled interests. Losses and gains applicable to uncontrolled interests are attributable to them.

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

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

Associate companies

Associate companies are all entities over which the Group has significant influence by participating in decisions relating to its financial and operational policies, but does not have control or joint control, generally representing between 20% and 50% of the voting rights. Investments in associate companies are accounted for using the equity method.

In accordance with the equity method, financial holdings are recorded at cost, adjusted by the Group's share in changes in equity (including net income) of associate companies and the dividends received.

Differences between cost and the fair value of the associate companies' identifiable assets, liabilities and contingent liabilities at the acquisition date, if positive, are recognized as goodwill and maintained in the respective item. If these differences are negative they are recorded as earned for the year under the heading "Gains and losses in associates".

An evaluation of investments in associates is performed when there are indications that the asset may be impaired. Any impairment losses are recorded as a cost, also under that item. When impairment losses, recognised in previous years, cease to exist, they are reverted.

Unrealized gains in transactions between the Group and its associate companies are eliminated up to the degree of the Group's share in those companies. Unrealized losses are also eliminated, unless the transaction provides evidence of an impairment of the transferred asset.

When deemed necessary, the accounting policies of the associate companies are changed to ensure consistency with the practices adopted by the Group.

An entity that qualifies as an associate is the following:

Name	Head office	Core business	Shareholders	% share capital held	
				2020	2019
SPdH – Serviços Portugueses de Handling, S.A. ("SPdH")	Lisbon	Handling	TAP SGPS	43.90%	43.90%
			Portugália	6.00%	6.00%

Investments in associate companies are detailed in Note 8.

2.5. Segment reporting

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

Three operational segments were identified: air transport, maintenance and engineering and catering. Activities aggregated in "Others" do not qualify to be reported separately.

Segment reporting accounting policies are used consistently in the Group. All inter-segment revenues are priced at market prices and eliminated in consolidation. Information regarding identified segments is provided in Note 35.

2.6. Currency conversion

Functional and presentation currency

The details included in the financial statements of each of the entities in the Group are measured using the currency of the economic environment in which the entity operates (functional currency). Consolidated financial statements are presented in thousands of Euros, the Euro being the functional and presentation currency of the Group.

Balances and transactions in foreign currency

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

Group Companies

The results and financial position of all entities in the Group, which have a different functional currency than their reporting currency, are converted to the reporting currency as follows:

(i) The assets and liabilities of each financial position are converted at the exchange rate in force on the date of the consolidated financial statements. Exchange-rate differences resulting from this conversion are recognised as a separate component in equity under the heading "Exchange-rate reserves".

(ii) Income and expenses are translated by the average exchange rate of the reporting exercise, unless the average rate is not a reasonable approximation of the cumulative effect of rates in effect on transaction dates. In this case, income and expense are translated by the exchange rates in effect on the dates of transactions.

Adjustments to goodwill and the fair value of a foreign entity acquisition are treated as the assets and liabilities of a foreign entity, and are translated at the close exchange rate at the reporting date.

Exchange-rate differences arising from a monetary item that is part of the net investment in a foreign operation are recognised in a separate component of equity and, on the disposal of the net investment or settlement of those amounts, are recognised in profit or loss, as part of the gain or loss on disposal.

The foreign currency quotations, used for the translation of the financial statements, expressed in a currency other than the Euro or for the updating of balances expressed in foreign currency, on 31 December 2020 and 2019 were as follows:

			Average Rate	
Currency	**2020**	**2019**	**2020**	**2019**
USD	1.2271	1.1234	1.1470	1.1210
CHF	1.0802	1.0854	1.0709	1.1160
GBP	0.8990	0.8508	0.8893	0.8798
BRL	6.3735	4.5157	5.9988	4.4172
AOA	797.13	536.26	663.60	406.77

The monthly results for subsidiaries in Brazil were converted at the rate of the last day of each month as follows:

Month	2020	2019
January	4.7157	4.2041
February	4.9232	4.2688
March	5.7001	4.3865
April	5.8565	4.4050
May	5.9654	4.4462
June	6.1118	4.3511
July	6.1219	4.2180
August	6.4739	4.5879
September	6.6308	4.5288
October	6.7607	4.4514
November	6.3519	4.6459
December	6.3735	4.5157

2.7. Tangible fixed assets

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

Additionally, at the time of transition, the subsidiary TAP S.A. applied the exception in IFRS 1 - First Application of International Financial Reporting Standards, whereby deemed cost may be considered to be the fair value of some categories of goods, reported at the time of transition (1 January 2004).

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

Tangible fixed assets, acquired after the transition date, are presented at cost minus depreciation and impairment losses. Acquisition cost includes all expenditure directly attributable to the acquisition of the assets.

Subsequent costs, including fleet renewals and structural maintenance, are included in the cost of acquiring the asset whenever it is likely that future economic benefits will flow to the Group. Other current maintenance charges are recognised as an expense for the period in which they are incurred.

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

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

Residual asset values and their useful lives are reviewed and adjusted prospectively, if necessary, on the reporting date (Note 4). If the carrying amount is greater than the recoverable value of the asset, it is readjusted to the estimated recoverable value by recording impairment losses (Note 2.11).

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

For right of use see note 2.26.

2.8. Properties and investment

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

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

2.9. Intangible assets

Intangible assets primarily refer to activity-supporting software and are recorded as acquisition cost minus depreciation and impairment losses, according to the constant quotas method, for a period ranging from 3 to 10 years.

2.10. Goodwill

Goodwill represents the excess of acquisition cost versus the fair value of the identifiable assets, liabilities and contingent liabilities in subsidiaries on the acquisition date.

Goodwill is subject to impairment tests on at least an annual basis. Impairment losses on goodwill cannot be reversed. Gains or losses arising from the sale of control of an entity include the value of the corresponding goodwill.

For the purpose of performing impairment tests, goodwill is associated with the lowest cash-generating units to which they belong. Cash-generating units represent the Group's investment in each of the business areas.

2.11. Non-financial asset impairment

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

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

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

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

The reversal of impairment losses, recognised in previous years, is posted when it is concluded that the recognised impairment losses no longer exist or have decreased (except for goodwill impairment losses - see Note 2.10.).

The reversal of impairment losses is recognised in the consolidated income statement under the headings "Impaired non-depreciable/amortisable assets" and "Depreciation, amortisation and impairment losses", unless the asset has been revalued, in which case the reversal will correspond to an increase in the revaluation. However, the impairment loss is reversed up to the limit of the amount that would have been recognised (net of amortisation or depreciation) had the impairment loss not been recorded in previous years.

2.12. Financial assets

Classification

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

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

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

IFRS 9 introduced a financial asset classification model based on the business model used in its business model test and the characteristics of contractual cash flows ("SPPI test"). The Group classifies its financial assets at the time of their acquisition in accordance with the requirements introduced by IFRS 9 as below.

✈ **Debt instruments**

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

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

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

✈ **Equity instruments**

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

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

Impairment of financial assets

IFRS 9 establishes a new model according to which the estimate of impairment is assessed from initial recognition, taking into account the credit risk assessment.

✈ **Other accounts receivable**

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

The adjustment for impairment losses is posted against income for the period under "Impaired accounts receivable and inventories".

✈ **Other financial assets**

The Group considers that all debt instruments measured at amortised cost or fair value for other comprehensive income have zero credit risk.

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

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

Any loss for impairment on these financial assets is recognised as a result of the period under "Impaired accounts receivable and inventories".

Derecognition of financial assets

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

2.13. Derivatives

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

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

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

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

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

✈ **Hedge accounting**

The possibility of designating a derivative as a hedging instrument complies with the provisions of IFRS 9 - Financial instruments.

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

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

2.14. Assets and liabilities at fair value

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

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

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

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

2.15. Income tax

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

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

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

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

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

2.16. Inventories

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

The inventories held relate essentially to parts for maintaining engines and aircraft components. Internally recovered materials are valued at cost.

The net realisable value is the estimated sales price minus the estimated finishing and marketing costs. Differences between cost and net realisable value, if any, are recorded under "Impairment in accounts receivable and inventories”.

2.17. Customers and other accounts receivable

Customer balances and other current accounts receivable are initially accounted for at the agreed consideration value unless they have a significant financing component, in which case they are accounted for at fair value. The Group holds current customer and other receivable balances for the purpose of recovering them, so that they are subsequently measured at amortised cost minus impairment losses (Note 28).

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

2.18. Cash and cash equivalents

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

2.19. Share capital

Ordinary shares are classified in shareholder equity (Note 16).

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

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

2.20. Interest-bearing liabilities

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

Interest-bearing debt is classified under current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months from the date of the financial position (Note 19).

2.21. Borrowing costs on loans

Borrowing costs for generic and specific loans, directly related to the acquisition, construction (if the construction or development period exceeds one year) or production of fixed assets, are capitalised, forming part of the cost of the asset.

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

The remaining borrowing costs are recognised as expenses when incurred.

2.22. Provisions

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

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

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

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

The costs of aircraft restorations performed immediately prior to return to the *lessor* at the end of the lease (defined as *redelivery* for the purposes of IFRS 16) are recognised as a provision at the start date, as long as they can be safely estimated. and an additional asset component is recognised in the right-to-use asset, which is depreciated by the linear method over the term of the lease.

2.23. Post-employment employee benefits

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

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

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

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

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

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

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

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

2.24. Other accounts payable

Supplier balances and other current amounts payable are initially recorded at fair value and subsequently measured at amortised cost (Note 21).

2.25. Grants

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

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

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

2.26. Leases

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

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

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

Lease payments included in the measurement of lease liabilities include:

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

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

Lease liabilities are measured subsequently with increases that reflect past interest on the liability (via the effective interest method) and with reductions that reflect payments made.

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

a) the lease term changes or a significant event or a change in circumstances occurs, resulting in a change in the assessment of the exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments, using a revised discount rate;

b) lease payments are changed due to changes in an index or rate or a change in the expectation of payment of a guaranteed residual value; in such cases, the lease liability is remeasured, discounting the revised lease payments using an unchanged discount rate (unless the change in payments results from a change in the floating interest rate, in which case a revised discount rate is used).

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

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

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

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

The Group applies IAS 36 to determine whether a right-to-use asset is impaired and accounts for any identified impairment loss as described in the "Tangible fixed assets" policy.

Variable-value leases that do not depend on an index or rate are not included in the measurement of the lease liability and the right-to-use asset. Their payments are recognised as costs in the period in which the event or condition that determines the occurrence of such payments occurs, and are included under "Other operating expenses" in the income statement.
IFRS 16 allows the lessee to not separate non-lease components and to account for any associated lease and non-lease components as a single contract. The Group did not use this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the contractual consideration for each lease component based on the price, independent of the lease component, and on the price independent of the non-lease components. IFRS 16 allows the lessee to not separate non-lease components and to account for any associated lease and non-lease components as a single contract. The Group did not use this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the contractual consideration for each lease component based on the price, independent of the lease component, and on the price independent of the non-lease components.

2.27. Dividend distribution

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

2.28. Revenue

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

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

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

The Group recognises revenue from maintenance contracts according to the percentage of completion method, which is defined as the ratio of spending on each contract to a given date to the estimated spending to complete it. Differences obtained between the amounts resulting from applying the percentage of completion method to the total estimated revenue and the amounts already invoiced are recorded in the accounts receivable as creditor accruals (Note 11). In addition, the Group's Board of Directors considers this to be the most appropriate method for measuring the degree of performance for obligations in maintenance contracts.

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

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

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

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

2.29. Accruals and deferrals

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

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

2.30. Contingent assets and liabilities

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

Provisions are recognised for liabilities that meet the conditions in Note 2.22.

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

2.31. Non-recurring items

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

2.32. Consolidated cash flows

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

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

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

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

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

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

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

2.33. Subsequent events

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

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

2.34. Estimates and judgements

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

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

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

✈ **Deferred taxes (Notes 1.1.3 and 10)**

The Group recognises and settles income tax on the basis of the results of transactions determined in accordance with local corporate law, taking into account the provisions of tax law, which are different from the amounts calculated in accordance with the IFRS. In accordance with IAS 12, the Group recognises deferred tax assets and liabilities based on the difference between the book value and the tax bases of the assets and liabilities. The Group periodically analyses the recoverability of deferred tax assets on the basis of historical information about the tax profit, the projection of the future taxable profit and the estimated time to roll back the time differences.

- **Post-employment benefits (Note 20)**

The present value of liabilities on retirement benefits is calculated on the basis of actuarial methodologies, which use certain assumptions. Any changes to those assumptions will have an impact on the book value of these liabilities. The main demographic and financial assumptions used in calculating retirement benefit liabilities are described in Note 20. The Group's policy is to periodically review the main demographic and financial assumptions if their impact is material on the consolidated financial statements.

- **Recognition of provisions and impairments (Notes 1.1.3, 11, 12, and 18)**

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

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

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

- **Customer loyalty programme (Notes 1.1.3 and 23)**

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

Changing the percentage of miles to expire by 10% would result in an impact on results of EUR 3,021 thousands and changing the stand-alone price by 10% would result in an impact on results of EUR 5,092 thousands.

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

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

In view of the impact of the COVID-19 pandemic, the Administration has reviewed the policy on the use of unused flight documents, in particular as regards the possibility of rebooking tickets at no additional cost and reimbursing passengers with *vouchers* with mark-up and extended validity periods. As such, as a precaution, no percentage of revenue associated with history of issued and unused tickets was recognised (Note 1.1.3).

Had that percentage been recognised in the 2020 financial year, the TAP Group's results would have a positive impact of around EUR 9 million.

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

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

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

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

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

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

- ***Redelivery* provision *(*Notes 1.1.3 and 18)**

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

The key assumptions are reviewed periodically, taking into account available information, and there may be circumstances that significantly change this estimate, such as renegotiating aircraft redelivery conditions, significantly changing the use of the aircraft and their navigability conditions, renegotiating leasing contracts, and changes in the cost of such structural maintenance. The estimated future cost of the structural maintenance of aircraft requires judgement by the Board of

Directors, so changes in the assumptions used by the Group in the calculation of this estimate may have a significant impact on the consolidated financial statements.

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

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

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

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

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

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

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

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

3. Financial risk management policies

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

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

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

During the 2020 financial year, the effects of the COVID-19 pandemic on the Company's economic and financial position were significant, and the financial risks to which the Group is subject in the development of its business and the management of its activities were significantly affected.

✈ **Market risk**

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

The civil aviation market has been widely impacted by the COVID-19 pandemic, mainly as a result of abrupt reduction in demand, both for economic and public-health reasons, and the reduction in the number of flights resulting from the constraints imposed by the various countries. According to IATA's latest forecasts, the volume of the civil aviation market is expected to recover only in 2024 to the levels observed in 2019.

TAP S.A. had been implementing a Lisbon hub-based destination diversification strategy, with more than 75% of its revenue coming from the following international markets: Brazil, the USA and countries of the European Union. These markets have imposed a number of limitations on flight operations, they are facing a severe economic crisis, which together with the expected reduction in the prices of service provision may significantly affect the Group's future results.

Considering the significant drop in the Group's income from tickets in 2020, the largest declines relate to the geographical segments with the highest restrictions imposed throughout the year. Ticket income on routes to/from Africa were those with a lower percentage reduction (-61.6% YoY), followed by mainland Portugal and the islands (-67.5% YoY), South Atlantic (-69.0% YoY), North Atlantic (-70.7% YoY), and Europe (-74.1% YoY).

As regards the Lisbon hub, the Group saw a decrease in its market share by capacity (measured by ASK and according to SRS Analyser data) from 56% in 2019 to 50% in 2020.

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

With regard to aircraft features such as comfort level, modernity, technological advances, economy of use, low consumption, low noise, low emissions and flexibility in flying range, the renewal of the Group's fleet as one of the newest fleets in Europe is a fundamental competitive advantage. Despite the huge drop in activity, in the course of 2020, 7 new-generation Airbus aircraft (2 A330neo, 2 A321neo LR, 2 A321neo and 1 A320neo) came into operation and 16 aircraft (10 A319, 3 A320, 1 A321 and 2 A332) ceased operation.

If the initiatives implemented by the Group do not have the desired effect on fleet improvement, service improvement or price attractiveness, or if the Group does not successfully complete its fleet renewal plan, the Group's revenue and results may be adversely impacted in the future.

- **Fuel price risk**

Fuel is one of the main costs incurred by the Group, and there is an exposure to price fluctuations, which is usually reduced by using hedge derivatives.

In commercial aviation markets, airlines are particularly subject to the impact of changes in the international energy markets that determine their fuel costs. This is an extremely volatile cost component which is not only the determining factor for the operating result, but also for the definition of tariff and market conditions every year.

As a result of the COVID-19 pandemic, the *spot* price of *jet fuel* has been highly volatile since March 2020, reaching a minimum of USD 19.33 per Brent barrel and a maximum of USD 68.91 per Brent barrel during the 2020 financial year. As a result of this 48.6% fluctuation and fall compared to the closing price on 31 December 2019, *jet fuel* derivatives have become unfavourable, reaching a negative fair value of EUR 277 million by 31 March 2020.

2020 saw a fall in fuel prices: the average daily price of the Brent barrel fell from USD 64.0 in 2019 to USD 42.3 in 2020, a reduction of about -33.9%. This period was marked by a high level of volatility in the energy market, with the Brent barrel price ranging from a maximum of USD 68.91 to a minimum of USD 19.33. Additionally, the average daily price of *jet fuel* was USD 360.3 in 2020, compared to USD 631.7 in 2019, with a reduction of -43.0%.

Before the COVID-19 pandemic outbreak in Europe, the Group carried out fuel pricing operations (Note 21).

On 31 December 2020, the fair value of contract derivatives is unfavourable to the Group by EUR 42.9 million, with total losses of EUR 165 million in the 2020 financial year, of which EUR 145 million have already been settled.

By 31 December 2020, a 10% (positive or negative) variation in the *jet fuel* price would result in an impact on the annual results of approximately EUR 26 million.

The Group is also subject to changes in the prices of CO_2 emission allowances, which are acquired each year to comply with European Union standards. During 2020, the prices of these allowances ranged from EUR 15.3 to EUR 33.4 per tonne.

- **Exchange rate risk**

The Group's exposure to exchange rate variations results from the presence in various geographic markets which affect various relevant cost items and various assets and liabilities. In all the markets in which the Group is present, exchange rate exposure is significant according to operation on more than 100 routes, and also given the high profile on routes between Europe and the American continent in terms of air transport activity.

The Group purchases a significant share of third-party goods and services in USD, took over a set of liabilities in USD (Note 19) with lease contracts, has some assets in BRL (accounts receivable), and 53% of its revenues were generated in currencies other than the Euro in 2019 (mainly USD and BRL).

The current economic instability as a result of the COVID-19 pandemic resulted in increased currency-market volatility, with the US dollar and BRL depreciating against the euro by 9.23% and 41.14% respectively in 2020.

The risks associated with currency market fluctuations and currency policy decisions by monetary authorities in the case of countries with controlled exchange rates add to the sovereign risks. In this context, despite the strong geographical diversification of the Group's trading and operating activity, significant sales are made in markets whose official currency is the euro, or whose currency is in a fixed exchange rate with the eurozone. Thus, the Group's concern focuses on the possibility of fluctuations in the income earned in the other markets, of which the Brazilian, the American and the Angolan markets stand out.

In terms of ticket income, in 2020 Brazil's revenue share remained at a similar level to the previous year. With regard to the Brazilian market, the following situations should also be highlighted, with potential cash flow effects by means of a favourable or unfavourable exchange rate: the practice of piecemeal sales and agreements with *acquirers* or banks for early receipt of revenue raised. The volatility that characterises the Brazilian currency has consequences for the pricing policy, requiring great flexibility in capacity management and rapid reaction to network and *pricing* management in order to mitigate the effects of competition and maintain satisfactory occupancy rates. In order to reduce the impact of exchange rate volatility, a BRL/EUR exchange rate protection operation was carried out during the period.

At the end of 2020, the US market accounted for around 14% of the total ticket sales. The resulting dollar exposure is important to counterbalance the adverse net exposure to this currency in substantial part due to Group’s expenses. Prospects remain on the US market, as expansion in the North Atlantic remains an element of the trading strategy and a relevant source of diversification not only in economic terms but also in exchange rate terms.

Another market with a relevant currency in the Group's revenue is the Angolan market, although only a portion of the revenues from this market is denominated in Kwanzas. At the end of 2020, assets in Kwanzas accounted for roughly 3% of the total foreign-currency-denominated assets.

The Group’s various foreign exchange costs are responsible for the significant imbalance in their exchange rate balance, which is in deficit with the dollar. Generally speaking, the Group's expense items are largely dependent on the euro and the dollar, with the remaining currencies, except the Brazilian real currency, being small. However, the dollar is the reference currency in the aviation sector and covers such important and diverse inputs as fuel, aircraft leasing, maintenance materials and services, aviation insurance, navigation and airport charges in many of the geographic areas in which the Group operates. In the specific case of fuel, even in contracts billed and settled in euros, particularly on the Portuguese market, the calculation of the amounts to be charged is indexed and established by reference to the dollar's price against the euro, with fuel spending being almost entirely exposed to the dollar, in which only certain rates and commercial fees are excluded.

In the case of leases and *wet leases* the market is denominated in dollars, from monthly rents, to maintenance reserves and guarantee deposits. Aircraft maintenance is another source of dollar exposure that is not always passed on to the end customer in terms of billing in that currency. The various materials used in the Group fleet are also usually bought in dollars. On a strictly financial level, as some Group loans are denominated in dollars, their interest and principal repayments also represent liabilities and additional exposure to the US currency. By the end of 2020, around 13% of the Group's interest-bearing financial debt was denominated in dollars, compared with 12% at the end of 2019.

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

The Group's exposure to exchange rate risk, as of 31 December 2020 and 2019, based on the Group's financial position, financial assets and liabilities in currencies converted to Euros at the reporting date, is as follows:

	2020				
	USD	**BRL**	**AOA**	**OTHER**	**TOTAL**
ASSETS					
Cash and cash equivalents (Note 15)	15,165	36,695	9,516	13,474	74,850
Other financial assets (Note 9)	648	-	-	-	648
Receivables - customers	52,023	28,625	511	14,467	95,626
Receivables - other	176,729	1,461	32	7,000	185,222
	244,565	**66,781**	**10,059**	**34,941**	**356,346**
LIABILITIES					
Borrowing and lease liabilities with purchase option (Note 19)	336,389	-	-	(664)	335,725
Lease liabilities without purchase option (Note 19)	1,894,536	-	-	-	1,894,536
Payables - suppliers	13,963	11,047	11	4,150	29,171
Payables - other	26,475	7,037	1,547	2,929	37,988
	2,271,363	**18,084**	**1,558**	**6,415**	**2,297,420**

	2019				
	USD	**BRL**	**AOA**	**OTHER**	**TOTAL**
ASSETS					
Cash and cash equivalents (Note 15)	225,287	11,664	12,386	13,812	263,149
Other financial assets (Note 9)	5,528	-	-	-	5,528
Receivables - customers	26,333	132,038	942	15,344	174,657
Receivables - other	241,831	44,180	37	7,615	293,663
	498,979	**187,882**	**13,365**	**36,771**	**736,997**
LIABILITIES					
Borrowing and lease liabilities with purchase option (Note 19)	164,032	862	-	-	164,894
Leasing without purchase option (Note 19)	2,084,699	-	-	-	2,084,699
Payables - suppliers	47,303	7,062	409	7,152	61,926
Payables - other	51,534	14,779	1,548	5,788	73,649
	2,347,568	**22,703**	**1,957**	**12,940**	**2,385,168**

Net foreign exchange gains of EUR 155 million were recorded in the 2020 financial year (Note 33), including positive effects on the impact of the USD’s devaluation on recorded liabilities and negative effects on the impact of the BRL's devaluation on recorded assets.

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

As of 31 December 2020, a (positive or negative) variation of 10% of all exchange rates referring to the euro would result in an impact on the financial year's results of approximately EUR 194 million (2019: EUR 165 million).

✈ Interest rate risk

2020 saw the largest borrowing increase in the Group's history by means of the Portuguese State loan of EUR 1.2 billion, the first instalment of which was received on 17 July 2020, and subsequent instalments were received by 31 December 2020.

Due to the weight of this financing bearing interest at a variable rate, the fixed-rate financing amount for the Group's entire debt fell from about 66% at the end of 2019 to 41% at the end of 2020. The bulk of the funding, the variable rate, bears interest at the Euribor rate, plus the contractual margin, and, since the indexer has recorded negative amounts for all periods over the course of 2020, the value applied to their operations has been zero, according to the *floor* imposed by the funding bodies. In practice, all credits in Euros at the variable rate were costed only at the contractual margin.

In the previous year, the Group issued a private bond loan issue, fully subscribed on 17 January 2019, amounting to EUR 137 million, maturing in 2034 at a fixed annual interest rate of 3.873%. Ensuring repayment of the capital and interest obligations in this bond loan benefits from a pledge on a bank deposit constituted by the issuer for this particular purpose (presented in the statement of financial position as a deduction from net financial debt) and additional guarantees on contractual rights that do not affect any assets recognised in the Group's Statement of Financial Position.

As recently as 2019, TAP S.A. made a public offering of 200 million 4-year bonds, with a fixed annual interest rate of 4.375%, called "TAP 2019-2023 Bonds". The issue and physical and financial completion of the transaction and the admission to trading at Euronext Lisbon took place on 24 June 2019.

In December 2019, the Group also made a public offer of 5-year bonds of EUR 375 million, at a fixed annual interest rate of 5.625%, called “TAP 2019-2024 Bonds”. The issue and financial and physical settlement of the transaction, as well as the bonds’ admission to trading, took place on 2 December 2019.

As for interest rate risk, this has not materialised significantly in recent years given the long period of near-zero interest rates in the eurozone. The future impacts of a rise in the general level of interest rates, both in the dollar and in the euro, will be relevant to the Group, not only with regard to existing debt, but also with regard to debt values to be contracted in the future as a result of planned investments in the fleet. Interest rates are also a factor in cost increases in lease transactions where the level of long-term interest rates is usually passed on to the aircraft's income.

On 31 December 2020 and 2019, financial liabilities subject to the risk of interest rate variation by type of interest rate are summarised as follows:

	2020					
	< 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Variable Rate						
Loans	1,237,457	46,748	122,851	42,451	-	1,449,507
Lease liabilities with purchase option	12,981	17,376	54,657	-	-	85,014
	1,250,438	**64,124**	**177,508**	**42,451**	**-**	**1,534,521**
Fixed Rate						
Loans	318,621	7,456	376,718	171,341	-	874,136
Lease liabilities with purchase option	28,495	28,375	94,291	161,821	40,866	353,848
	347,116	**35,831**	**471,009**	**333,162**	**40,866**	**1,227,984**
Total	**1,597,554**	**99,955**	**648,517**	**375,613**	**40,866**	**2,762,505**
% fixed rate	**22%**	**36%**	**73%**	**89%**	**100%**	**44%**

	2019					
	< 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Variable Rate						
Loans	108,355	106,956	122,400	29,822	-	367,533
Lease liabilities with purchase option	24,984	16,882	53,545	-	-	95,411
	133,339	**123,838**	**175,945**	**29,822**	**-**	**462,944**
Fixed Rate						
Loans	18,380	7,496	586,833	142,752	81,290	836,751
Lease liabilities with purchase option	11,028	11,348	37,469	88,297	31,730	179,872
	29,408	**18,844**	**624,302**	**231,049**	**113,020**	**1,016,623**
Total	**162,747**	**142,682**	**800,247**	**260,871**	**113,020**	**1,479,567**
% fixed rate	**18%**	**13%**	**78%**	**89%**	**100%**	**69%**

The Group uses the sensitivity analysis technique which measures estimated changes in output, an immediate increase or decrease in market interest rates, and all other constant variables. This analysis is for illustrative purposes only, since in practice market rates rarely change in isolation.

Sensitivity analysis is based on the following assumptions:

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

Under these premises and also considering: (i) theoretical assumptions of interest rate and EUR/USD exchange rate and (ii) that the intra-annual amortization pace is linear for the purpose of calculating future interest (simpler assumption), a 0.5% increase or decrease in market interest rates for all currencies in which the Group has floating-rate loans on 31 December 2020 would result in a decrease or increase in the amount of interest due of approximately EUR 8 million (2019: EUR 5 million).

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

✈ Liquidity risk

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

By the end of February 2020, the Group was able to increase the maturity of its debt, reduce the cost of financing and increase its liquidity position to levels of more than 10% of annual revenues. During the 2019 financial year, in addition to financing aircraft by means of lease contracts placed on the international market, the Group succeeded in issuing more than EUR 700 million of bonds on the financial markets.

As a result of the COVID-19 pandemic, the capital markets closed and debt issuance was associated in most cases with the presentation of state guarantees. This has made it impossible for the Group to access the liquidity required to address the impact of the COVID-19 pandemic and maintain its activity.

On 10 June 2020, the European Commission authorised State aid to the TAP Group by granting the Portuguese State funding of up to EUR 1.2 billion. On 17 July 2020, the funding agreement for EUR 946 million was concluded between the Group and the Portuguese State, which includes an additional amount of EUR 254 million, received in full by 31 December 2020.

The Group's cash position on 31 December 2020 shows an increase from the end of 2019, from EUR 434.2 million to EUR 534.6 million at the end of 2020. This liquidity position reflects the receipt of the last instalment of the Portuguese Government's interest-bearing loan.

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

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

	2020						
	< 6 months	6 months - 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Loans	364,201	1,257,859	87,442	549,700	217,499	-	2,476,701
Lease liabilities with purchase option	27,736	31,736	63,447	188,032	190,346	41,984	543,281
Lease liabilities without purchase option	201,420	159,165	280,362	558,924	602,619	126,484	1,928,974
Total	**593,357**	**1,448,760**	**431,251**	**1,296,656**	**1,010,464**	**168,468**	**4,948,956**

	2019						
	< 6 months	6 months - 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Loans	90,442	83,671	163,113	782,121	279,651	-	1,398,998
Lease labilities w ith purchase option	24,626	24,500	40,529	118,267	109,803	33,867	351,592
Lease labilities w ithout purchase option	174,164	178,169	302,518	631,498	679,742	129,630	2,095,721
Total	**289,232**	**286,340**	**506,160**	**1,531,886**	**1,069,196**	**163,497**	**3,846,311**

✈ **Credit risk**

The following table shows items relating to the Group's assets as of 31 December 2020 and 2019, as well as accounts receivable balances, which reflect the maximum credit risk on those same dates:

	2020	2019
Non-current assets		
Judicial deposits - Brazil (Note 11)	24,868	42,176
Other non-current assets (Notes 9 and 11)	97,535	148,040
Current assets		
Cash and cash equivalents (Note 15)	534,559	435,024
Receivables - customers (Note 11)	129,290	233,941
Other current assets (Notes 9 and 11)	119,877	223,705
	906,129	**1,082,886**

The Group applies the simplified approach in IFRS 9 to measure expected credit losses, which uses an expected loss expectation for all accounts receivable. To measure expected credit losses, the accounts receivable have been grouped based on common credit risk characteristics and maturity. Expected loss rates are based on the payment profiles of the sales and services provided over a period of 36 months prior to 31 December 2020 or 1 January 2020, respectively, and the corresponding historical credit losses incurred during this period. As a result of the analysis carried out, and given that a substantial part of the Group's revenue is received in advance, the expected rate of credit loss is very low, and thus the resulting impact is immaterial.

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

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

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

In developing its business, the Group makes *pre-delivery payments* to Airbus for the purchase of new aircraft and has entered into operating lease contracts for the purchase of aircraft, in which it pays the maintenance reserves and security to the *lessors*. In analysing the credit losses for these amounts, the Group considers the financial position of the counterparties and all transactions it has in progress with them.

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

In November 2019, TAP S.A. obtained a credit rating for the first time from two international credit agencies, and was assigned a BB- (preliminary, stable Outlook) rating by Standard & Poor's, and a B2 (stable Outlook) by Moody's Investors Service. In 2020, as a result of the pandemic, and like most companies in the sector, TAP S.A. saw its credit ratings changed and on 31 December 2020, the *ratings* from these credit agencies were B- (Outlook negative) and Caa2 (negative outlook) respectively.

✈ Capital Management

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

As a result of the COVID-19 pandemic, capital management has changed significantly, making it largely dependent on the State Aid obtained.

As regards current and non-current interest-bearing liabilities, there has been an increase of around 93% compared to 2019, with the loan of EUR 1.2 billion obtained from the Portuguese State being the most relevant component of this increase.

The Group's debt uses a rigorous accounting approach, so that it can be analysed and measured more comprehensively and substantially, encompassing aggregates where the behaviour is, in some respects, similar to financing. This is the case for operating leases, especially for aircraft, as a result of IFRS 16. Increasing the expenses on aircraft operating leases reflects an increase in significant future liabilities, as these are medium- and long-term contracts that are similar to the phased debt payment, but without risk to the asset's residual value at the end of the lease. In addition to the fleet renewal, under lease, the future increase in debt, as funding, or as leasing, will be relevant to risk management, in terms of return on capital invested.

4. Tangible fixed assets

During the financial years ending 31 December 2020 and 2019, the movement in the tangible fixed asset items, as well as in their accumulated depreciations and impairment losses, was as follows:

2020	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Tools and utensils	Administrative equipment	Other tangible fixed assets	Other assets in progress	Advances to suppliers of tangible assets	Right-of-use	Total
Gross Assets											
Opening balance	41,126	349,124	1,124,346	6,763	37,638	76,028	13,178	42,163	75,229	2,525,443	**4,291,038**
Additions	-	1,194	251,665	828	2,183	791	191	8,566	8,617	398,696	**672,731**
Disposal	-	-	(19,202)	(19)	(202)	(22)	-	-	-	-	**(19,445)**
Other transfers/write-offs	-	(120)	18,652	(4)	(13)	(14,589)	(5)	(26,559)	(22,203)	(110,521)	**(155,362)**
Currency conversion differences	-	(908)	(1,876)	(83)	(2,131)	(967)	-	(624)	-	(677)	**(7,266)**
Closing balance	**41,126**	**349,290**	**1,373,585**	**7,485**	**37,475**	**61,241**	**13,364**	**23,546**	**61,643**	**2,812,941**	**4,781,696**
Accumulated depreciation											
Opening balance	-	274,563	713,918	5,631	24,073	71,850	11,555	-	-	302,973	**1,404,563**
Depreciations and amortizations	-	5,891	75,413	350	1,134	1,563	318	-	-	446,576	**531,245**
Recognised impairment losses (Note 32)	-	787	3,376	204	1,250	265	-	1,396	-	2,110	**9,388**
Disposal	-	-	(18,271)	(19)	(147)	(21)	-	-	-	-	**(18,458)**
Other transfers/write-offs	-	2	(12,109)	(4)	(7)	(14,669)	(5)	-	-	-	**(26,792)**
Currency translation differences	-	(508)	(1,401)	(26)	(1,541)	(843)	-	-	-	(815)	**(5,134)**
Closing balance	**-**	**280,735**	**760,926**	**6,136**	**24,762**	**58,145**	**11,868**	**1,396**	**-**	**750,844**	**1,894,812**
Carrying Amount	**41,126**	**68,555**	**612,659**	**1,349**	**12,713**	**3,096**	**1,496**	**22,150**	**61,643**	**2,062,097**	**2,886,884**

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

On 31 December 2020 and 2019, the right-to-use item has the following movement:

2020	Buildings and other constructions	Basic equipment: Aircraft and engine leases	Basic equipment: ACMI	Basic equipment: Redelivery and Maintenance	Transport equipment	Total
Assets						
Opening balance	4,590	2,261,197	97,486	161,358	812	**2,525,443**
Additions	3,843	163,245	-	231,608	-	**398,696**
Disposal	4	(86,162)	(6,016)	(18,404)	57	**(110,521)**
Other transfers/w rite-offs	(677)	-	-	-	-	**(677)**
Currency conversion differences	**7,760**	**2,338,280**	**91,470**	**374,562**	**869**	**2,812,941**
Accumulated depreciations						
Opening balance	3,452	218,220	30,027	50,986	288	**302,973**
Depreciations (Note 31)	2,603	269,624	28,142	145,920	287	**446,576**
Other transfers/w rite-offs (Note 28)	2,110	-	-	-	-	**2,110**
Currency conversion differences	(815)	-	-	-	-	**(815)**
Closing Balance	**7,350**	**487,844**	**58,169**	**196,906**	**575**	**750,844**
Carrying amount	**410**	**1,850,436**	**33,301**	**177,656**	**294**	**2,062,097**

2019	Buildings and other constructions	Basic equipment: Aircraft and engine leases	Basic equipment: ACMI	Basic equipment: Redelivery and Maintenance	Transport equipment	Total
Assets						
IFRS 16 Adoption	4,590	819,596	99,042	15,972	792	**939,992**
Additions /others	-	1,471,983	-	145,386	20	**1,617,389**
Write-off	-	(30,382)	(1,556)	-	-	**(31,938)**
Closing Balance	**4,590**	**2,261,197**	**97,486**	**161,358**	**812**	**2,525,443**
Accumulated depreciations						
Depreciations (Note 32)	3,452	248,602	30,027	50,986	288	**333,355**
Write-off	-	(30,382)	-	-	-	**(30,382)**
Closing Balance	**3,452**	**218,220**	**30,027**	**50,986**	**288**	**302,973**
Carrying amount	**1,138**	**2,042,977**	**67,459**	**110,372**	**524**	**2,222,470**

Land and buildings and other buildings at the headquarters were transferred to the ownership of TAP S.A. under Decree-Law 351/89 of 13 October.

To guarantee payment of the amounts due under a loan agreement with a national institution in the amount of EUR 75 million, a mortgage was placed on one of the Company’s urban properties, consisting of twenty-nine office buildings, construction material workshops and others, located at Lisbon Airport. In addition, a second mortgage for funding in the amount of EUR 25 million was contracted in February 2020. On 31 December 2020, the amount of the loan agreement was approximately EUR 67.2 million.

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

- The additions to basic equipment amounting to EUR 251,665 thousands mainly relates to the: (i) purchase of two leased aircraft with a purchase option of EUR 200,789 thousands; (ii) purchase of two leased reactors with a purchase option of EUR 27,472 thousands; and (iii) capitalisation of structural aircraft maintenance costs of EUR 9,875 thousands.

- The disposals of basic equipment at a net value of EUR 931 thousands mainly relate to the: (i) sale of an aircraft (Embraer 145), (ii) sale of APU (A340), and (iii) sale of a spare which generated a gain of EUR 28 thousands.

- The additions of other current assets amounting to EUR 8,566 thousands mainly relate to: (i) an A330 flight simulator of EUR 5,888 thousands, (ii) expenses for ongoing maintenance of EUR 1,491 thousands, and (iii) building refurbishments of EUR 922 thousands.

- The additions of advances amounting to EUR 8,617 thousands mainly relate to *pre-delivery payments.*

- The reduction in the Transfer and Disposal of Other Current Assets includes the sum of EUR 26,750 thousands transferred to the incorporation of two aircraft.

- As of 31 December 2020, the additions under the right-to-use item mainly include: (i) new lease contracts with no option to purchase amounting to EUR 159,317 thousands; (ii) increased capitalised large-maintenance spending of EUR 62,135 thousands, (iii) increased redelivery provision of EUR 109,194 thousands, and (iv) increased capitalisation of non-recoverable maintenance reserve expenses of EUR 57,335 thousands.

- As of 31 December 2020, the settlements under the right-to-use item are mainly the result of contract renegotiations with *lessors* and revision of the *redelivery* provision.

The main movements during the financial year ending 31 December 2019 are as follows:

- The addition of basic equipment of EUR 223,820 thousands mainly relates to the: (i) purchase of an aircraft amounting to approximately EUR 106,488 thousands and (ii) capitalisation of maintenance costs on the structure of aircraft owned or under a lease contract with a purchase option of approximately EUR 55,373 thousands, (iii) purchase of two reactors under lease contracts with a purchase option of EUR 30,420 thousands, and (iv) purchase of spares of EUR 17,137 thousands.

- Additionally, the 2019 disposal of the A340 resulted in a loss of approximately EUR 1,200 thousands.

- Disposals of basic equipment at a net value of EUR 18,543 thousands, mainly relate to the sale of three aircraft (A330), which generated a gain of EUR 7,327 thousands.

- Additions of other current assets amounting to EUR 29,339 thousands mainly relate to advances for the future acquisition of aircraft.

- The increase recorded under Advances in the tangible fixed assets account of EUR 20,638 thousands essentially relates to advances to Rolls Royce “Total Care”.

- The increase recorded in Right-to-use of EUR 1,615,833 thousands relates to new lease contracts.

Impairments of tangible fixed assets are recognised under the depreciation and amortisation expenses/reversals item of the income statement as a whole (Note 32).

On 31 December 2020 and 2019, the item “Basic equipment” had the following composition:

	2020			2019		
	Acquisition cost	Accumulated depreciation	Carrying amount	Acquisition cost	Accumulated depreciation	Carrying amount
Flight equipment						
Aircraft	322,921	(260,195)	62,726	162,154	(100,019)	62,135
Spare engines	4,000	(2,699)	1,301	8,226	(2,256)	5,970
Spare parts	138,884	(93,650)	45,234	138,076	(92,664)	45,412
	465,805	**(356,544)**	**109,261**	**308,456**	**(194,939)**	**113,517**
Flight equipment under lease w ith purchase option						
Aircraft	693,681	(309,632)	384,049	634,911	(428,449)	206,462
Reserve engines	109,060	(12,041)	97,019	72,803	(7,430)	65,373
	802,741	(321,673)	481,068	707,714	(435,879)	271,835
Machines and miscellaneous equipment	105,039	(81,544)	23,495	108,176	(83,100)	25,076
	1,373,585	**(759,761)**	**613,824**	**1,124,346**	**(713,918)**	**410,428**

On 31 December 2020 and 2019, the Group's aircraft fleet is broken down as follows:

	2020					2019				
	Owned by TAP Group	Lease liabilities with purchase option	Lease liabilities without purchase option	ACMI	Total	Owned by TAP Group	Lease liabilities with purchase option	Lease liabilities without purchase option	ACMI	Total
Airbus A330	-	-	7	-	**7**	-	-	7	-	**7**
Airbus A330 NEO	-	3	16	-	**19**	-	1	16	-	**17**
Airbus A319	6	3	5	-	**14**	2	7	9	-	**18**
Airbus A320	2	3	13	-	**18**	-	5	14	-	**19**
Airbus A320 NEO	-	-	8	-	**8**	-	-	7	-	**7**
Airbus A321	-	2	1	-	**3**	-	2	2	-	**4**
Airbus A321 NEO	-	-	10	-	**10**	-	-	8	-	**8**
Airbus A321 NEO LR	-	-	6	-	**6**	-	-	4	-	**4**
Embraer 145	-	-	-	-	**-**	1	-	-	-	**1**
Embraer 190	-	-	9	-	**9**	-	-	9	-	**9**
Embraer 195	-	-	4	-	**4**	-	-	4	-	**4**
ATR 72	-	-	-	8	**8**	-	-	-	8	**8**
	8	**11**	**79**	**8**	**106**	**3**	**15**	**80**	**8**	**106**

TAP's fleet underwent a significant adjustment throughout 2020 as a result of the health crisis of COVID-19 and taking into account the new reality of the sector.

As a result of the current situation of the Group on 31 December 2020, of the 106 aircraft, 10 are not operating and are in a phase-out situation, taking into account their disposal/return to lessors.

Consequently, Group ended the year 2020 with an operating fleet of 96 planes, a net decrease of 10 planes when compared to the end of 2019, when the Group had an operational fleet of 106 planes.

In the course of 2020, 7 new generation Airbus planes (2 A330neo, 2 A321neo LR, 2 A321neo and 1 A320neo) went into operation and 16 planes (10 A319, 3 A320, 1 A321 and 2 A332) went out of operation. In the second half of the year, two A332 were converted into cargo planes due to the increased demand in this segment.

Thus, of the fleet of 96 planes in operation at the end of 2020, 94 planes were available for commercial passenger operation and 2 were allocated exclusively to cargo operation. At the end of 2020, 57% of the medium and long-haul operational fleet consisted of NEO family aircraft (compared with 48% as of December 31, 2019).

As disclosed in Note 1.1.3, in the year 2020 an impairment loss was recorded on the tangible fixed assets of the subsidiary TAP M&E Brasil in the amount of EUR 7,177 thousands.

In the year ended December 31, 2020, due to the signs of impairment in non-current assets related to air transport, as a result of the reduction in activity resulting from the COVID-19 pandemic, an analysis of impairment of the respective assets was carried out. See assumptions used and respective conclusions in the Note on goodwill (Note 6).

5. Investment Properties

On 31 December 2020 and 2019, the movements recorded under investment properties were as follows:

	2020	2019
Opening balance	**2,246**	**3,228**
Fair value adjustments - net gains and losses	(605)	1,586
Disposals	(97)	(3,208)
Transfers	-	640
Closing balance	**1,544**	**2,246**

In order to determine the fair value of the investment properties, the Group regularly determines, through a study by an independent evaluator with recognised professional qualifications, using significant methods and assumptions to determine the fair value of the properties, supported by market evidence.

The amounts recognised in profit or loss for the year, associated with rental income and direct operating expenses, are immaterial in the Group's financial statements as a whole.

On 31 December 2020, a variation of EUR 605 thousands was recorded in relation to the update of the fair value of the Portela property.

6. Goodwill

On 31 December 2020 and 2019, the movement under the "*Goodwill*" item was as follows:

	2020			
	Opening balance	**Exchange rate**	**Impairment losses**	**Closing balance**
Air Transport	63,099	-	-	63,099
Maintenance - Brazil	63,420	(18,486)	(44,934)	-
	126,519	**(18,486)**	**(44,934)**	**63,099**

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

The negative amount of EUR 18,486 thousands refers to the exchange rate variation for Brazil's maintenance and engineering goodwill, which was denominated in reais in the net amount of BRL 286,387 thousands (before the impairment recorded in the year 2020).

As recommended by IAS 36, *goodwill* is subject to annual impairment tests, and in the accounting policy described in Note 2.10, *goodwill* is assigned to cash-flow-generating units ("CGU's"), identified according to each country's business segment and operation.

✈ **Air Transport**

For this purpose, the recoverable value of these assets was determined in discounted cash flow models for the subsequent 5-year period of 2021-2025, based on the projections embedded in the Restructuring Plan, approved by the Board of Directors of Grupo TAP SGPS on December 2, 2020 and using a discount rate in line with the risk inherent in the business as of December 31, 2020.

Without prejudice to the fact that the Restructuring Plan is, at this date, under analysis by the European Commission and subject to the ongoing interactions with the Portuguese State and the Group's Board of Directors, the Board of Directors believes that the best estimate , as of December 31, 2020, is reflected in the projections embedded in the impairment test performed.

On December 31, 2020, Group calculated the recoverable amount of air transport assets, essentially arising from the fleet, in the amount of EUR 2,846,847 thousands, by determining the value in use allocated to the cash-generating unit defined (Air Transport), according to the discounted cash flow method, considering in the respective impairment test the estimated impacts, to this date, related to the Covid-19 pandemic.

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

	2020	**2019**
Discount rate (WACC)*	10.0%	8.9%
Revenue CAGR **	-0.4%	0.5%
Growth in perpetuity (g)	2.0%	2.0%
Tax rate	22.5%	29.5%

* Discount rate net of taxes

** Average growth rate of turnover. In 2019 was considered the period of 2019-2024 and in 2020 was considered the period of 2019-2025

The Restructuring Plan approved by the Board of Directors on December 2, 2020, was based on three axes: (i) capacity adjustment (fleet sizing and network optimization); (ii) optimization of operating costs (negotiation of leases, revision of costs with third parties and adjustment of labour costs); and (iii) revenue improvement (by optimizing the network, passenger revenues and other revenues).

As for fuel costs, a residual evolution of the fuel price is estimated, with the price of 2025 aligned with that of 2019 and an estimate of lower consumption per Block hour due to the phase-in of the NEO fleet, as it is more efficient.

With regard to passenger demand, the updated projections of reference entities in the sector were used, namely the projections of the International Air Transport Association (IATA), considering its greater adequacy to the operational reality of TAP SA, with a business model based on flights connection and long-haul operation. With these projections, and due to the effect of the COVID-19 pandemic, it is estimated that the 2019 activity figures will only be reached again in 2025, with a gradual growth estimated between the years 2021 to 2025 as expected by the market. (See Note 1).

The Board of Directors, supported by the discounted cash flows considered in the Restructuring Plan approved by the Board of Directors, at the rate considered applicable, concluded that, on December 31, 2020, the book value of the assets allocated to the air transport activity , does not exceed its recoverable amount.

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

	Basic scenario	Increase on WACC in 0,5 pp	Decrease of g in 0,5 P.P.	Joint effect (WACC + g)
Discount rate	10.0%	10.5%	10.0%	10.5%
Grow th in perpetuity	2.0%	2.0%	1.5%	1.5%
Sensitivity analysis conclusions	Without impairment	Without impairment	Without impairment	Without impairment

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

(i) Scenario 1 - Slower recovery in demand (from -4% to -9% of passengers for the years 2021 to 2024), which is estimated in the Restructuring Plan more conservatively than the baseline of the IATA projections referred above;
(ii) Scenario 2 - Increase in the price of jet fuel (+ 5% to +10%);
(iii) Scenario 3 - Evolution of operational yield / profitability (-2% to -5%);
(iv) Scenario 4 - More pessimistic scenario, considering the occurrence of the three variables with more stressed parameters, described above.

	Basic scenario	Scenario 1 (-% Passangers)	Scenario 2 (+5% +10% Fuel)	Scenario 3 (-2% -5% Yield)	Scenario 4 (worst case scenario)
Discount rate	10.0%	10.0%	10.0%	10.0%	10.0%
Grow th in perpetuity	2.0%	2.0%	2.0%	2.0%	2.0%
Sensitivity analysis conclusions	Without impairment	Without impairment	Without impairment	Without impairment	Impairment

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

It should also be noted that any changes to the Restructuring Plan that may be approved by the European Commission, in the context of ongoing interactions, may have significant impacts on the calculation of the recoverable value of Air Transport and consequently significantly affect, TAP SGPS Group financial and economic position.

✈ **Maintenance and Engineering Brazil**

Taking into account the difficult financial and economic situation of the TAP Group due to the impacts of the pandemic COVID-19, within the scope of the ongoing Restructuring Plan of the TAP Group, the abandonment of non-core activities is foreseen as a cost containment measure and reinforcement of future financial sustainability.

Given the historic economic and financial performance of the subsidiary TAP ME Brasil combined with the strong impacts of the pandemic COVID-19 on aircraft maintenance activity, as well as the operational impacts for the subsidiary resulting from the strategy of the TAP Group described in the Restructuring Plan, the Grupo TAP's management is analysing put, restructuring or discontinuity options for said subsidiary.

In view of the current outlook for that subsidiary within the scope of the TAP Group's ongoing Restructuring Plan, and in view of the existing recoverable value outlook, to date, considering the operational uncertainties and associated legal contingencies, the Group proceeded to record a loss for impairment on Goodwill.

See additional disclosure in Note 1.1.3.

7. Intangible Assets

On 31 December 2020 and 2019, the movement under the intangible assets item was as follows:

	Industrial property and other rights	Computer programmes	Assets in progress	Advances to suppliers of intangible assets	Total
Acquisition cost					
Balance as at January 1, 2019	**11,952**	**10,319**	**4,660**	**1,216**	**28,147**
Acquisitions	-	18,107	3,430	276	21,813
Regularisation, transfer and write-off	-	11,169	(4,332)	-	6,837
Balance as at December 31, 2019	**11,952**	**39,595**	**3,758**	**1,492**	**56,797**
Acquisitions	-	10,602	3,465	-	14,067
Regularisation, transfer and write-off	-	3,982	(4,026)	(1,492)	(1,536)
Balance as at December 31, 2020	**11,952**	**54,179**	**3,197**	**-**	**69,328**
Accumulated amort. and impairment losses					
Balance as at January 1, 2019	**(11,952)**	**(4,872)**	**-**	**-**	**(16,824)**
Amortisations and impairment losses (Note 32)	-	(8,388)	-	-	(8,388)
Regularizações, transferências e abates	-	(6,048)	-	-	(6,048)
Balance as at December 31, 2019	**(11,952)**	**(19,308)**	**-**	**-**	**(31,260)**
Amortisations and impairment losses (Note 32)	-	(12,869)	-	-	(12,869)
Balance as at Decembro 31, 2020	**(11,952)**	**(32,177)**	**-**	**-**	**(44,129)**
Carrying amount as at December 31, 2019	**-**	**20,287**	**3,758**	**1,492**	**25,537**
Carrying amount as at December 31, 2020	**-**	**22,002**	**3,197**	**-**	**25,199**

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

✈ The increase in the Computer Programs item amounting to EUR 10,602 thousands mainly relates to software licencing agreements.

✈ The increase in the Current Assets item of EUR 3,465 thousands refers to various ongoing development and implementation projects in the areas of operations, sales and maintenance.

8. Financial holdings

On 31 December 2020 and 2019, the financial interests are as follows:

	2020							
	% Owned	Opening Balance	Reclassification	Variations affecting results (Note 25)	Variations affecting equity	Other adjustments (Note 18)	Dividends	Closing Balance
Associates								
SPdH	49.9%	1,973	-	-	-	(1,973)	-	-
		1,973	**-**	**-**	**-**	**(1,973)**	**-**	**-**

	2019							
	% Owned	Opening Balance	Reclassification	Variations affecting results (Note 25)	Variations affecting equity	Other adjustments	Dividends	Closing Balance
Associates								
SPdH	49.9%	3,322	-	1,686	(38)	-	(2,997)	1,973
		3,322	**-**	**1,686**	**(38)**	**-**	**(2,997)**	**1,973**

On 31 December 2020 and 2019, the financial information for the associated company SPdH is as follows:

	2020				
	Assets	Equity	Liabilities	Sales and services rendered	Net income/(loss) for the year
SPdH	23,054	(19,256)	42,310	63,610	(26,026)

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

The net profit for the year ending 31 December 2020 and the financial year 2019 has been adjusted by certain effects for the purposes of applying the equity method (Note 25).

9. Other financial assets

As of 31 December 2020 and 2019, the other financial assets are detailed as follows:

	2020		2019	
	Current	Non-Current	Current	Non-Current
Angola's treasury bonds	-	-	4,880	-
Bank deposits in Guinea Bissau	-	1,662	-	1,747
SITA Group Foundation	-	648	-	648
Others	-	268	-	212
	-	**2,578**	**4,880**	**2,607**
Impairment losses	-	(1,676)	-	(1,761)
	-	**902**	**4,880**	**846**

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

The entries under this heading on 31 December 2020 and 2019 are detailed as follows:

	2020		2019	
	Current	Non-Current	Current	Non-Current
Opening balance	4,880	846	13,225	846
Increases	-	56	-	4,831
Decreases	(4,880)	-	(12,789)	-
Transfers	-	-	4,957	(4,957)
Currency translation differences	-	-	(513)	126
Closing balance	**-**	**902**	**4,880**	**846**

The decrease in the financial year ending 31 December 2020 in the value of EUR 4,880 thousands relates to the subscribed "Angolan Treasury Bonds" amounting to 1,737,479 thousand Kwanzas, reflecting the original exchange rate of 316,909 Kwanzas per dollar, which matured on 18 December 2020.

10. Deferred tax assets and liabilities

On 31 December 2020 and 2019, the tax rate used in Portugal for the settlement of deferred tax assets relating to reportable tax losses and derivative financial instruments was 21% (in the last case given its reversal in 2021). For the remaining temporary differences, the rates used were 29.5% and 31.5% for 2020 and 2019 respectively.

Tax relief, because it is a collection deduction, is considered to be 100%. In some cases, its full acceptance is also subject to the approval of the authorities granting such tax benefits. The deferred taxes arising from tax benefits are recorded when the authorities granting these tax benefits have approved them.

The main temporary differences between the book and tax values on 31 December 2020 and 2019, their deferred tax assets and liabilities, and their effect on the results for 31 December 2020 and 2019, are as follows:

	2020				
	Opening balance	Effect in results (Note 34)	Effect in comprehensive income	Exchange variation	Closing balance
Deferred tax assets					
Tax losses carried forward	83,985	(4,979)	-	(1,986)	77,020
Employee benefits obligations	30,691	(4,452)	6,225	-	32,464
Impairment losses in inventories	8,484	(1,848)	-	-	6,636
Impairment losses in fixed assets	1,499	(734)	-	-	765
Impairment losses of accounts receivable	7,176	(104)	-	-	7,072
Other provisions and adjustments not accepted for tax purposes	223	(103)	-	-	120
Tax benefits	-	457	-	-	457
Derivative financial instruments	-	-	6,093	-	6,093
	132,058	**(11,763)**	**12,318**	**(1,986)**	**130,627**
Deferred tax liabilities					
Revaluation of tangible fixed assets	19,329	(2,192)	-	-	17,137
Derivative financial instruments (Note 16)	7,550	-	(7,550)	-	-
Ajustments due the adoption of IFRS 16	48,246	61,232	-	-	109,478
	75,125	**59,040**	**(7,550)**	**-**	**126,615**
		(70,803)	**19,868**		

	2019			
	Opening balance	Effect in results (Note 34)	Effect in comprehensive income	Closing balance
Deferred tax assets				
Tax losses carried forward	41,543	42,442	-	83,985
Employee benefits obligations	25,845	(1,612)	6,458	30,691
Impairment losses in inventories	8,213	271	-	8,484
Impairment losses in fixed assets	4,697	(3,198)	-	1,499
Impairment losses of accounts receivable	7,267	(91)	-	7,176
Derivative financial instruments (Note 16)	12,190	-	(12,190)	-
Tax benefits	442	(442)	-	-
Other provisions and adjustments not accepted for tax purposes	128	95	-	223
	100,325	**37,465**	**(5,732)**	**132,058**
Deferred tax liabilities				
Revaluation of tangible fixed assets	19,024	305	-	19,329
Derivative financial instruments (Note 16)	-	-	7,550	7,550
Ajustments due the adoption of IFRS 16	-	1,985	46,261	48,246
	19,024	**2,290**	**53,811**	**75,125**
		35,175	**(59,543)**	

✈ Reportable tax losses

According to the legislation in force in Portugal, tax losses generated in 2014 and 2015 are reportable over a twelve-year period, and tax losses generated after 2017 are reportable for a five-year period after their occurrence, and can be deducted from tax profits generated during that period, up to a limit of 70% of the taxable profit. During the 2020 financial year, the two-year increase in the expiry date of each reporting period for periods prior to 2020 and the ten-year period for the loss generated in 2020, together with the percentage of deduction, were published in the economic and social stabilisation programme.

In the case of Brazil, its current tax legislation does not provide for a carry-over limit for tax losses, but the deduction of tax losses is limited to 30% of the taxable profit for subsequent fiscal years.

The Group considers that part of the reportable tax losses are recoverable, through their use to reduce future taxable income (based on the individual financial statements, prepared in accordance with the SNC), based on the information disclosed in Note 1.1.3. It should be noted that, although the Group has exercised its legitimate right of challenge, no deferred tax assets were recorded related to the tax losses carried forward resulting from the securitisation operation in the years 2014 and 2015 amounting to EUR 99 million, currently under litigation in a tax court, as well the majority of the tax losses in Brazil, given its situation.

In addition, as disclosed in Note 1.1.3, no deferred tax assets were recorded for the estimated tax loss for the year 2020 in the amount of EUR 1,213 million.

The tax losses carried forward as at 31 December 2020 are detailed as follows:

December 31, 2020	2012	2013	2014	2015	2016	2017	2018	2019	2020 Estimate	Total	Deferred tax assets
Portugal											
TAP SGPS	-	-	3,549	2,138	1,016	-	21,042	518	2,814	**31,077**	-
TAP S.A.	-	-	31,072	169,257	-	-	78,541	190,879	1,193,935	**1,663,684**	76,902
UCS	-	-	-	-	-	-	-	-	92	**92**	-
TAPGER	-	-	-	-	-	-	348	283	-	**631**	118
Portugália	-	-	-	-	-	-	279	19,035	15,900	**35,214**	-
Brazil											
TAP M&E Brasil	18,402	15,370	39,543	7,305	8,886	25,998	11,893	-	-	**127,397**	-
	18,402	**15,370**	**74,164**	**178,700**	**9,902**	**25,998**	**112,103**	**210,715**	**1,212,741**	**1,858,095**	**77,020**
Limit for deduction (in Portugal)		**2018**	**2028**	**2029**	**2030**	**2024**	**2025**	**2026**	**2032**		

As regards TAP SA's tax losses, the effect of securitisation is as follows:

TAP SA	Unsecuritized	Securitized	Total	Deadline for deduction *
2014	-	31,072	31,072	2028
2015	96,780	67,927	164,707	2029
2018	78,541	-	78,541	2025
2019	190,879	-	190,879	2026
2020 (estimate)	1,193,935	-	1,193,935	2032
	1,560,135	**98,999**	**1,659,134**	

Since 2017, most of the subsidiaries of the Group headquartered in Portugal have been taxed through the special corporate-tax regime ("RETGS"), with the taxable income being assessed at TAP SGPS. However, each company's income tax estimate is recorded on the basis of its taxable income.

11. Other accounts receivable

On 31 December 2020 and 2019, the breakdown of other receivables is as follows:

	2020		2019	
	Current	**Non-current**	**Current**	**Non-current**
Trade receivables	212,005	-	307,148	-
Recoverable maintenance reserves	-	68,629	12,362	90,297
Security deposits	3,682	48,075	4,570	52,110
Swaps jet fuel	-	-	23,967	-
Advances to suppliers	27,404	-	18,977	-
Accrued income	9,329	-	51,706	-
Other debtors	93,594	31,586	111,891	48,884
	346,014	**148,290**	**530,621**	**191,291**
Impairment losses	(96,847)	(26,789)	(77,855)	(1,921)
	249,167	**121,501**	**452,766**	**189,370**

There are no differences between the book values and their fair value for the financial years presented.

✈ Customers

On 31 December 2020 and 2019, the Customer item is detailed as follows:

	2020	2019
Customers- Current account	150,668	251,325
Doubtful debtors	61,337	55,823
	212,005	**307,148**
Impairment losses	(82,715)	(73,207)
	129,290	**233,941**

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

	2020	2019
Private entities	115,786	158,508
Travel agency	6,992	62,081
Airlines	3,377	8,268
Related parties (Note 37)	615	2,197
Other	2,520	2,887
	129,290	**233,941**

The variation under this heading is essentially the effect of the reduction in activity in the financial year ending 31 December 2020. As a result of this impact, the Elavon credit card company withheld some EUR 48 million.

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

✈ Security deposits

Security deposits are made under lease contracts with no option to purchase for aircraft and engines which will be returned, without interest, as such aircraft and engines are returned to the lessors. In addition, on 31 December 2020, the expenses to be recognised item includes an amount of EUR 23.8 million related to the financial discount cost of these receivables, to be recognised in the period term of the related lease contracts (Note 14).

✈ Accrued gains

As of 31 December 2020 and 2019, the amount recognised under accrued gains is as follows:

	2020	2019
Work maintenance third parties	7,008	32,291
Results allocation - Insurance	1,040	3,340
Airport facilities - incentives	591	3,525
Related parties (Note 37)	1	3,621
Other	689	8,929
	9,329	**51,706**

The heading "Work for airlines" is the assets of contracts with customers as set out in IFRS 15. The reduction in this item in 2020 is a result of the reduction in the volume of motor and aircraft maintenance projects due to the COVID-19 pandemic.

✈ Advances to suppliers

This item essentially comprises advances to maintenance providers.

✈ Other debtors – Non-current

As at December 31, 2020 and 2019, the Other debtors – Non-current item is detailed as follows:

	2020	2019
Judicial deposits - Brazil	24,868	42,176
Related parties (Note 37)	-	3,521
Other	6,718	3,187
	31,586	**48,884**
Impairment losses	(26,789)	(1,921)
	4,797	**46,963**

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

The related Party item, in 2019, concerns the cost of guarantees provided.

✈ Other debtors – Current

As at 31 December 2020 and 2019, the "Other debtors – Current" item is detailed as follows:

	2020	2019
Deposits and guarantees	16,967	3,115
Interline and other invoicing	14,413	11,640
Advances related to lease contracts	14,381	22,711
Employees	12,446	20,511
Suppliers receivables	8,036	28,150
Representations VAT	2,815	2,187
Related parties (Note 37)	391	2,341
Other	24,145	21,236
	93,594	**111,891**
Impairment losses	(9,090)	(4,648)
	84,504	**107,243**

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

✈ Impairment losses on receivables

The entry for Impairment losses on receivables as at 31 December 2020 and 2019 is as follows:

	Current			Non-current
	Clients	Advances to suppliers	Others	Others
Opening balance as at January 1, 2019	**73,633**	**-**	**4,664**	**1,981**
Increases (Note 28)	8,009	-	45	-
Reversals (Note 28)	(5,299)	-	(20)	-
Utilization	(2,965)	-	(41)	(61)
Currency conversion differences	(171)	-	-	-
Closing balance as at December 31, 2019	**73,207**	**-**	**4,648**	**1,920**
Increases (Note 28)	13,899	5,042	4,456	24,869
Reversals (Note 28)	(490)	-	(14)	-
Utilization	(974)	-	-	-
Currency conversion differences	(2,927)	-	-	-
Closing balance as at December 31, 2020	**82,715**	**5,042**	**9,090**	**26,789**

As a result of the impairment on receivables for the subsidiary TAP ME Brasil, an impairment of EUR 15.1 million has been recognised (Note 1.1.3).

12. Inventories

As at 31 December 2019 and 2020, the detail of the inventories is as follows:

	2020	2019
Raw materials and consumables	132,000	166,914
Goods	77	90
Inventory impairment losses	(46,596)	(38,621)
	85,481	**128,383**

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

During the fiscal year ending 31 December 2020, inventories sold and consumed were recognised under the Aircraft maintenance costs and Cost of materials consumed in the consolidated income statement of EUR 14,483 thousands and EUR 37,561 thousands respectively (Note 26). In addition, materials and used on structural maintenance events on our own fleet were capitalised (Note 4).

The movement that occurred under the heading of impairment losses on 31 December 2020 and 2019 was as follows:

Opening balance as at January 1, 2019	**41,767**
Increases (Note 28)	4,458
Reversals (Note 28)	(7,133)
Utilization	(26)
Currency conversion differences	(445)
Closing balance as at December 31, 2019	**38,621**
Increases (Note 28)	21,628
Reversals (Note 28)	(3,783)
Utilization	(6,751)
Currency conversion differences	(3,119)
Closing balance as at December 31, 2020	**46,596**

The exchange rate adjustment in 2020 and 2019 stems from the financial statements of the Brazilian subsidiary.

As of 31 December 2020, the amount recorded in an increase in impairment is essentially the result of the impact of the COVID-19 pandemic and the consequent expectation of fleet rotation, the termination of the A340 maintenance contract with the French Air Force, as well as the impairment recorded on inventories arising from the TAP ME Brazil subsidiary (Note 1.1.3).

The amount recorded in uses mainly relates to material sold and fully impaired in the amount of EUR 5.6 million.

13. Income tax receivable/payable

The Group is taxed through the special corporate-group taxation ("RETGS") scheme, with the taxable income being assessed at TAP SGPS. However, the income tax estimate of the Associated Companies is recorded on the basis of their taxable income.

For the years ended 31 December 2020 and 2019, the balance relating income tax receivable or payable is detailed as follows:

	2020		2019	
	Current assets	Current liabilities	Current assets	Current liabilities
Income tax receivable/payable				
Payments on account	171	-	812	-
Withholding taxes	404	-	861	-
Estimated CIT (Note 34)	(182)	-	(1,442)	-
Other	-	(17)	-	(17)
	393	**(17)**	**231**	**(17)**

14. Other current and non-current assets

Other assets as of 31 December 2020 and 2019 are as follows:

	2020		2019	
	Current	Non-Current	Current	Non-Current
Deferred costs	19,003	23,785	35,269	16,208
State	4,813	-	11,994	-
	23,816	**23,785**	**47,263**	**16,208**

✈ Deferred costs

As of 31 December 2020 and 2019, Deferred costs are detailed as follows:

	2020		2019	
	Current	Non-Current	Current	Non-Current
Security deposits (Note 11)	-	23,785	-	16,208
Commissions	6,893	-	17,610	-
Rental costs	2,721	-	2,195	-
Related parties (Note 37)	1,472	-	1,451	-
Other deferred costs	7,917	-	14,013	-
	19,003	**23,785**	**35,269**	**16,208**

Deferred costs related to “Security deposits” refer to the financial discount cost of these receivables (Note 11), to be recognised in the period term of the related lease agreements.

The "Commissions" item refers to amounts paid to agents for flights sold, but not yet flown and not expired, until 31 December 2020 and 2019. The variation in this item is related to the decrease in activity in 2020.

The specialist work item mainly relates to estimates of expenditure on specific work for aircraft maintenance carried out by ME Brasil.

✈ **State**

On 31 December 2020 and 2019, the balance of this item is detailed as follows:

	2020	2019
	Current	Current
Value Added Tax - VAT	3,185	6,218
State - Brazil	-	5,578
Other	1,628	198
	4,813	**11,994**

On 31 December 2020 and 2019, the balance due to VAT refers to requests for reimbursement not yet received.

15. Cash and cash equivalents

As of 31 December 2020 and 2019, the Cash and cash equivalents item is detailed as follows:

	2020	2019
Term deposits	13,808	285,874
Bank deposits available on demand	520,629	148,952
Other bank deposits	93	111
Cash	29	87
Cash and cash equivalent in the consolidated statement of financial position	**534,559**	**435,024**
Bank overdrafts	-	(862)
Cash and cash equivalents in the consolidated cash flow statement	**534,559**	**434,162**

16. Equity

✈ **Capital and Supplementary capital contributions**

The nominal capital of the TAP Group, amounting to EUR 15,000 thousands, consists of 1,500,000 registered shares worth EUR 10 each, and is fully subscribed and paid up.

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

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

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

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

As disclosed in the Introduction Note, on October 2, 2020, the Portuguese State proceeded:

(i) The acquisition by the Portuguese state, through the Treasury and Finance Directorate-General, of shares, economic rights and some of the incidental benefits held by Atlantic Gateway in TAP SGPS, so that the Portuguese state would have a total shareholding of 72.5% and the corresponding economic rights in TAP SGPS;
(ii) The transmission to HPGB, SGPS, SA ("HPGB") of shares representing 22.5% of the share capital and voting rights of TAP SGPS, as well as incidental benefits held by Atlantic Gateway in TAP SGPS, meaning Atlantic Gateway was no longer a shareholder of TAP SGPS

In addition, according 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.

✈ **Other equity instruments**

On 8 March 2016, the Shareholders General Meeting, previously authorised by ANAC, approved the issuance of a 10-year bond loan by TAP SGPS in the amount of EUR 120 million. The aforementioned issue is composed by two series: the first (series A), in the amount of EUR 90 million, subscribed by Azul S.A. and the second (series B), in the amount of EUR 30 million, subscribed by Parpública (Note 1).

Parpública notified TAP SGPS, by letter dated 28 December 2018, of their irrevocable decision to convert the convertible bond, issued by TAP SGPS in 2016 that it owns in the amount of EUR 30 million into special shares representative of the share capital of TAP SGPS. Such conversion will occur on the last permitted date for conversion, as defined, to that date, in the contractual documents of the bond issuance, or on an earlier date, if such is required by Parpública.

This situation, however, changed in 2020, due to the exceptional circumstances inherent to the COVID-19 disease pandemic. Following the outbreak of the aforementioned pandemic at the beginning of 2020 and its severe negative impact on the aviation sector and, in particular, on the TAP Group, the Portuguese Republic agreed with the European Commission to grant emergency aid amounting to EUR 1.2 billion in favour of the TAP Group, aiming at the financing and restructuring of the TAP Group, in pursuit of the public interest underlying the continuity of the TAP Group. The granting of the aforementioned emergency aid was accompanied by a reorganization of the shareholder structure of TAP SGPS, under which, among other contractual instruments and following the negotiations between the various interested parties, it was celebrated, on July 15, 2020, a memorandum of understanding between the Portuguese Republic, TAP SGPS, Parpública, Azul SA (“Azul”) and Azul Linhas Aéreas Brasileiras, SA, with a view to the waiver, by Parpública and Azul, of the respective conversion right as holders of convertible bonds issued by TAP SGPS in 2016 in nominal value, respectively, of EUR 30 million and EUR 90 million. This waiver was achieved through a unanimous written decision of the bondholders subscribed by Azul and Parpública on August 26, 2020, which changed the terms and conditions applicable to this bond issue by TAP SGPS with the purpose of eliminating the said right of conversion.

Taking into account the aforementioned, the amount of 36.3 million was classified as non-current remunerated liabilities (Note 19) at December 31, 2020.

✈ Legal reserves

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

As at 31 December 2020 and 2019, the legal reserve was fully constituted in accordance with the commercial legislation in force.

✈ Foreign currency translation reserves

Exchange-rate differences resulting from the translation of foreign-currency operating units are recorded in equity under this item:

	2020			
	Opening balance	**Increases**	**Decreases**	**Closing balance**
TAP M&E Brazil and Aeropar:				
Currency translation of financial statements and goodwill	137,914	84,252	-	222,166
Extension of the net investment in TAP M&E Brazil	(214,273)	-	(114,251)	(328,524)
	(76,359)	**84,252**	**(114,251)**	**(106,358)**
Net impact			**(29,999)**	

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

The variation of EUR 29,999 thousands during 2020 relates to the Group's ownership of exchange-rate differences resulting from the conversion of the financial statements of companies operating in Brazil to an unfavourable amount of EUR 11,513 thousands and their goodwill to the unfavourable amount of EUR 18,486 thousands (Note 6).

The decrease of EUR 114,251 thousands and EUR 6,286 thousands, which occurred on 31 December 2020 and 2019 respectively, relates to the adverse exchange rate differences arising from medium- and long-term financing granted to

TAP M&E Brazil, which is unlikely to be settled in the foreseeable future and is in substance an extension of the Group's net investment in that foreign entity.

✈ Fair value reserves

As of 31 December 2020, the negative amount of EUR 22,921 thousands, shown under the "Fair value reserves" item, is the fair value of financial instruments classified as hedging (EUR 29,014 thousands), net of tax of EUR 6,093 thousands (Notes 10 and 21).

✈ Retained earnings

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

✈ Earnings per share

Considering that the convertible financial instruments on the shares of TAP SGPS, namely the convertible bonds, the Group presents the following earnings per share in 2020 and 2019:

	2020	2019
Net income from continuing activities	(1,416,744)	(105,607)
Earnings/(losses) attributable to TAP SGPS shareholders	(1,416,744)	(105,607)
Weighted average number of shares	1,500,000	1,500,000
Basic earnings/(losses) per share from continuing activities (value in Euro)	(944.5)	(70.4)
Diluted earnings/(losses) per share from continuing activities (value in Euro)	(868.9)	(64.8)
Basic earnings/(losses) per share (value in Euro)	(944.5)	(70.4)
Diluted earnings/(losses) per share (value in Euro)	(868.9)	(64.8)

17. Non-controlling interests

On 31 December 2020 and 2019, the non-controlling interests item for the consolidated financial position is broken down as follows:

	2020	2019
Non-controlling interests of net income		
TAP M&E Brazil	(373)	(194)
Cateringpor	(1,039)	619
	(1,412)	**425**

During the fiscal years ending 31 December 2020 and 2019, the consolidated statement of earnings of non-controlling interests item is detailed as follows:

	%	2020	2019
Non-controlling interests of equity			
TAP M&E Brazil	1.36%	(4,708)	(5,628)
Cateringpor	49%	2,536	3,575
		(2,172)	**(2,053)**

18. Provisions

On 31 December 2020 and 2019, the movement under the Provisions item is as follows:

2020	Opening balance	Adoption of IFRS 16	Increases	Decreases by use	Reversal of unused amounts	Currency translation differences	Other movements	Closing balance
Provisions								
Provision for legal claims	17,948	-	1,847	-	(52)	(2,758)	586	**17,571**
Redelivery	74,759	-	109,194	(44,484)	(37,580)	(7,547)	-	**94,342**
Provision for financial investments (Note 8)	-	-	12,868	-	-	-	(2,032)	**10,836**
Restructuring provision (Note 30)	-	-	93,197	-	-	-	-	**93,197**
Other provisions	1,838	-	10,410	(630)	(13)	(269)	5	**11,341**
	94,545	**-**	**227,516**	**(45,114)**	**(37,645)**	**(10,574)**	**(1,441)**	**227,287**

2019	Opening balance	Adoption of IFRS 16	Increases	Decreases by use	Reversal of unused amounts	Currency translation differences	Other movements	Closing balance
Provisions								
Provision for legal claims	20,925	-	-	(164)	(3,230)	(151)	568	**17,948**
Redelivery	-	26,082	64,082	(19,777)	-	-	4,372	**74,759**
Other provisions	1,456	-	671	-	(12)	(6)	(271)	**1,838**
	22,381	**26,082**	**64,753**	**(19,941)**	**(3,242)**	**(157)**	**4,669**	**94,545**

✈ Provision for ongoing legal proceedings

Provisions for legal proceedings are recognised in accordance with the Company’s and its legal advisors risk assessments, based on historical success rates by type of legal action and probability of unfavourable outcomes for the Group. As at December 31, 2020, the existent provision, in the amount of EUR 17,571 thousands, aims to cover the risk of various legal proceedings against the Group, in Portugal and foreign countries.

The detail of provisions for ongoing legal proceedings is as follows:

	2020	2019
Group TAP (w ithout the subsidiary TAP M&E Brazil)	10,565	9,231
Subsidiary TAP M&E Brasil	7,006	9,231
	17,571	**18,462**

As at 31 December 2020, the subsidiary TAP M&E Brazil faced about 1,534 labour claims (1,826 claims as at 31 December 2019). The subsidiary is a joint debtor of the labour liabilities related to the migration of employees from VARIG to TAP M&E Brazil in 2001 and 2002. Labour claims have been filed by former employees of VARIG against the subsidiary and against “TAP S.A.”, who did not migrate in 2001 and 2002 and who never have been employees of VEM (currently TAP

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

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

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

✈ **Redelivery**

Increases in the redelivery provision are recognised in exchange for the right to use and are then subject to depreciation. The increase recognised against 31 December 2019 is the effect of the redelivery estimate made on 31 December 2020, taking into account the information available on that date (Note 1.1.3).

✈ **Other provisions**

This item is broken down as follows:

	2020	2019
Subsidiary TAP M&E Brazil:		
Provision for tax contingencies	309	433
Provision for civil contingencies	212	981
Remaining subsidiaries:		
Other provisions	10,820	424
	11,341	**1,838**

On 31 December 2020, a provision of EUR 10.4 million was made for damages to customers whose claims are being processed by the Group.

19. Borrowings and lease liabilities with and without purchase option

As at 31 December 2020 and 2019, Borrowings and lease liabilities with and with no option to purchase are detailed as follows:

	2020		2019	
	Current	Non-Current	Current	Non-Current
State aid	1,200,000	-	-	-
Accued interest	10,825	-	-	-
State aid	**1,210,825**	**-**	**-**	**-**
Bank loans	34,844	229,403	122,709	279,941
Interest accrued	1,496	-	2,570	-
Initial expenses	(1,417)	(2,221)	(1,923)	(2,081)
Remunerated bank debt	**34,923**	**227,182**	**123,356**	**277,860**
Bond issuance	321,099	495,000	2,588	788,172
Interest accrued	2,603	50,333	4,406	28,779
Initial expenses	(13,373)	(4,949)	(3,615)	(17,262)
Bond issuance	**310,329**	**540,384**	**3,379**	**799,689**
Lease liabilities with purchase option	40,465	399,851	36,023	242,589
Interest accrued	1,798	-	941	-
Initial expenses	(786)	(2,465)	(952)	(3,318)
Lease liabilities with purchase option	**41,477**	**397,386**	**36,012**	**239,271**
Lease liabilities without purchase option	**363,036**	**1,565,938**	**352,333**	**1,743,388**
Total Borrowings	**1,960,590**	**2,730,890**	**515,080**	**3,060,208**

✈ Net debt

As at 31 December 2020 and 2019, net debt is detailed as follows:

	2020	2019
Borrowings and Lease liabilities with purchase option		
Non-current	1,164,952	1,316,820
Current	1,597,554	162,747
	2,762,506	**1,479,567**
Cash and cash equivalents (Note 15)		
Cash	29	87
Other deposits	93	111
Bank deposits available on demand	520,629	148,952
Term deposits	13,808	285,874
	534,559	**435,024**
Net debt	**2,227,947**	**1,044,543**
Net debt without State aid	**1,017,122**	**1,044,543**

As of 31 December 2020 and 2019, the interest-bearing debt and leasing liabilities with a purchase option, by maturity and by type of interest rate, is broken down as follows:

	2020	2019
Up to 1 year	1,597,554	162,747
1 to 2 years	99,955	142,682
3 to 5 years	648,517	800,247
6 to 10 years	375,614	260,871
Over 10 years	40,866	113,020
	2,762,506	**1,479,567**

	2020					
	< 1 year	**1 - 2 years**	**3 - 5 years**	**6 - 10 years**	**> 10 years**	**Total**
Variable Rate						
Loans	1,237,457	46,748	122,851	42,451	-	1,449,507
Lease liabilities w ith purchase option	12,981	17,376	54,657	-	-	85,014
	1,250,438	**64,124**	**177,508**	**42,451**	**-**	**1,534,521**
Fixed Rate						
Loans	318,621	7,456	376,718	171,342	-	874,137
Lease liabilities w ith purchase option	28,495	28,375	94,291	161,821	40,866	353,848
	347,116	**35,831**	**471,009**	**333,163**	**40,866**	**1,227,985**
Total	**1,597,554**	**99,955**	**648,517**	**375,614**	**40,866**	**2,762,506**

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

✈ State Support

This item includes the loan paid by the Portuguese State in the amount of EUR 1.2 billion, distributed in seven instalments until 30 December 2020 (see Introductory Note).

✈ Bank loans

This item includes EUR 144.8 million for financing with a syndicate of banks. According to the conditions established in the Share Purchase Agreement, complemented by the Agreement on the Debt Service Restructuring and Monitoring of the TAP Group, referred to in Note 1, on 30 June 2017, bank debt was restructured. The main changes were related to the loans' maturity and conditions, namely the applicable interest rate and spread.

On 23 December 2019 and 12 February 2020, the Group made a voluntary early repayment for financing with a syndicate of Portuguese Banks of EUR 47.7 million and EUR 134.7 million respectively. Following the first voluntary repayment mentioned, it is no longer necessary to establish the Net Debt/EBITDAR Ratio for the purpose of this financing.

In addition, the bank loans line includes two loans with a national credit institution of EUR 92.3 million and financing from a Luxembourg financial institution of EUR 18.8 million.

✈ Bond loans

On 8 March 2016, the Shareholders General Meeting, previously authorised by ANAC, approved the issuance of a bond loan, subject to a fixed rate, convertible into TAP SGPS shares, in the amount of EUR 120 million. The aforementioned issue is composed by two series: the first (series A), in the amount of EUR 90 million, subscribed by Azul S.A. and the second (series B), in the amount of EUR 30 million, subscribed by Parpública (Note 1). On 31 December 2017, to the principal of the loan of EUR 120 million, interest payable in the amount of EUR 15,845 thousands was added.

Parpública notified TAP SGPS, by letter dated 28 December 2018, of their irrevocable decision to convert the owned convertible bonds in the amount of EUR 30 million plus interests due until that date, in the amount of EUR 6,297 thousands 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. As a result, on 31 December 2018, the bond loan line comprises only the A series of the loan of EUR 90,000 thousands subscribed by Azul S.A., to which is added interest payable in the amount of EUR 20,161 thousands. As part of the contracts concluded between TAP shareholders, the contractual conditions for bond loans were reviewed on 28 August 2020. See Introductory Note.

TAP SA issued a private bond subscribed on 14 January 2019, in the amount of EUR 137.2 million and maturity in 2034. The fulfilment of the principal and interest repayment obligations related to these bonds benefit from a pledge on a bank deposit constituted by the Issuer for this specific purpose (presented, in the balance sheet, as a deduction to the Gross Financial Debt) and from additional guarantees over contractual rights that do not affect any assets recognised in the Issuer's balance sheet.

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

In December 2019, TAP S.A. made a private offering to institutional investors of 5-year bonds, with a fixed interest rate of 5.625 % per year, in the amount of EUR 375 million, called “TAP 2019-2024 Bonds”. The issue and financial and physical settlement of the transaction, as well as the bonds’ admission to trading, took place on 2 December 2019.

On 31 December 2020 and 2019, all loans are denominated in Euro.

✈ Lease liabilities with purchase option

On 2020 and 2019 the lease liabilities with purchase option (accrued of interests and deducted of initial charges), essentially related to aircraft and engines.

Lease liabilities with purchase option per currency are detailed as follows:

	2020	2019
Lease liabilities in EUR	106,906	111,250
Lease liabilities in USD	331,957	164,033
	438,863	**275,283**

On 31 December 2020 and 2019, lease liabilities with purchase option, by maturity, are broken down as follows:

	2020	2019
Up to 1 year	41,477	36,011
1 to 2 years	45,751	28,231
2 to 3 years	47,582	29,326
3 a 4 years	49,804	30,311
4 to 5 years	51,562	31,377
Over 5 years	202,687	120,027
	438,863	**275,283**

✈ Lease liabilities with no option to purchase

The heading Lease liabilities with no option to purchase mainly refers to the Group's non-cancellable payments under lease contracts, which vary in duration up to 12 years and may be extended at the express wish of the contracting parties, which are now recognised in the statement of financial position from 1 January 2019 with the adoption of IFRS 16.

On 31 December 2020, there are 79 aircraft, 18 engines on lease agreements with no option to purchase and 8 aircraft under ACMI (as per Note 4).

On 31 December 2020 and 2019, leasing liabilities with no option to purchase per maturity are detailed as follows:

	2020	2019
Up to 1 year	363,036	352,333
1 to 2 years	277,911	302,518
2 to 3 years	210,304	251,287
3 a 4 years	181,757	202,132
4 to 5 years	166,863	178,079
Over 5 years	729,103	809,372
	1,928,974	**2,095,721**

Liabilities with no option to purchase are determined largely in USD.

✈ Financial covenants

The financial covenants in the lease and loan contracts are the usual ones in operations of this nature, including compulsory provisions such as the maintenance of the airline operator activity, commitments to periodically disclose the available financial information, and, in the specific case of leases with no option to purchase, operating duties relative to registrations at official entities, information relative to leased aircraft, strict compliance with all the regulations, and procedures defined by the authorities, among others.

Additionally, following the restructuring of the aforementioned financial debt and the issue of bond loans, commitments were made to monitor the financial performance of the TAP Group, through the analysis and compliance with certain ratios related to the consolidated financial statements of the TAP Group, particularly with equity, EBITDAR, Net Debt/EBITDAR and unsecured net financial debt and minimum amount of cash and its unrestricted equivalents. These ratios are intended to monitor the financial situation of the TAP Group and measure its ability to service debt.

Due to the COVID-19 pandemic and the consequent deterioration of EBITDAR with the drop in activity in the months of 2020, the Group failed to comply with certain financial covenants, namely those related to the maintenance of Equity and the compliance with the Adjusted Net Debt/EBITDAR ratio as fixed in certain borrowings.

Regarding the syndicated Financing from Portuguese Banks in the outstanding amount of EUR 144.8 million as of 31 December 2020, the banks' waivers were obtained in 2020 in relation to the compliance with the financial covenants referring to the consolidated minimum capital (adjusted) and TAP SGPS's Adjusted Net Financial Debt/Adjusted EBITDAR at the end of 2020.

Regarding the issue of bonds by private offering made to foreign institutional investors in the amount of EUR 114.5 million as of 31 December 2020, the financial covenant of the Adjusted Net Debt/EBITDAR ratio will refer to the financial statements as of 31 December 2020 and its compliance will be verified on the date of publication of the accounts.

Given that the ratio of 31 December is above the agreed contractual limit, considering international accounting and financial reporting standards, the Group has reclassified the debt to Current Liabilities.

As this date, it is planned to obtain the waiver in the allowed period.

Regarding the public offer of 4-year bonds denominated "TAP 2019-2023" bonds in the amount of EUR 200 million at 31 December 2020, the financial covenant of the Adjusted Net Debt/EBITDAR ratio is based on the financial statements at 31 December 2020 and its compliance may be remedied after the approval of these financial statements at the General Meeting.

Given that the ratio, of 31 December, is above the agreed contractual limit, considering international accounting and financial reporting standards, the Group has reclassified the debt to Current Liabilities.

At this date, the process of obtaining the waiver is in progress within the permitted period.

✈ Reconciliation of financial cash flows

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

	Remunerated bank debt and bonds	Leases with purchase option	Leases without purchase option	Total
January 1, 2019	**755,967**	**132,484**	**924,020**	**1,812,471**
Receipts	702,046	77,014	-	779,060
Payments	(250,411)	(38,919)	(338,861)	(628,191)
Contractual assignment of lease contracts	-	110,220	1,446,876	1,557,096
Currency translation differences	-	2,174	128,670	130,844
Other	(3,318)	(7,690)	(64,984)	(75,992)
December 31, 2019	**1,204,284**	**275,283**	**2,095,721**	**3,575,288**
Receipts	1,226,511	16,312	-	1,242,823
Payments	(228,493)	(50,730)	(245,987)	(525,210)
Contractual assignment of lease contracts	-	233,236	159,317	392,553
Currency translation differences	270	(39,493)	(160,877)	(200,100)
Other	121,071	4,255	80,800	206,126
December 31, 2020	**2,323,643**	**438,863**	**1,928,974**	**4,691,480**

The contractual assignment of lease contracts results from the new fleet contracts, in which Group has fully assigned its contractual position to the lessor. As such, there will be no outflow in the future.

20. Post-employment benefits obligations

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

✈ Retirement pension supplements and early retirement instalments - TAP S.A. (VIVA)

According to current rules at TAP S.A., this guarantees employees hired before 31 May 1993 the difference between the pension, for age or disability, allocated by Social Security, and a minimum amount guaranteed by the TAP SA. This amount corresponds to a fixed percentage of part of the salary (basic salary + annuities), at the retirement date, for each year in the Company's service, up to a maximum of 20 years, as follows:

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

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

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

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

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

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

The measurement of liabilities took into consideration that, under the terms of the collective regulations establishing the aforementioned pension plan, the total pension guaranteed by the TAP SA, i.e. the social security pension and pension supplement will never exceed the base monthly remuneration, net of personal income tax (IRS) and social security payments during employment. This requirement is not applicable because it is not enshrined in the collective regulations governing the technical flight crew, for which the limit does not exist and the pensionable salary is the basic salary of the salary scale, plus the financial year salary and seniority.

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

✈ **Pensions - TAP M&E Brazil**

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

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

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

Therefore, only the defined benefit component referred to above is recorded under the "Pensions and other post-employment benefits" item.

✈ **Pensions – Portugália**

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

✈ **Pensions – UCS**

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

✈ **Retirement bonus - PNT - TAP S.A.**

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

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

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

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

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

- Pilots recruited after 1 June 2007: there is no entitlement to a retirement bonus.

✈ **Healthcare – TAP S.A.**

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

TAP S.A. considers that although it provides its former employees with access to the health care services of UCS, this is not an obligation but rather a freely granted benefit that, therefore, does not constitute a liability to provide any healthcare for workers after they leave employment at the company. Therefore, to date, the company assumes no accounting liability regarding the provision of health care services for pre-retired, early-retired and retired employees. This liability was determined based on actuarial evaluation by an independent entity.

Assumptions used in the evaluation of liabilities

The liabilities of the different companies of the Group were calculated through actuarial studies reported as at 31 December 2018 and 2017, prepared by independent entities, individually for each company, using the projected unit credit method and essentially based on the following financial and demographic assumptions:

	2020			2019		
	Portugal VIVA	**Portugal Jubileu**	**Brazil**	**Portugal VIVA**	**Portugal Jubileu**	**Brazil**
Mortality table	TV 88/90	TV 88/90	AT-2000	TV 88/90	TV 88/90	AT-2000
Disability table	EKV1980	EKV1980	Mercer	EKV1980	EKV1980	Mercer
Discount rate	0.75%	0.75%	7.08%	1.50%	1.50%	7.08%
Fund yield rate	1.50%	1.50%	7.08%	1.50%	1.50%	7.08%
Growth rate						
Wages	[1,5%-3%]	1.50%	4.64%	[1,5%-5%]	2.00%	4.64%
Pensions	1.00%	1.00%	3.60%	1.00%	1.00%	3.60%
Trend of medical costs	1.50%	--	6.97%	1.50%	--	6.97%
Retirement age	66	65	--	66	65	--

The Group reviews the actuarial assumptions periodically, or whenever relevant events occur, based on market financial information and information related to the beneficiaries covered by these plans. On 31 December 2020, the discount rate for VIVA and Retirement Bonus was reduced to 0.75%, following a reduction in interest rates on high-quality bonds. The reduction in the rate of wage growth is based on the best estimate to date, taking into account the ongoing restructuring plan in the Group.

These liabilities for the 2020 and 2019 financial years are detailed as follows:

2020	VIVA fund	VIVA pensions	Health Care	Jubileu bonus	England Representation	Brazil	UCS (Note 11)	Other	Total
Liabilities from past services									
- Active employees	1,071	2,872	-	99,760	-	1,880	129	-	105,712
- Early retirement	69	14,801	443	-	-	-	-	607	15,920
- Retired	11,680	28,258	2,765	-	31,073	59,031	-	-	132,807
Fair value of the fund	(15,235)	-	-	(36,914)	(31,121)	(48,781)	(671)	-	(132,722)
Defit/(surplus)	**(2,415)**	**45,931**	**3,208**	**62,846**	**(48)**	**12,130**	**(542)**	**607**	**121,717**

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

As of 31 December 2020, over-funding of the United Kingdom Representation Pension Fund of EUR 48 thousands is recorded under the other receivables item (Note 10).

On 31 December 2020 and 2019, the excess funding of the UCS subsidiary's Horizonte Valorização Pension Fund, amounting to EUR 542 thousands in 2020 and EUR 550 thousands in 2019, is recorded under the other receivables item (Note 10).

On 31 December 2020, and in 2019, the Group's defined benefit plans in Portugal (excluding the UK Representation) respectively covered 1,814 and 1,850 beneficiaries in active employment. The total number of retired and pre-retired employees entitled to a pension supplement on 31 December 2020 and 2019 was 661 and 658 recipients respectively.

As at 31 December 2020 and 2019, the average maturity of the liabilities related to the defined benefit plan for the “VIVA fund” is 10 years and for the “Retirement Bonuses” is 11 and 12 years respectively.

The other retirement benefits, on 31 December 2020 and 2019, are the result of the existing pre-retirement programme, which TAP staff who are not covered by the VIVA Fund have joined, amounting to EUR 608 thousands and EUR 887 thousands respectively.

Sensitivity analyses

✈ **Annual discount rate**

An increase (decrease) of 0.25% in the annual discount rate of the defined benefit plans of the "VIVA plan", "Retirement Bonus" scheme and "Horizonte Valorização Pension Fund", and an increase (decrease) of 1% in the annual discount rate of the "TAPMEPrev - Brasil" defined benefit plan, would correspond to the following impacts on the Group's liabilities as at 31 December 2020 and 2019:

2020	Rate	VIVA Plan *	Jubileu Bonus	Pension fund Horizonte Valorização
Annual discount rate of pensions	0.75%	58,751	99,760	129
0.25% increase in the discount rate	1.00%	57,795	96,209	125
0.25% decrease in the discount rate	0.50%	59,754	103,478	133

* Includes "VIVA Funds" and "VIVA Pensions"

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

* Includes "VIVA Funds" and "VIVA Pensions"

✈ **Healthcare cost growth rate**

If the growth rate of medical care costs increases or decreases by one percentage point, the respective impact on the TAP S.A.'s liabilities as at 31 December 2020 and 2019 is as follows:

	Rate	2020	2019
Annual growth rate of medical costs	1.50%	3,208	3,225
1% increase in the growth rate of medical costs	2.50%	3,468	3,482
1% decrease in the growth rate of medical costs	0.50%	2,979	2,996

✈ **Pension growth rate**

If the pension growth rate increase or decreases by 0.25 percentage points, the respective impact on the Group's liabilities as at 31 December 2020 and 2019 is as follows:

	Rate	2020	2019
Growth rate of VIVA Plan (*) pension	1.00%	58,751	57,705
0.25% increase in the discount rate	1.25%	59,607	58,472
0.25% decrease in the discount rate	0.75%	57,899	56,962

* Includes "VIVA Pensions" and "VIVA Fund"

Evolution of liabilities from past services

The movement of the liabilities from past services, reflected in the consolidated statement of financial position, as at 31 December 2020 and 2019, is as follows:

	2020								
	VIVA fund	VIVA pensions	Health Care	Jubileu bonus	England Representation	Brazil	UCS	Other	Total
Liabilities at the beginning of the year	10,312	47,393	3,225	100,979	16,919	81,349	157	887	261,221
Currency translation differences	-	-	-	-	(85)	(25,275)	-	-	(25,360)
Values recorded through profit or loss for the year:									
Current services	30	-	-	5,223	12,243	-	33	-	17,529
Net interest	155	710	48	1,484	451	668	3	-	3,519
Reestructuring - early retirement (Note 30)	-	933	-	-	-	-	-	-	933
Acturial gain and losses	3,200	4,405	(65)	13,248	4,763	5,460	(7)	-	31,004
Benefits paid	(877)	(7,510)	-	(21,174)	(3,218)	(1,291)	(57)	(280)	(34,407)
Liabilities at the end of the year	**12,820**	**45,931**	**3,208**	**99,760**	**31,073**	**60,911**	**129**	**607**	**254,439**

	2019								
	VIVA fund	VIVA pensions	Health Care	Jubileu bonus	England Representation	Brazil	UCS	Other	Total
Liabilities at the beginning of the year	10,957	51,032	3,036	83,940	16,919	84,378	244	1,677	252,183
Currency translation differences	-	-	-	-	-	(1,572)	-	-	(1,572)
Values recorded through profit or loss for the year:									
Current services	21	-	-	4,275	-	-	43	-	4,339
Net interest	219	1,836	61	1,230	-	583	6	-	3,935
Reestructuring - early retirement (Note 30)	-	2,036	-	-	-	-	-	-	2,036
Acturial gain and losses	(118)	2,404	128	15,141	-	-	(136)	-	17,419
Benefits paid	(767)	(9,915)	-	(3,607)	-	(2,040)	-	(790)	(17,119)
Liabilities at the end of the year	**10,312**	**47,393**	**3,225**	**100,979**	**16,919**	**81,349**	**157**	**887**	**261,221**

Evolution of funds allocated to pensions benefit schemes

In 2020 and 2019, the fund assets evolution was as follows:

	2020					
	VIVA fund	Jubileu bonus	England Representation	Brazil	UCS	Total
Opening balance	15,737	51,237	15,498	68,641	707	151,820
Currency translation differences	-	-	(243)	(20,076)	-	(20,319)
Contributions in the year	-	6,000	486	1,507	-	7,993
Net interest	375	720	18,598	-	4	19,697
Return of plan assets (excluding net interest)	-	131	-	-	17	148
Benefits paid	(877)	(21,174)	(3,218)	(1,291)	(57)	(26,617)
Closing Balance	**15,235**	**36,914**	**31,121**	**48,781**	**671**	**132,722**

	2019					
	VIVA fund	Jubileu bonus	England Representation	Brazil	UCS	Total
Opening balance	15,230	48,943	15,498	68,745	649	149,065
Currency translation differences	-	-	-	(1,216)	-	(1,216)
Contributions in the year	-	5,417	-	3,152	-	8,569
Net interest	1,272	922	-	-	13	2,207
Return of plan assets (excluding net interest)	-	(21)	-	-	45	24
Benefits paid	(765)	(4,024)	-	(2,040)	-	(6,829)
Closing Balance	**15,737**	**51,237**	**15,498**	**68,641**	**707**	**151,820**

The composition of the funds and the respective category of amount included as at December 31, 2020 and 2019 is as follows:

	2020						
	Fair Value Level	VIVA Pensions	Seniority Bonus	England Representat	Brazil	UCS	Total
Shares	1	4,137	-	4,020	14,142	181	22,480
Bonds	1	5,620	36,626	1,707	34,639	427	79,019
Public debt	1	4,197	-	-	-	-	4,197
Real estate	1	479	-	-	-	29	508
Liquidity	1	802	288	630	-	34	1,754
Other current investments	1	-	-	24,764	-	-	24,764
		15,235	**36,914**	**31,121**	**48,781**	**671**	**132,722**

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

Expenses related to pensions and other post-employment benefits

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

	2020								
	VIVA fund	VIVA pensions	Health Care	Jubileu bonus	England Representation	Brazil	UCS	Other	Total
Current Services	30	-	-	5,223	12,243	-	33	-	17,529
Net interest	(220)	710	48	764	(18,147)	668	(1)	-	(16,178)
Subtotal (Note 26)	**(190)**	**710**	**48**	**5,987**	**(5,904)**	**668**	**32**	**-**	**1,351**
Reestructuring - early retirement (Note 29)	-	933	-	-	-	-	-	-	933
Total	**(190)**	**1,643**	**48**	**5,987**	**(5,904)**	**668**	**32**	**-**	**2,284**

	2019								
	VIVA fund	VIVA pensions	Health Care	Jubileu bonus	England Representation	Brazil	UCS	Other	Total
Current Services	21	-	-	4,275	-	-	43	-	4,339
Net interest	644	721	61	308	-	583	(7)	-	2,310
Subtotal (Note 26)	**665**	**721**	**61**	**4,583**	**-**	**583**	**36**	**-**	**6,649**
Reestructuring - early retirement (Note 29)	-	2,036	-	-	-	-	-	-	2,036
Total	**665**	**2,757**	**61**	**4,583**	**-**	**583**	**36**	**-**	**8,685**

As mentioned, TAP SA's Technical Flight Crew, recruited after 1 June 2007, and Portugália's Technical Flight Crew benefit from a defined contribution plan. A total of EUR 3,780 thousands in personnel was recognised during the 2020 financial year: (2019: EUR 1,274 thousands), relating to contributions made during the year in favour of its employees (Note 27).

Spending on pensions and other post-employment benefits for the 2020 and 2019 financial years is recorded under the personnel costs item in the income statement (Note 27).

Remeasurement gains/losses

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

	2020							
	VIVA Fund	VIVA pension	Health Care	Jubileu bonus	England Representation	Brazil	UCS	Total
Remeasurements								
Return of assets, excluding amounts included in net income	-	-	-	(131)	-	-	(17)	(148)
	-	**-**	**-**	**(131)**	**-**	**-**	**(17)**	**(148)**
(Gains)/losses due to changes in demographic assumptions	-	-	-	-	-	-	-	-
(Gains)/losses due to changes in financial assumptions	931	2,175	-	14,941	-	-	-	18,047
(Gains)/losses due to experience	2,269	2,230	(65)	(1,693)	4,763	5,460	(7)	12,957
	3,200	**4,405**	**(65)**	**13,248**	**4,763**	**5,460**	**(7)**	**31,004**
Total remeasurements	**3,200**	**4,405**	**(65)**	**13,117**	**4,763**	**5,460**	**(24)**	**30,856**

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

Actuarial losses due to changes in the financial assumptions recognised in 2020, amounting to EUR 18,047 thousands, are largely the result of a reduction in the discount rate.

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

21. Other accounts payable

On 30 December 2020 and 2019 the detail of "Other payables" is as follows:

	2020		2019	
	Current	Non-current	Current	Non-current
Accrued expenses	190,674	-	273,402	-
Suppliers	92,878	-	159,075	-
Swaps jet fuel	42,896	-	-	-
Advances from customers	826	-	5,719	-
Other payables	100,237	-	154,577	707
	427,511	**-**	**592,773**	**707**

✈ Suppliers

On 31 December 2020 and 2019, the item "Suppliers" is detailed as follows:

	2020	2019
Suppliers - current account	60,383	55,811
Suppliers - related parties (Note 37)	(560)	9,718
Suppliers - pending invoices	33,055	93,546
	92,878	**159,075**

The decrease in this heading is mainly due to the reduction in the hiring of the provision of services as a consequence of the impact of COVID-19 on the Group's activity, complemented by the cash management measures negotiated with the suppliers.

✈ Jet fuel derivatives

The Group's risk coverage policy aims to cover about 50% of the estimated jet fuel consumption for the next 12 months and may cover its exposure for up to 24 months, depending on market conditions. However, as a result of the COVID-19 pandemic, which began in March 2020, the Group's activity was abruptly interrupted, significantly changing jet fuel consumption estimates for the following months. In this context, the requirements for the coverage of jet fuel derivatives have been revised, and it was concluded that there is an excess of coverage.

As of 31 December 2020, approximately EUR 165 million of costs relating of derivatives that do not meet the coverage accounting requirements were recorded in financial results, of which EUR 151.4 million relate to contracts that have already finished (EUR 145 million have already been settled). The remaining EUR 13.6 million refer to the fair value of the derivatives still open at 31 December 2020 with no expectation of consumption during 2021.

For contracts in which it was possible to ensure compliance with the hedge accounting requirements, an amount of approximately EUR 29 million was recorded on December 31, 2020, under the caption “Equity reserves”, related to the variation in the fair value of derivatives still open to this date.

On 31 December 2020, the Group had contracted derivatives on 405,000 tons of jet fuel, whose market value at that time was negative of EUR 42.9 million, with maturities between January and December 2021.

✈ Accrued expenses

As at December 31, 2020 and 2019, the "Accrued expenses" item is detailed as follows:

	2020	2019
Remunerations	111,341	137,588
Aircraft fuel and CO2 emission licences	25,787	55,015
Insurance to be settled	13,050	4,828
Handling services	9,346	9,482
Navigation charges	4,351	12,639
Special sales charges	3,858	12,692
Related parties (Note 37)	1,390	1,587
Other	21,551	39,571
	190,674	**273,402**

The decrease in most items is associated with the fall in activity, as a result of the COVID-19 pandemic and the adoption of mitigation measures for its effects (Note 1.1.3).

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

✈ Others - Current

As of 31 December 2020, and 2019, the Others - Current item is detailed as follows:

	2020	2019
Rates and taxes	63,836	116,645
Fixed assets suppliers	4,585	12,790
Employees	3,296	3,688
Related parties (Note 37)	-	1,904
Other	28,520	19,550
	100,237	**154,577**

The fees and taxes payable item refers essentially to amounts payable to various entities, related to fees charged to customers on tickets issued. The change from 31 December 2019 is due to the reduction in activity in the fiscal year 2020 resulting from COVID-19.

22. Unused flight tickets

As at 31 December 2020 and 2019, the Group's liabilities relative to unused flight tickets were as follows:

	2020	2019
Passengers	319,340	470,834
Voucher	282,488	9,497
Cargo	161	431
	601,989	**480,762**

As a result of the significant reduction in activity after April 2020 and the cancellation of flights imposed on the aviation sector and the Group, the unused tickets on 31 December 2020 include amounts relating to flights not completed by that date, while the Group remains responsible for providing the service in the future or for refunds as the contractual terms. It should also be pointed out that the amounts included in the unused flight tickets item include vouchers and unused tickets for cancelled flights not yet refunded.

23. Other current liabilities

As at 31 December 2020 and 2019, the other current liabilities item is detailed as follows:

	2020	2019
Deferred income	53,632	56,881
State	23,791	44,525
	77,423	**101,406**

✈ Deferred gains

As of 31 December 2020 and 2019, the Deferred gains payables item is detailed as follows:

	2020	2019
Customer loyalty program	52,634	46,664
Investment grants	634	325
Related parties (Note 37)	83	128
Other deferred revenue	281	9,764
	53,632	**56,881**

As part of the application of IFRS 15 - Revenue from Contracts with Customers in the allocation of air miles to clients that are members of the loyalty program called "TAP Miles&Go", a contractual obligation is recognised based on the unit value of the mile. The increase in this item is the result of the reduced use of air miles after March 2020 as well as the fact that the Group has extended the validity of miles awarded to customers by 12 months, as a result of the COVID-19 pandemic.

As of 31 December 2020 and 2019, Other deferred gains essentially includes expenses from service charges billed to customers, to be recognised as revenue on flight occurrence, as provided for in IFRS 15.

✈ State

On 31 December 2020 and 2019, the balance of this item is detailed as follows:

	2020	2019
Personal income tax	11,544	19,545
Social security contribution	10,453	22,699
State - Brazil	-	1,952
VAT	23	246
Other	1,771	83
	23,791	**44,525**

The reduction by 31 December 2020 compared with 2019 results, on the one hand, from the reduction in the staffing plan and also because of the impact of the payment of the 2020 Christmas allowance, which was made in December 2020, while the payment in the 2019 Christmas allowance was made in January 2020.

24. Operating income and gains

Operating income and gains incurred during 2020 and 2019 were as follows:

	2020				
	Passenger	Maintenance	Cargo and mail	Others	Total
Revenue					
Sales	-	7,029	-	2,284	9,313
Services rendered	849,279	75,137	125,769	9,266	1,059,451
Other supplemental operating income	-	-	-	16,202	16,202
	849,279	**82,166**	**125,769**	**27,752**	**1,084,966**

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

✈ Sales and services rendered

As at 31 December 2020 and 2019, the sales and services rendered, by external and internal market, are presented as follows:

	2020	2019
Sales		
Internal market		
Air transport and maintenance	1,051	883
Catering	2,259	10,795
Health care	11	241
Other	16	103
External market		
Air transport and maintenance	5,976	10,794
	9,313	**22,816**
Services rendered		
Internal market		
Air transport and maintenance	88,842	239,569
Catering	1,518	2,877
Health care	3,003	9,814
Other	3,490	10,113
External market		
Air transport and maintenance	962,598	3,025,985
	1,059,451	**3,288,358**
	1,068,764	**3,311,174**

During the financial years ending on 31 December 2020 and 2019, this item is presented as follows:

2020	Passenger	Maintenance Portugal	Maintenance Brazil	Cargo and mail	*Catering*	Holdings and other	Consolidated
Sales and services rendered:							
Mainland Portugal and islands	73,876	10,364	-	5,408	3,777	6,765	100,190
Europe	305,648	47,764	-	5,660	-	637	359,709
South Atlantic	228,177	7,423	15,213	62,259	-	188	313,260
North Atlantic	117,282	125	-	26,767	-	71	144,245
Mid Atlantic	2,640	-	-	949	-	1	3,590
Africa	119,007	134	-	17,440	-	109	136,690
Other	2,649	1,143	-	7,286	-	2	11,080
	849,279	**66,953**	**15,213**	**125,769**	**3,777**	**7,773**	**1,068,764**

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

The sales and services rendered by geographic market are defined on the basis of the country of destination of the goods and services provided by the Group and, in the case of air transport, the destination country of the flight.

✈ Other income

During 2020 and 2019, this item is presented as follows:

	2020	2019
Rents and sub-leases	2,692	3,597
Supplementary income	2,275	4,848
Operating government grants	1,726	2,188
Gains from tangible fixed assets	516	8,970
Advertising	439	2,190
Sales on board comission	-	674
Other	8,554	9,786
	16,202	**32,253**

25. Gains and losses in associates

In the fiscal years ending 31 December 2020 and 2019, this item includes respectively the negative amount of EUR 12,868 thousands and a positive amount of EUR 1,686 thousands, in connection with ownership of the net profits of the associated company SPdH (Notes 8 and 18).

26. Expenses by nature

During the financial years 2020 and 2019, operational expenditure by nature is as follows:

	2020	2019
Traffic operating costs	333,021	743,221
Aircraft fuel	260,727	789,677
Comercial, communication and marketing costs	69,204	153,118
Cost of materials consumed	51,202	185,166
Aircraft maintenance costs	34,883	60,818
	749,037	**1,932,000**

✈ Aircraft fuel

The "Aircraft fuel" item for the fiscal years ending on 31 December 2020 and 2019 is as follows:

	2020	2019
Aircraft fuel	-	-
Jet fuel comsuptions	209,459	782,096
Sw ap jet fuel	51,032	(14,802)
CO2 emission licences	236	22,383
	260,727	**789,677**

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

The reduction in CO_2 emission licenses is mainly due to the drop in the price of CO_2, accompanied by a decrease in the quantities emitted.

✈ Traffic operating costs

The traffic operating costs item has the following composition for the years ended 31 December 2020 and 2019:

	2020	2019
Other passenger expenses	82,731	76,365
Handling services	80,640	203,687
Navigation fees	56,412	166,324
Landing charges	37,999	107,348
In-flight expenses	19,354	59,371
Accommodation and meals during stopovers	14,062	32,726
Baggage, cargo and mail charges	13,715	23,245
Facilities at airports	11,998	31,432
Air traffic control charges	10,830	27,961
Ground costs related to executive class passengers	2,620	11,765
Passenger, cargo and mail insurance	2,428	2,685
Other traffic operating costs	232	312
	333,021	**743,221**

The reduction in most items is mainly due to the reduction in Group activity during the COVID-19 pandemic.

It should be noted that in the item of operational irregularities, EUR 37.8 million are considered, referring to the increase attributed when issuing vouchers as a form of compensation for non-flown and non-reimbursed tickets (Note 22).

✈ Aircraft maintenance expenses

The Aircraft maintenance expenses item for the fiscal years ending 31 December 2020 and 2019 is as follows:

	2020	2019
Maintenance subcontracting of TAP flight equipment	20,400	30,312
Consumed inventories (Note 12)	14,483	30,506
	34,883	**60,818**

The aircraft maintenance expenses item relates to the structural and recurrent maintenance costs, including the Group's line and fleet. The variation seen is a consequence of the significant reduction in maintenance activity.

✈ Cost of materials consumed

The costs of materials consumed in rendering maintenance services to third parties for the years ended 31 December 2020 and 2019 are as follows:

	2020	2019
Sold and consumed inventories (Note 12)	37,561	156,025
Maintenance subcontracting for third parties flight equipment	13,641	29,141
	51,202	**185,166**

The variation is a consequence of the significant reduction in the maintenance activity for third parties during the COVID-19 pandemic.

✈ Business, marketing and communication costs

The Commercial, marketing and communication costs for the years ending 31 December 2020 and 2019 are as follows:

	2020	2019
Commissions	22,644	44,741
Booking fees	19,603	45,394
Publicity	13,440	24,027
Special sales charges - air transport	9,496	29,181
Specialised w ork	3,935	9,322
Other comercial, communication and marketing expenses	86	453
	69,204	**153,118**

The reduction in most items is mainly due to the reduction in Group activity during the COVID-19 pandemic.

27. Personnel costs

Personnel costs incurred during the years ending in 2020 and 2019 were as follows:

	2020	2019
Employee remuneration	349,137	569,675
Social Security Contributions	75,112	124,208
Other personnel costs	48,831	50,121
Expenses related to post-employee benefits obligation (Note 20)	5,131	7,923
	478,211	**751,927**

The decrease in personnel costs on 31 December 2020 compared to 2019 is mainly due to the reduction in the group's activity as a result of the COVID-19 pandemic and the impact on the reduction in personnel remuneration and social charges on remuneration in the amount of EUR 133 million (Note 1.1.4).

The salaries of the Management Bodies during the financial years ending in 2020 and 2019 were as follows:

	2020	2019 (*)
Board of directors (Note 37)	2,055	2,340
Supervisory board/ statutory auditor	132	154
	2,187	**2,494**

(*) The values in the 2019 Consolidated Financial Statements, in relation to the remunerations attributed to the management bodies during the 2019 financial year, are not correct by mistake, so they are being corrected in this Report

The Other Personnel Spending item is detailed below:

	2020	2019
Insurance	28,281	24,544
Social action costs	6,300	8,534
Meals allow ance	5,469	7,053
Training	3,722	4,174
Uniforms	937	2,120
Others	4,122	3,696
	48,831	**50,121**

During 2020 and 2019, the average number of employees serving the Group and all its subsidiaries was 10,778 and 11,051 respectively:

	2020				
	Air transport	Maintenance	*Catering*	Other	Total
Portugal	5,450	1,944	539	1,862	9,795
Brazil	19	644	-	66	729
Other	72	2	-	180	254
	5,541	2,590	539	2,108	10,778

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

28. Impairment losses in receivables, inventories and Provisions

In the years ending 31 December 2020 and 2019, this item is detailed as follows:

	2020		2019	
	Increase	Reversal	Increase	Reversal
Raw materials, inputs and consumables (Note 12)	21,628	(3,783)	4,458	(7,133)
Costumers and other receivables- Current	53,357	(504)	8,054	(5,319)
Provisions (Note 18)	12,257	(65)	671	(3,242)
	87,242	**(4,352)**	**13,183**	**(15,694)**
Net impact in the income statement		**82,890**		**(2,511)**

The impairment refers, essentially, to TAP M&E Brasil subsidiary (see Note 1.1.3).

29. Other expenses

During the fiscal years ending on 31 December 2020 and 2019, the Other expenses item is detailed as follows:

	2020	2019
Specialised w ork	61,032	65,617
Rents	13,245	10,232
Conservation and repair of other assets	10,191	16,594
Subcontracts	9,828	21,007
Comunication	8,784	11,446
Insurance	4,517	5,774
Fees	4,483	5,931
Transportation	3,821	6,640
Inventory losses	3,500	1,525
Cleaning, hygiene and comfort	3,374	3,331
Surveillance and security	3,146	4,621
Travel costs	2,311	4,555
Electricity	2,254	3,451
Taxes	1,972	3,839
Books and technical documentation	1,788	2,161
Other operating expenses	10,398	12,980
	144,644	**179,704**

The Rent and rentals item includes short-term lease contracts for offices and software to the sum of EUR 9.4 million.

30. Restructuring

The detail of the restructuring costs item during the fiscal years ending on 31 December 2020 and 2019 is given in the following table:

	2020	2019
Restructuring provision (Note 18)	93,197	-
Early retirements (Note 20)	933	2,036
Employee indemnities - Brazil	225	-
Employee indemnities - Portugal	2,232	3,943
	96,587	**5,979**

The amount of EUR 93 million results from the Restructuring Plan in progress in the Group (see Note 1.1.3 and Introductory Note).

31. Other non-recurring items

The detail under Other non-recurring items during the fiscal years ending 31 December 2020 and 2019 is as follows:

	2020	2019
Seniority - compensatory benefits to crew employees	302	680
Aircraft preservation costs	10,143	-
	10,445	**680**

✈ **Aircraft preservation expenses**

On 31 December 2020, expenditure on aircraft preservation was related to the non-recurring costs incurred as a result of aircraft stopping as a result of the COVID-19 pandemic.

Given their framework and nature, these situations were considered by the Board of Directors to be non-recurring in the context of these consolidated financial statements.

32. Depreciation, amortisation and impairment losses

In the years ending 31 December 2020 and 2019, this item is detailed as follows:

	2020	2019
Tangible fixed assets (Note 4)		
Buildings and other constructions	5,891	5,812
Basic equipment	75,413	63,253
Transport equipment	350	335
Tools and utensils	1,134	1,322
Administrative equipment	1,563	1,888
Other tangible fixed assets	318	379
	84,669	72,989
Depreciation of Right-of-use (Note 4)		
Buildings and other constructions	2,603	3,452
Aircraft and engine leases	297,766	278,629
Redelivery	84,636	33,504
Maintenance	61,284	17,482
Transport equipment	287	288
	446,576	333,355
Intangible assets (Note 7)		
Intangible assets	12,869	8,388
Impairment losses on fixed assets (note 4)		
Buildings and other structures	787	-
Plant and machinery	3,376	3,962
Transport equipment	204	-
Tools and utensils	1,250	-
Office equipment	265	-
Other assets in progress	1,396	-
Right of use of assets	2,110	-
	9,388	3,962
Impairment of non-depreciated assets		
Goodw ill	44,934	-
	598,436	**418,694**

Impairment losses recognised in the years ended 31 December 2020, in the amounts of EUR 9,388 thousands, refers, essentially, tangible fixed assets of TAP M&E Brasil subsidiary in the amount of EUR 7,177 thousands (Note 1.1.3).

Additionally, taking into account the anticipated delivery to lessors of 2 aircraft under a lease with no purchase option, contracted at the end of 2020 under the impact of the pandemic COVID-19, depreciations were recognized in the year ended December 31, 2020 unforeseen losses due to impairment losses, in the amount of EUR 37,588 thousands, broken down into depreciation of rents, maintenance, maintenance reserves and redelivery.

33. Financial results

The detail of the financial results of the fiscal years ending on 31 December 2020 and 2019 is as follows:

	2020	2019
Income and gains		
Interest income	1,830	3,237
	1,830	**3,237**
Expenses and losses		
Interest expenses on loans	(89,845)	(48,229)
Operating lease interests without purchase option	(150,796)	(103,818)
Other financial expenses and losses	(10,086)	(26,211)
	(250,727)	**(178,258)**
Overhedge cost	**(165,281)**	**-**
Net currency exchange	**155,008**	**(22,924)**

The favourable exchange rate differences that occurred in the year ended on 31 December 2020 were mainly due to the devaluation of the dollar and Brazilian real.

The increase in the interest paid on 31 December 2020 is mainly due to the increase in debt, particularly as a result of the state aid loan and the lease agreements.

34. Income tax for the year

Since 2017, most of the subsidiaries of the Group headquartered in Portugal have been taxed through the special corporate-tax regime ("RETGS"), with the taxable income being assessed at TAP SGPS. However, each company's income tax estimate is recorded on the basis of its taxable income.

The Group's companies with head office in Portugal are subject to Corporate Income Tax (IRC) based on their individual net income, at the rate of 21% plus a surcharge at the maximum rate of 1.5% on taxable profit, thus reaching an aggregate rate of 22.5%. This rate is increased by 3% on the portion of taxable profit of each company which is greater than EUR 1.5 million and less than EUR 7.5 million, by 5% on the portion of taxable profit of each company which is greater than EUR 7.5 million and less than EUR 35 million, and by 9% on the portion of taxable profit of each company which is greater than EUR 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 tax and accounting income may be temporary or permanent in nature.

Under the terms of article 88 of the Corporate Income Tax Code, the Group's companies based in Portugal are subject to autonomous taxation on some expenses, at the tax rates listed therein.

In accordance with the legislation in force, the tax returns of companies, based in Portugal, included in the consolidation, are subject to review and correction by the tax authorities for a period of four years (five years for Social Security), except when tax losses have occurred, tax benefits have been granted, or inspections, claims or challenges are in course. In such cases, depending on the circumstances, the periods are extended or suspended. The Board of Directors of the Group believes that any corrections resulting from revisions/inspections by the tax authorities to those tax returns will not have a significant effect on the consolidated financial statements as of 31 December 2020 and 2019.

On 31 December 2020 and 2019, the "Income tax" item is detailed as follows:

	2020	2019
Current income tax (Note 13)	182	1,442
Insufficient/(surplus) estimate of taxes	(151)	(390)
Deferred income tax (Note 10)	70,803	(35,175)
	70,834	**(34,123)**

The income tax rate reconciliation in the fiscal year ending 31 December 2020 and 2019 is as follows:

	2020	2019
Net income/(loss) before income tax	**(1,347,322)**	**(139,305)**
Nominal tax rate	21.0%	21.0%
	(282,938)	**(29,254)**
Permanent differences	99,065	(4,601)
Tax loss w ithout associated deferred tax	254,676	
Insufficient/(surplus) estimate of taxes for the previous year	(151)	(390)
Autonomous taxation and other forms of taxation	182	122
Income tax	**70,834**	**(34,123)**
Effective tax rate	(5%)	24%

As of December 31, 2020, the permanent differences essentially result from provisions and impairments that were added for the purposes of calculating the tax result, namely, the provision for restructuring (Note 18), the provision for compensation to passengers that are being processed by the Group (Note 18) and impairment losses on accounts receivable related to TAP ME Brasil (Notes 1.1.3 and 11), taking into account the fact that the Group does not have a perspective of its future recovery.

35. Segment reporting

The following business segments have been identified: air transport, maintenance and catering. The results of each segment correspond to those directly attributable to them and those that can be reasonably assigned to them. Aggregated activities in "Others" do not qualify to be reported separately.

Financial information by business segments for the fiscal years ending 31 December 2020 and 2019 is as follows:

	2020						
	Air Transport	Maintenance Portugal	Maintenance Brazil	*Catering*	Holdings and other	Intersegment eliminations	Consolidated
Revenue	1,046,912	72,174	16,488	25,230	26,090	(114,796)	1,072,098
Net operating income/(loss)	(897,423)	(1,752)	(6,134)	(2,131)	(180,712)	-	(1,088,152)
Net financial results	(205,282)	(5,376)	(16,845)	(18)	(31,649)	-	(259,170)
Income tax	(57,722)	(22)	(4,828)	(222)	(8,040)	-	(70,834)
Non-controlling interests	-	-	50	241	(1,703)	-	(1,412)
Net income	**(1,160,427)**	**(7,150)**	**(27,807)**	**(2,371)**	**(220,401)**	**-**	**(1,418,156)**

	2019						
	Air Transport	Maintenance Portugal	Maintenance Brazil	*Catering*	Holdings and other	Intersegment eliminations	Consolidated
Revenue	3,189,946	218,916	42,342	68,452	25,596	(200,139)	3,345,113
Net operating income/(loss)	23,908	44,784	(1,733)	2,116	(10,435)	-	58,640
Net financial results	(159,985)	1,622	(19,354)	(11)	(20,217)	-	(197,945)
Net gains in associates	-	-	-	-	1,686	-	1,686
Income tax	31,331	(10,127)	6,814	(400)	6,505	-	34,123
Non-controlling interests	-	-	6	(425)	844	-	425
Net income	**(104,746)**	**36,279**	**(14,273)**	**1,705**	**(24,147)**	**-**	**(105,182)**

36. Contingencies

Contingent Assets

As at 31 December 2020 and 2019, the Group had no contingent assets.

Contingent liabilities

The Brazilian subsidiary TAP M&E Brazil is involved in tax, civil and labour lawsuits, involving risks of loss classified by the Board of Directors as possible, based on the appraisal of its legal advisors, for which no provision has been made. TAP M&E Brazil believes, based on information from its lawyers, that these cases will not result in materially relevant impacts likely to affect its financial statements as of 31 December 2020 and 2019.

✈ **Labour claims**

(i) Danger/Insalubrity and Other
Value: EUR 59,419 thousands

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

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

✈ **Tax claims**

(ii) Tax Enforcement/Injunction (REFIS)
Value: EUR 7,243 thousands

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

(iii) Tax enforcement of incidental obligations to taxes on the movement of goods and services ("ICMS")
Value: EUR 5,762 thousands

In December 2007, the subsidiary was notified, in the context of tax enforcement brought by the State Treasury Office of São Paulo ("Fazenda do Estado de São Paulo"), regarding accessory ICMS obligations. The subsidiary continues to deposit a pledge of 2% of turnover, as well as the suspension of enforcement with reasons for reviewing the tax enforcement. In VARIG bankruptcy documents, it was mentioned that the debt in the prior period to the acquisition of the shares by TAP SGPS would not be TAP M&E Brazil responsibility but rather VARIG's. Thus, a request has been submitted to the Public Treasury for the suspension of the pledge with the consequent termination of this process and the return of the sums deposited so far. The subsidiary is awaiting the ruling of the Public Treasury.

(iv) Notice of infraction - Import Taxes
Value: EUR 2,610 thousands

Infraction Notice for allegedly not using the goods for the purposes or activities for which they were imported (POA). Non-applicability of the exemption from II and IPI and quota 0 of PIS-Imports and COFINS-Imports in the import of parts for aircraft maintenance. An objection was presented at the trial and the process was determined to be terminated in due diligence for clarification.

(v) Notice of infraction - Import Taxes
Value: EUR 1,333 thousands

Infraction Notice for allegedly not using the goods for the purposes or activities for which they were imported (GIG). Non-applicability of the exemption of II and IPI and rate 0 of PIS-Import and COFINS-Import in the import of parts for aircraft maintenance. An objection was presented at the trial and the process was determined to be terminated in due diligence for clarification.

(vi) Notice of infraction of PIS and COFINS - 2006
Value: EUR 2,253 thousands

The tax authorities considered that there were differences between the analytical ledger and the Declaration of federal tax debits and credits (“DCTF”), with reference to 2006. In trial, the CARF did not consider the claims of the subsidiary, and new motions for clarification were presented. The appeal was pending. In June 2017, the motions for clarification were denied, and the respective judgment was handed down. In December 2017 the administrative procedure became final. The National Treasury started to collect money through tax enforcement.

(vii) Notice of infraction regarding failure to comply with the temporary import regime (Bavária aircraft)
Value: EUR 1,815 thousands

In 2012, the subsidiary was notified by the Federal Revenue Office (“Receita Federal”), due to failure to comply with the temporary import regime. The subsidiary awaits judgment of the appeal filed with the CARF. In September 2016, the subsidiary Voluntary Appeal was judged. CARF accepted the partial revocation of the Notice of Infraction. In 2017, CARF decided in favour of the subsidiary, and reduced the Notice. The administrative procedure has become final and the next stage, the legal procedure, is awaited.

(viii) Notice of infraction of PIS and COFINS - 2007
Value: EUR 1,053 thousands

The federal tax office found differences between the statements made by the subsidiary regarding the PIS and COFINS contributions. An appeal was lodged in 2012. The case awaits first instance judgment. In April 2019, the Voluntary Appeal was presented to the CARF.

(ix) Notice of infraction of Social Security (Special Retirement)
Value: EUR 1,526 thousands

TAP M&E Brazil filed administrative challenge against the Letter of Infringement drawn up by the Federal Revenue Office of Brazil, on account of alleged insufficient collections of the social security contribution, intended to cover the benefit of the special retirement. The subsidiary awaits judgment at the second instance.

(x) Notice of infraction ICMS
Value: EUR 854 thousands

TAP M&E Brazil was notified in 2014 by the Secretary of the Treasury Office of Rio Grande do Sul (“Secretaria de Fazenda do Rio Grande do Sul”), due to the ICMS credit on electricity in Porto Alegre. In 2016, the subsidiary's challenge was heard. The original decision was upheld. In 2017, the subsidiary filed an appeal at the Tax Appeals Administrative Court/Rio Sul (“TARF/RS”). In December 2018, the administrative process was ended, and the process for clearing the debts of TAP M&E Brazil began with the amount due to Secretary of Finance of the State of Rio Grande do Sul (“SEFAZ RS”). The compensation process was rejected and the State Treasury started the initial legal recovery process.

(xi) Administrative Processes - Services Tax (“ISS”)
Value: EUR 793 thousands

Non-payment of the Service Tax (“ISS”) for operations carried out from July 2013 to June 2016 and for maintenance services for machines and aircraft, provided for in item 14.01 of article 8 of Law 691/84, as amended by Law 3,691 / 2003. The appeal was dismissed in the lower court and subsequently the voluntary appeal was dismissed. The deadline for the possibility of filing a Special Appeal for the Plenary of the Council of Taxpayers of the Municipality of Rio de Janeiro is awaited.

✈ **Civil claims**

(xii) Declaratory Civil Action and Counterclaim (Return of the POA Area - FRAPORT)
Value: EUR 2,121 thousands

This is an action declaring the inexistence of a legal relationship, with the unenforceability of overdue and overdue securities, according to Fraport's preliminary injunction, resulting from the collection of undue amounts. TAP M&E Brasil postulates by the declaration of nullity of the bonds issued by FRAPORT after January 31, 2019, these being expired or won, definitively ruling out the enforceability of any of these. A decision was handed down in which the judge decided on preliminary points of this dispute, determined the readjustment of the value of the case, the passive legitimacy of TAP Transportes Aéreos Portugueses, the possibility of appealing the lawsuit of the other entities (ANAC, Infraero, União Federal).

At the time of the Contestation, FRAPORT filed a lawsuit against TAP M&E Brasil, with a request for advance protection including TAP AIR PORTUGAL. FRAPORT postulates, in short, that TAP M&E complies with the obligation to do, consistent in the adoption of investigative measures for the purpose of ascertaining eventual environmental damage and the total vacancy of the area. It also postulates the payment corresponding to the use and unavailability of the area for the purposes for which it is intended.

(xiii) Claims over lawyers' fees.
Value: EUR 1,799 thousands

Claims over fees filed by a law firm against the subsidiary TAP M&E Brazil, as part of withdrawing the action with the intention of joining the REFIS (Tax Recovery Programme) instalment programme. The cases are at different procedural stages.

✈ **Collection Action**
Value: EUR 681 thousands

The subsidiary entered into a contract with GOL to provide component maintenance, repair and inspection services, as well as component maintenance, repair and inspection of landing gears. In accordance with the component maintenance, repair and inspection service agreement, payment should be made within 30 (thirty) business days after receipt.

In relation to the contract for the provision of component maintenance, repair and inspection services for landing gears, payment for the services would be made by sending a report with the services provided by the supplier during the month and the customer will inform the supplier about the approval and payment of the amount due would be made up to 30 (thirty) days after the presentation of the respective invoice for services provided.

Despite the fact that the subsidiary fulfilled its part of the agreement, that is, it provided the service with prior approval from GOL, the company failed to pay 27 (twenty-seven) invoices, 13 of which related to the landing gear contract. and 14 related to the component contract. GOL claimed that the subsidiary would have failed to provide landing gear services, a service that has no relation to the services being charged and as a result would have caused an incident with a GOL aircraft.

✈ **Other**

(xiv) Pledged assets
Value: EUR 7,703 thousands

The subsidiary TAP M&E Brazil has pledged various assets in the amount of EUR 7,703 thousands, which refer to guarantees required in tax and labour proceedings. These assets include vehicles, computers, components and items of the hangars of Rio de Janeiro and Porto Alegre, among others.

As at 31 December 2020 and 2019, TAP SA have contingencies as detailed below:

	2020	2019
Tax contingencies	865	8
Civil contingencies	8,985	7,704
Regulatory contingencies	7,636	9,292
Total	**17,486**	**17,004**

Regulatory contingencies include essentially cases brought by customers regarding operational irregularities. The Group, supported by the opinion of its legal advisors, considers that an unfavourable outcome in these cases is unlikely.

Guarantees

On 31 December 2020 and 2019, the group's guarantees are broken down as follows:

	2020	2019
Bank guarantees provided by TAP S.A.		
Aircraft	42,683	93,241
Fuel	815	1,540
Portuguese State - Operation of the Azores routes	1,654	1,654
Airports	943	1,028
Labour Court	541	522
Other	8,336	8,244
Bank guarantees provided by other Group companies	805	597
	55,777	**106,826**

The strengthening of bank guarantees provided by headquarters for aircraft during the current financial year is essentially related to lease contracts with no option to purchase.

The actual guarantees provided under finance agreements are disclosed in Note 19.

As mentioned in the Introductory Note, the General Meeting of TAP SGPS, on 8 March 2016, approved the recognition of the full effects of the bonds issuance by TAP SGPS as well as the effects of the guarantee agreement concluded within the scope of the aforementioned bond issuance, between TAP SGPS, TAP S.A., Megasis - Sociedade de Serviços de Engenharia e Informática, S.A., Azul S.A. and Bondholders, S.L.

37. Related parties

Balances and transactions between Group companies which are included in the consolidation perimeter are eliminated in the consolidation process, and therefore are not disclosed in the present Note. The balances and transactions between the Group and related parties are detailed in the tables below. The terms and conditions of transactions between the Group and related parties are substantially identical to the terms that would normally be contracted between independent entities in comparable operations.

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

During the financial years ended on 31 December 2020 and 2019, the remunerations earned by the Board of Directors reached EUR 2,055 thousands (2019: EUR 2,340 thousands), as per Note 27.

During the year of 2020, as disclosed in the Introductory Note, the shareholder structure of TAP SGPS suffer changes, with an impact on the identification of related entities on December 31, 2020.

As a result of the changes made in the 2020 financial year, as stated above, on 31 December 2020, the related parties identified are as follows:

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

Within the scope of the identification of related parties, for the purposes of financial reporting, the members of the Board of Directors and other Governing Bodies were also assessed as related parties. See Management Report.

The balances and transactions with related entities as of 31 December 2020 and 2019 are as follows:

	2020 - Assets				
	Accrued income (Note 11)	Trade Receivables (Note 11)	Advances to Suppliers (Note 11)	Other receivables current (Note 11)	Deferrals (Note 14)
Shareholders					
Estado Português	-	-	-	-	-
Associates					
SPdH - Serviços Portugueses de Handling, S.A.	1	612	3,300	391	1,472
Other related entities					
Barraqueiro Group	-	3	-	-	-
	1	**615**	**3,300**	**391**	**1,472**

	2020 - Liabilities			
	Borrowings (Note 19)	Accrued expenses (Note 21)	Suppliers (Note 21)	Deferrals (Note 23)
Shareholders				
Estado Português	(1,210,825)	-	-	-
Parpública - Participações Públicas, SGPS, S.A.	(42,234)	-	-	-
Atlantic Gateway, SGPS, Lda.	-	-	-	-
Associates				
SPdH - Serviços Portugueses de Handling, S.A.	-	(1,390)	562	(83)
Other related entities				
Barraqueiro Group	-	-	(2)	-

	2019 - Assets					
	Right-of-use assets (Note 4)	Other receivables non-current (Note 11)	Accrued income (Note 11)	Trade Receivables (Note 11)	Other receivables current (Note 11)	Deferrals (Note 14)
Shareholders						
Atlantic Gateway, SGPS, S.A.	-	-	-	-	-	-
Azul S.A.	55,423	3,521	3,621	542	2,005	639
Associates						
SPdH - Serviços Portugueses de Handling, S.A.	-	-	-	1,058	3,957	1,472
Other related entities						
Aigle Azur Compagnie de Transport Aérien	-	-	-	595	380	-
Barraqueiro Group	-	-	-	2	-	-
	55,423	**3,521**	**3,621**	**2,197**	**6,342**	**2,111**

	2019 - Liabilities						
	Lease liabilities without purchase option non-current	Borrowings (Note 19)	Lease liabilities without purchase option current	Accrued expenses (Note 21)	Suppliers (Note 21)	Other current accounts payable (Note 21)	Deferrals (Note 23)
Shareholders							
Atlantic Gateway, SGPS, Lda.	-	-	-	-	(93)	-	-
Azul S.A.	(32,770)	(118,779)	(26,779)	(642)	(35)	(2,547)	-
Associates							
SPdH - Serviços Portugueses de Handling, S.A.	-	-	-	(945)	(9,216)	(945)	(127)
Other related entities							
Aigle Azur Compagnie de Transport Aérien	-	-	-	-	(316)	-	-
Barraqueiro Group	-	-	-	-	(58)	-	-
	(32,770)	**(118,779)**	**(26,779)**	**(1,587)**	**(9,718)**	**(3,492)**	**(127)**

In the fiscal years ending on 31 December 2020 and 2019, transactions that occurred with related parties are broken down as follows:

	2020									
	Passenger	Maintenance	Other operating income	Traffic operating costs	Employee costs	Aircraft maintenance costs	Comercial, communication and marketing costs	Other operating expenses	Depreciation right-of-use	Interests and similar expenses
Shareholder										
Estado Português	-	-	-	-	-	-	-	-	-	-
Parpública - Participações Públicas, SGPS, S.A.	-	-	-	-	-	-	-	-	-	(5,937)
Atlantic Gatew ay, SGPS, Lda.	-	-	-	-	-	-	-	(429)	-	-
Azul S.A.	(19)	714	2,783	-	-	(3,484)	(36)	-	(41,430)	(6,129)
Associates										
SPdH - Serviços Portugueses de Handling, S.A.	750	123	5,158	(41,469)	(6)	(144)	(33)	(1,696)	-	-
Other related entities										
Barraqueiro Group	-	2	-	(14)	-	-	-	-	-	-
	731	**839**	**7,941**	**(41,483)**	**(6)**	**(3,628)**	**(69)**	**(2,125)**	**(41,430)**	**(12,066)**

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

In addition to the mentioned operations, the Group in the scope of the normal development of its air transport business, maintains code-share commercial relationships with Azul and Aigle Azur. These transactions are carried out on terms and conditions similar to those normally agreed with other airlines. Due to the aforementioned change in the shareholding structure of the Group's parent company, the transactions disclosed with these entities are only for the period from January to August 2020. As of December 31, 2020, said Companies are not considered related parties.

38. Financial assets and liabilities

The accounting policy described in Note 2.12 was applied according to the categories shown below:

	2020				
	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 non-current assets	902	-	-	-	902
Current receivables	361,339	-	-	9,329	370,668
Cash and cash equivalents	534,559	-	-	-	534,559
Total Assets	**896,800**	**-**	**-**	**9,329**	**906,129**
Liabilities					
Borrow ings and Lease liabilities w ith purchase option	-	-	-	(2,762,506)	(2,762,506)
Lease liabilities w ithout purchase option	-	-	-	(1,928,974)	(1,928,974)
Other payable	(397,671)	(29,014)	-	(826)	(427,511)
Total Liabilities	**(397,671)**	**(29,014)**	**-**	**(4,692,306)**	**(5,118,991)**

	2019				
	Financial assets and liabilities at amortised cost	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and liabilities at fair value through profit or loss	Financial assets and liabilities out of IFRS 9 scope	Total
Assets					
Other non-current assets	5,726	-	-	-	5,726
Current receivables	566,463	23,967	-	51,706	642,136
Cash and cash equivalents	435,024	-	-	-	435,024
Total Assets	**1,007,213**	**23,967**	**-**	**51,706**	**1,082,886**
Liabilities					
Borrow ings and Lease liabilities w ith purchase option	-	-	-	(1,479,567)	(1,479,567)
Lease liabilities w ithout purchase option	-	-	-	(2,095,721)	(2,095,721)
Other payable	(587,761)	-	-	(5,719)	(593,480)
Total Liabilities	**(587,761)**	**-**	**-**	**(3,581,007)**	**(4,168,768)**

The following tables present the assets and liabilities measured at fair value as at 31 December 2020 and 2019, according to the following fair value hierarchical levels established in IFRS 13:

	2020		
	Nível 1	Nível 2	Nível 3
Non-financial assets			
Investment Properties	-	1,544	-
Financial liability			
Derivate financial instruments	-	(29,014)	-

	2019		
	Nível 1	Nível 2	Nível 3
Non-financial assets			
Investment Properties	-	2,246	-
Financial assets			
Derivate financial instruments	-	23,967	-

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 from information 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.

Derivatives

During 2020 and 2019, the variation in the fair value of derivative financial instruments was recognized in equity or results, taking into account the over hedge situation verified in 2020 resulting from the reduction in activity caused by the pandemic COVID-19 (Note 1.1.3).

The breakdown of the derivative financial instruments fair value is detailed in Note 21.

39. Commitments

✈ Purchase commitments

The aircraft purchase agreement with Airbus S.A.S. ("Airbus") for the purchase of 53 aircraft (39 A320 NEO Family and 14 A330 NEO), initially planned to be received between 2018 and 2025, was renegotiated with a view to delaying delivery of some of the aircraft given the impacts of the COVID pandemic on the commercial aviation sector. The 2 A330NEO aircraft not delivered to date have been rescheduled from 2022 to 2024. For the A320NEO Family aircraft, 13 aircraft initially planned for delivery in 2021-2022 were rescheduled for 2025-2027. This purchase agreement results from the novation to TAP S.A. of the previously negotiated acquisition agreement signed between Airbus and DGN Corporation. To date, contracts have been concluded for the assignment of a contractual position with subsequent leaseback and sale and leaseback contracts for 16 aircraft and 3 lease contracts with option to purchase, fully received at the time.

A contract is also in force with CFM International Inc., S.A., for the purchase of 83 LEAP-A1 engines, including 5 reserve engines, which will equip and serve the new fleet of A320 NEO Family aircraft. It should be noted that these engines will be purchased directly by Airbus, with the exception of standby engines. As regards the reserve engine, 3 of the 5 planned have already been purchased.

It also follows from the commitments assumed in the contract with CFM, the acquisition of a LEAP spare reactor during 2021, currently scheduled for delivery in December 2021, which results in the payment of a pre-delivery payment during the year.

Contract signed with Rolls-Royce that includes maintenance support for all TRENT 7000 reactors that equip A330 NEO aircraft. For 2021 there will be no acquisition of reserve reactors as all 3 were acquired by 2020.

It also follows from the commitments assumed in the contract with Airbus, regarding the future entry of aircraft, the payment of USD 53.3 million in pre-delivery payments during the year of 2021.

✈ Other commitments

Lease agreements without purchase option are signed for 3 aircraft, with a minimum value of future non-cancellable rents of approximately EUR 93 million on 31 December 2020.

Also from the commitments made in the contract with CFM, the purchase of a spare LEAP engine in the course of 2022, which is currently scheduled for delivery in December 2022, resulting in a pre-delivery payment commitment during 2022.

40. Statutory audit of accounts

Following the resolution of the General Meeting of March 2, 2020, TAP SGPS changed its Statutory Auditor, with reference to the year starting in 2019, for PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda.

Additionally, with the change in the shareholder structure of TAP SGPS in 2020, as mentioned in Note 1, the Company is now considered a Public Interest Entity (PIE).

During the year ended December 31, 2020, the fees for the services provided by the Statutory Auditor and by other entities belonging to the same network, are detailed as follows:

	2020
Audit and statutory audit	203
Limited Review Services	90
Reliability assurance services and agreed procedures	170
	463

The Limited Review services were performed with reference to the months of March and June 2020.

The reliability assurance services and agreed procedures relate to expenditure / payment validation work in the scope of State aid and application for subsidies from the European Union, as well as validation of financial ratios under financing contracts.

41. Subsequent events

Emergency agreements with the trade unions representing workers at TAP, programme of labour measures for voluntary redundancy and classic layoffs

On 14 January 2021, Council of Ministers' Resolution 3/2021 was published. It declared TAP, as well as Portugália – Companhia Portuguesa de Transportes Aéreos, S.A. (“Portugália”) and Cateringpor – Catering de Portugal, S.A. (“Cateringpor”), to be in a difficult economic situation. This Council of Ministers Resolution was regulated by Order 818-A/2021 of 14 January 2021 (published in the Official Gazette on 19 January 2021), which determined, *inter alia*, that TAP, Portugália and Cateringpor should, in the first quarter of 2021, begin the negotiating process for the revision or repeal and replacement of collective labour regulation instruments to which they were party, and adapt those instruments to the new competitive reality of the companies and the sector in which they operate. This negotiation process could be preceded by temporary emergency arrangements to be adjusted with the trade unions party to such agreements, as an alternative to the substitute regime for setting working conditions.

In accordance with this determination, a joint negotiation process between trade unions, the administration and the Portuguese Government has been developed with a view to concluding these emergency agreements, seeking an agreed solution on the path to the restructuring and recovery of TAP. On 28 February 2021, TAP informed the market and the general public that this process had been concluded favourably, with all trade unions representing a vast majority of TAP workers ratifying the negotiated emergency agreements ("Emergency Agreements").

The Emergency Agreements entered into force on 1 March 2021, allowing, without prejudice to the proposed metrics under the Restructuring Plan, more jobs to be protected as compared to the successor regime. It was also announced that non-union TAP employees would benefit from a substitute regime in all respects equal to the Emergency Agreements in force in the respective professional group. Thus, the wage reduction applied to land personnel and commercial navigational personnel (PNC) is 25% over 4 years and for technical navigational personnel (PNT) is 50%, decreasing progressively to 35% over 4 years, both reductions only applicable income above EUR 1,330.

In parallel, TAP has developed a set of voluntary employment measures for its employees, which include terminations by mutual agreement, early retirements, pre-retirements, part-time work, unpaid leave and applications to Portugália. On this date, although some cases remain under analysis, there were about 690 adherences to the voluntary labor measures program, 70% of which were terminated by mutual agreement, 14% were part-time work, 8% were retired, 6% for pre-retirement and 3% for non-remunerated leave. These measures represent a resizing of about 630 jobs, considering part-time workers. The program is still in progress with the option of the voluntary measures mentioned above, and also with the option for the Group to adopt other types of measures to resize the Group, in order to achieve the cost reduction provided for in the Restructuring Plan.

TAP has also announced that it will use the classic layoff scheme, in accordance with Articles 298 *et seq.* of the Labour Code. In this respect, measures to reduce normal working hours or to suspend employment contracts have started on 1 March 2021 and may be extended for a period of up to 12 months, in accordance with and for the purposes of Article 300(3) of the Labour Code. Participation in this scheme will be assessed monthly and individually to identify whether it should be maintained, changed or terminated as required by the Company.

Participation in the classic layoff scheme is independent from the entry into force of the Emergency Agreements, as the need to reduce labour costs remains critical and unchanging in either form. Consequently, participation in this layoff scheme will not result in any reduction in remuneration, other than the reduction already provided for in the Emergency Agreements or, when applicable, in the substitute schemes mentioned earlier.

Equipment purchase agreement with SPdH

Based on a cash shortage situation at SPdH – Serviços Portugueses de Handling, S.A. and in order to avoid a disruption scenario in the continuity of the ground handling services provided to TAP SA, on 19 March 2021 TAP SA purchased certain equipment from SPdH for a total price of EUR 6.97 million , and simultaneously leased the same equipment to the SPdH until 26 July 2022. In certain circumstances, SPdH may exercise a purchase option on such equipment until 30 May 2021.

42. Note added for translation

The accompanying consolidated financial statements are a translation of financial statements originally issued in Portuguese. In the event of any discrepancies, the Portuguese version prevails.

CERTIFIED ACCOUNTANT

João Carlos da Silva Bernardes

BOARD OF DIRECTORS

Miguel Jorge Reis Antunes Frasquilho
Chairman

Ramiro José Oliveira Sequeira
Chairman of the Executive Committee

Alexandra Margarida Vieira Reis
Executive Committee Member

António José Vasconcelos Franco Gomes de Menezes
Director

Bernardo Luís Amador Trindade
Director

Diogo Campos Barradas de Lacerda Machado
Director

Esmeralda da Silva Santos Dourado
Director

José Manuel Silva Rodrigues
Director

Certificação Legal das Contas

Relato sobre a auditoria das demonstrações financeiras consolidadas

Opinião

Auditámos as demonstrações financeiras consolidadas anexas da TAP – Transportes Aéreos Portugueses, SGPS, S.A. (o Grupo), que compreendem a demonstração consolidada da posição financeira em 31 de dezembro de 2020 (que evidencia um total de 4.146.957 milhares de euros e um total de capital próprio negativo de 2.127.672 milhares de euros, incluindo um resultado líquido do Grupo negativo de 1.416.744 milhares de euros), a demonstração consolidada dos resultados, a demonstração consolidada do rendimento integral, a demonstração consolidada das alterações no capital próprio e a demonstração consolidada dos fluxos de caixa relativas ao ano findo naquela data, e as notas anexas às demonstrações financeiras consolidadas que incluem um resumo das políticas contabilísticas significativas.

Em nossa opinião, as demonstrações financeiras consolidadas anexas apresentam de forma verdadeira e apropriada, em todos os aspetos materiais, a posição financeira consolidada da TAP – Transportes Aéreos Portugueses, SGPS, S.A. em 31 de dezembro de 2020 e o seu desempenho financeiro e fluxos de caixa consolidados relativos ao ano findo naquela data de acordo com as Normas Internacionais de Relato Financeiro (IFRS) tal como adotadas na União Europeia.

Bases para a opinião

A nossa auditoria foi efetuada de acordo com as Normas Internacionais de Auditoria (ISAs) e demais normas e orientações técnicas e éticas da Ordem dos Revisores Oficiais de Contas. As nossas responsabilidades nos termos dessas normas estão descritas na secção “Responsabilidades do auditor pela auditoria das demonstrações financeiras consolidadas” abaixo. Somos independentes das entidades que compõem o Grupo nos termos da lei e cumprimos os demais requisitos éticos nos termos do código de ética da Ordem dos Revisores Oficiais de Contas.

Estamos convictos de que a prova de auditoria que obtivemos é suficiente e apropriada para proporcionar uma base para a nossa opinião.

Incerteza material relacionada com a continuidade

Chamamos a atenção para a divulgação constante na nota 1.1.5 do anexo contendo as notas explicativas, na qual o Conselho de Administração relata que as demonstrações financeiras consolidadas do exercício findo em 31 de dezembro de 2020 foram preparadas com base na continuidade das operações, tendo por base (i) a aprovação da Comissão Europeia, em 10 de junho de 2020, ao auxílio de Estado ao Grupo TAP, sob a forma de um empréstimo no montante até 1,2 mil milhões de euros, (ii) o Plano de Reestruturação aprovado pelo Conselho de Administração da TAP SGPS, em 2 de dezembro de 2020, o qual apresenta uma perspetiva de crescimento gradual da sua atividade, apesar da redução relevante embutida nas projeções face à sua atividade prévia à pandemia COVID-19, conjugada com uma estratégia de redução de frota, redução de custos operacionais e de investimento, (iii) o apoio financeiro acionista e/ou capacidade de obtenção de recursos financeiros externos (iv) bem como as interações em curso com a Comissão Europeia sobre a adequação do Plano de Reestruturação.

Conforme igualmente divulgado na nota 1.1.5 do anexo contendo as notas explicativas, importa salientar que a continuidade das operações se encontra dependente (i) da aprovação de um Plano de Reestruturação por parte da Comissão Europeia, (ii) bem como da evolução da pandemia COVID-19, nomeadamente quanto ao cenário de um eventual agravamento da mesma para além do que se estima no Plano de Reestruturação que venha a ser aprovado.

Tendo em consideração os potenciais impactos no setor do transporte aéreo e na atividade operacional e financeira futura do Grupo, os fatores acima descritos poderão originar a necessidade de obtenção de recursos financeiros adicionais face aos atualmente estimados, o que representa uma incerteza material que pode colocar dúvidas sobre a capacidade do Grupo em manter a continuidade das suas operações.

No entanto, tendo em consideração o cenário base considerado nas projeções embutidas no Plano de Reestruturação aprovado pelo Conselho de Administração da TAP SGPS e a expectativa quanto à sua aprovação por parte da Comissão Europeia, é convicção do Conselho de Administração que a continuidade das operações e liquidez do Grupo se encontram asseguradas, tendo por base o financiamento das necessidades de tesouraria estimadas, a esta data, para o prazo de doze meses.

As demonstrações financeiras consolidadas não incluem qualquer ajustamento inerente à possibilidade de se vir a constatar que o pressuposto da continuidade não foi apropriado.

A nossa opinião não é modificada em relação a esta matéria.

Matérias relevantes de auditoria

As matérias relevantes de auditoria são as que, no nosso julgamento profissional, tiveram maior importância na auditoria das demonstrações financeiras consolidadas do ano corrente. Essas matérias foram consideradas no contexto da auditoria das demonstrações financeiras consolidadas como um todo, e na formação da opinião, e não emitimos uma opinião separada sobre essas matérias. Além da matéria descrita na secção "Incerteza material relacionada com a continuidade", consideramos que as matérias descritas abaixo são as matérias relevantes de auditoria a comunicar neste relatório.

Matérias relevantes de auditoria	Síntese da abordagem de auditoria
Reconhecimento do rédito, incluindo responsabilidades com documentos pendentes de voo e programa de fidelização de clientes	
Divulgações relacionadas com o rédito apresentadas nas notas 1.1.3, 2.28, 2.34, 22 e 23 das demonstrações financeiras consolidadas. Em 31 de dezembro de 2020, os rendimentos e ganhos operacionais ascendem a 1.072 milhões de euros, os quais correspondem, essencialmente, ao transporte de passageiros. Tal como divulgado na nota 2.28 das demonstrações financeiras consolidadas, no momento da venda do bilhete, o valor é registado como um passivo na rubrica de Documentos pendentes de voo, a qual, a 31 de dezembro de 2020, ascende a 602 milhões de euros, sendo o respetivo rédito reconhecido apenas quando o transporte é efetuado ou no momento da caducidade do bilhete, tendo em consideração neste caso as condições associadas à sua venda e respetiva estimativa quanto à probabilidade do passageiro solicitar o respetivo reembolso ou emissão de novo bilhete. Tal como divulgado nas notas 2.28 e 2.34 das demonstrações financeiras consolidadas, a rubrica de Documentos pendentes de voo respeita ao saldo de voos não realizados até essa data, correspondendo a uma obrigação de prestação do serviço no futuro ou a uma obrigação de reembolso do valor do bilhete conforme definido nos termos contratuais. Na sequência da eclosão da pandemia COVID-19, o Grupo TAP sofreu, a partir de março de 2020, uma redução significativa da sua atividade, em resultado de uma acentuada quebra da procura e da imposição de restrições governamentais à circulação aérea, o que gerou o cancelamento de diversos voos.	Os procedimentos de auditoria incluíram, entre outros, o entendimento e a avaliação dos diversos sistemas de informação relacionados com o reconhecimento do rédito de transporte de passageiros, a identificação e avaliação da eficiência operacional do sistema de controlo interno do Grupo associado aos processos de gestão de sistemas de informação, tendo para o efeito recorrido a especialistas em auditoria de sistemas de informação, bem como à avaliação dos respetivos controlos-chave destinados a assegurar o correto, completo e atempado reconhecimento do rédito de transporte de passageiros. Procedemos à realização de testes substantivos específicos sobre o rédito de transporte de passageiros e o saldo da rubrica de Documentos pendentes de voo, nomeadamente a reconciliação de informação extraída dos diversos sistemas de suporte com os registos contabilísticos, a validação, por amostragem, dos diversos *inputs* da listagem de documentos pendentes de voo e a análise das reconciliações bancárias. Efetuámos, também, procedimentos de revisão analítica para as diversas categorias de rédito de transporte de passageiros, nomeadamente, tarifas, taxas e comissões. No que respeita ao programa “TAP Miles&Go”, os procedimentos de auditoria que desenvolvemos, incluíram, entre outros, a apreciação da adequabilidade do modelo, desenvolvido internamente, para a quantificação das responsabilidades relacionados com milhas por utilizar, assim como da razoabilidade dos pressupostos embutidos no mesmo, e a validação dos respetivos cálculos incorporados para determinação do *stand alone price*.

Matérias relevantes de auditoria	*Síntese da abordagem de auditoria*
Neste enquadramento, o Conselho de Administração reviu a política de utilização de documentos pendentes de voos, nomeadamente no que respeita à possibilidade de remarcação de passagens sem custos adicionais ou de reembolso das passagens através de exfluxo monetário ou emissão de *vouchers* com majoração do valor e alargamento dos prazos de validade para a sua utilização. No que respeita ao programa "TAP Miles&Go", tal como divulgado nas notas 2.28 e 2.34 das demonstrações financeiras consolidadas, o Grupo reconhece uma obrigação contratual com base no histórico do número de milhas atribuídas e não utilizadas nem caducadas, ajustadas da estimativa de milhas a expirar sem utilização. As milhas apuradas são valorizadas de acordo com o seu *stand alone price* considerando a redenção histórica de milhas. A responsabilidade associada ao programa de fidelização de clientes, a 31 de dezembro de 2020, ascende a 53 milhões de euros. Tendo em consideração os impactos decorrentes da pandemia COVID-19 na atividade do transporte aéreo, o Grupo optou por prorrogar em 12 meses a validade das milhas atribuídas a clientes, tendo o Grupo atualizado, em conformidade, os pressupostos associados ao cálculo desta estimativa. O Conselho de Administração efetua análises periódicas, quer do saldo da rubrica de Documentos pendentes de voo, de forma a verificar os bilhetes que já foram voados ou que perderam validade, quer do saldo da rubrica de Programa de fidelização de clientes, de forma a avaliar a utilização e validade das milhas. Face à expressão dos montantes em causa, bem como ao grau de julgamento inerente ao reconhecimento do rédito, este tema constituiu uma matéria relevante para efeitos da nossa auditoria.	Desafiámos a Gestão quanto à razoabilidade dos pressupostos utilizados, e realizámos análises de sensibilidade de forma a aferir os potenciais impactos nas responsabilidades com o programa de fidelização de clientes decorrentes de alterações ao valor unitário da milha e da taxa estimada de milhas a expirar. Verificámos a adequação das divulgações apresentadas nas demonstrações financeiras consolidadas, tendo por base o enunciado no normativo contabilístico aplicável e os fatores considerados relevantes.

Matérias relevantes de auditoria	*Síntese da abordagem de auditoria*
IFRS 16 - Modificações dos contratos de locação de aeronaves e reatores *Divulgações relacionadas com a IFRS 16 e modificações dos contratos de locação apresentadas nas notas 1.1.3, 2.7, 2.26, 2.34, 4 e 19 das demonstrações financeiras consolidadas.* O Grupo reconhece ativos sob direito de uso e passivos de locação sem opção de compra, cujos valores em 31 de dezembro de 2020 ascendem a 2.062 milhões de euros e 1.929 milhões de euros, respetivamente, baseado na estimativa de pagamentos a efetuar durante o prazo da locação correspondente ao período não cancelável de cada contrato, sendo utilizada, no desconto dos fluxos futuros, a respetiva taxa de juro implícita ou, caso esta não se encontre disponível, a taxa de juro incremental. Tendo em consideração os impactos decorrentes da pandemia COVID-19, durante o exercício de 2020 foram negociadas modificações dos contratos de locação de aeronaves e reatores registados no âmbito da IFRS 16. As negociações efetuadas foram relativas à extensão das datas de maturidade dos contratos e/ou prorrogação das datas de pagamento e/ou alteração dos montantes das rendas. Estas modificações originaram um decréscimo nas rubricas de direito de uso de ativos e passivos de locação sem opção de compra, no valor de 86 milhões de euros. Face à expressão dos montantes em causa, assim como ao grau de julgamento inerente ao conjunto de pressupostos e estimativas utilizados para efeitos de aplicação da IFRS 16, este tema constituiu uma matéria relevante para efeitos da nossa auditoria.	Os nossos procedimentos de auditoria incluíram, entre outros, a obtenção do cálculo efetuado decorrente da aplicação da IFRS 16, aprovado pelo Conselho de Administração, por forma a avaliar a aderência da metodologia e a adequação dos pressupostos considerados com o enunciado na respetiva norma. Verificámos a consistência da frota considerada no cálculo acima referido com base nas respostas obtidas por parte das locadoras por forma a garantir que o cálculo abrangia a totalidade da frota, tendo em consideração a definição de locação embutida na norma. Relativamente às modificações contratuais ocorridas durante o exercício de 2020, obtivemos e analisámos as alterações efetuadas aos contratos de locação sem opção de compra consideradas relevantes e avaliámos o seu adequado registo nos termos da IFRS 16, tomando em consideração as cláusulas estabelecidas, as quantias e os encargos futuros a despender, bem como a estimativa do prazo de locação. Analisámos, igualmente, com recurso a peritos internos, a taxa de desconto utilizada, tendo por base a informação disponível a cada data de modificação. Efetuámos o recálculo do montante dos direitos de uso de ativos e passivos de locação sem opção de compra na data das respetivas modificações e na data de 31 de dezembro de 2020, bem como dos respetivos impactos da IFRS 16 nos resultados do exercício de 2020. Verificamos, igualmente, a adequação das divulgações apresentadas nas demonstrações financeiras consolidadas, tendo por base o enunciado no normativo contabilístico aplicável e os fatores considerados relevantes.

Matérias relevantes de auditoria	*Síntese da abordagem de auditoria*
Estimativas associadas à manutenção e redelivery da frota	
Divulgações relacionadas com a manutenção e redelivery da frota apresentadas nas notas 1.1.3, 2.7, 2.22, 2.34, 4, 11 e 18 das demonstrações financeiras consolidadas.	Desenvolvemos diversos procedimentos de auditoria com o objetivo de avaliar a razoabilidade das estimativas para manutenção e *redelivery* da frota, nomeadamente, o entendimento e apreciação dos processos e procedimentos de controlo interno adotados pelo Grupo no que respeita ao seu apuramento.
Tal como divulgado na nota 2.34 das demonstrações financeiras consolidadas, as estimativas para a manutenção e *redelivery* da frota requerem a definição de um conjunto de pressupostos significativos por parte do Grupo, assentes em previsões com elevado grau de julgamento, nomeadamente, a utilização das aeronaves e as suas condições de navegabilidade, custo das intervenções, cláusulas contratuais e eventuais renegociações dos contratos de locação. Estas estimativas influenciam o registo das provisões para os trabalhos realizados imediatamente antes da devolução das aeronaves em regime de locação sem opção de compra, designados por *redelivery*, assim como a determinação da vida útil das manutenções estruturais e a recuperabilidade das reservas de manutenção entregues aos locadores.	Obtivemos os elementos de suporte ao cálculo das estimativas de manutenção e *redelivery*, tendo apreciado a razoabilidade dos pressupostos assumidos, bem como a sua consistência com as estimativas embutidas no Plano de Reestruturação aprovado pelo Conselho de Administração em 2 de dezembro de 2020. Questionámos os técnicos internos da área de manutenção e o Conselho de Administração quanto à razoabilidade dos pressupostos utilizados e verificámos os cálculos efetuados.
No que respeita à estimativa dos encargos resultantes dos trabalhos de *redelivery*, estes são reconhecidos como provisões, por contrapartida do respetivo direito de uso das aeronaves, o qual é depreciado linearmente ao longo do prazo dos contratos de locação sem opção de compra.	Analisámos os diferentes períodos de intervenção considerados nas estimativas, atendendo às especificidades de cada aeronave, assim como a estimativa dos custos a incorrer no futuro e a razoabilidade da taxa de desconto utilizada, tendo por base as condições que se encontram definidas contratualmente, assim como a informação fornecida por engenheiros internos com experiência específica desta matéria.
Relativamente às manutenções estruturais, que incrementam a vida útil dos ativos subjacentes, são capitalizadas e reconhecidas como um complemento ao direito de uso dos ativos, sendo subsequentemente depreciadas até à ocorrência de nova manutenção. A estimativa do prazo até à ocorrência da próxima manutenção é definida de acordo com o melhor julgamento do Grupo, sendo esta revista a cada data de relato financeiro. O período estimado de	Averiguámos, igualmente, a consistência histórica das estimativas de manutenção face aos eventos efetivamente ocorridos e a razoabilidade da evolução da estimativa de manutenção e *redelivery* em 31 de dezembro de 2020 face ao exercício homólogo, tendo em consideração os impactos da pandemia COVID-19 na gestão da manutenção das aeronaves e na evolução estimada da frota aérea conforme evidenciado no Plano de Reestruturação.

Matérias relevantes de auditoria	*Síntese da abordagem de auditoria*
ocorrência das manutenções estruturais das aeronaves em regime de locação sem opção de compra, assim como a estimativa do respetivo valor, tem impacto na utilização das reservas de manutenção entregues aos locadores, sendo as mesmas recuperadas através da realização das referidas manutenções. Face aos montantes envolvidos e ao elevado nível de julgamento associado aos pressupostos utilizados na estimativa para a manutenção e *redelivery* da frota, este tema constituiu uma matéria relevante para efeitos da nossa auditoria.	Verificámos a adequação das divulgações apresentadas nas demonstrações financeiras consolidadas, tendo por base o enunciado no normativo contabilístico aplicável e os fatores considerados relevantes.
Recuperabilidade dos ativos não correntes do transporte aéreo *Divulgações relacionadas com a recuperabilidade dos ativos não correntes do transporte aéreo apresentadas nas notas 1.1.3, 2.10, 2.11, 4, 6, 7 e 32 das demonstrações financeiras consolidadas.* Em 31 de dezembro de 2020, o montante de *goodwill*, ativos fixos tangíveis e intangíveis respeitantes ao transporte aéreo reconhecido nas demonstrações financeiras consolidadas do Grupo ascende a 2.847 milhões de euros. Nos termos da IAS 36 – Imparidade de ativos, e conforme divulgado na nota 2.11 das demonstrações financeiras consolidadas, o Grupo procede à realização de testes de imparidade sobre ativos fixos tangíveis e intangíveis sempre que existam factos ou circunstâncias que indiquem que o seu valor líquido contabilístico possa não ser recuperável, exceto quando alocados a unidades geradoras de caixa com *goodwill* alocado, caso em que são testados por imparidade em conjunto com o *goodwill* associado numa base anual e sempre que existam indícios de imparidade.	Os procedimentos de auditoria desenvolvidos incluíram, entre outros, a avaliação da adequação do modelo de imparidade utilizado pelo Conselho de Administração e a reexecução matemática dos cálculos. Foi apreciada a razoabilidade dos pressupostos utilizados e efetuada a reconciliação dos fluxos de caixa futuros com o Plano de Reestruturação aprovado pelo Conselho de Administração em 2 de dezembro de 2020. Foi igualmente avaliada a razoabilidade da definição da unidade geradora de caixa, ao nível da qual foi realizado o teste de imparidade. A Gestão foi desafiada quanto à adequação dos pressupostos que apresentam maior sensibilidade na determinação do valor de uso, nomeadamente a evolução das receitas, para as geografias consideradas relevantes, e margem de EBITDA. Foi igualmente realizada uma análise da taxa de desconto e da taxa de crescimento na perpetuidade, com recurso a análises comparáveis e a outra informação existente no mercado. Foram ainda desenvolvidas análises de sensibilidade aos principais pressupostos de modo a determinar

Matérias relevantes de auditoria	*Síntese da abordagem de auditoria*
O valor recuperável dos referidos ativos é apurado com base em modelos de fluxos de caixa descontados, os quais requerem a utilização de estimativas e pressupostos definidos pelo Conselho de Administração, com base em projeções económicas e de mercado, nomeadamente no que se refere aos *cash-flows* associados à atividade operacional do Grupo, taxas de câmbio, taxas de crescimento na perpetuidade e taxas de desconto. Conforme divulgado na nota 4 das demonstrações financeiras consolidadas, o Conselho de Administração aprovou em 2 de dezembro de 2020 um Plano de Reestruturação para os anos 2021-2025, com base num conjunto de pressupostos de médio e longo prazo relacionados com a evolução da frota e nível de atividade e performance operacional, tendo em consideração a conjuntura atual decorrente da incerteza associada à evolução futura da pandemia COVID-19 e os seus impactos na atividade do transporte aéreo. Os pressupostos embutidos no Plano de Reestruturação estiveram na base da análise da recuperabilidade dos ativos não correntes do transporte aéreo efetuada pelo Conselho de Administração. Conforme divulgado nas notas 1.1.3 e 4 das demonstrações financeiras consolidadas, sem prejuízo do facto do Plano de Reestruturação se encontrar, a esta data, em análise por parte da Comissão Europeia e sujeito às interações em curso com o Estado Português e o Conselho de Administração da TAP SGPS e, consequentemente, não se encontrar ainda aprovado pela Comissão Europeia, é entendimento do Conselho de Administração, que a melhor estimativa, à data de 31 de dezembro de 2020, encontra-se refletida nas projeções embutidas no Plano de Reestruturação aprovado pelo Conselho de Administração em 2 dezembro de 2020.	qual o nível de variações que, individualmente ou no seu conjunto, poderiam originar perdas por imparidade nos ativos testados. Os procedimentos acima descritos, realizados para avaliar a razoabilidade dos pressupostos e metodologia associada ao modelo de imparidade utilizado pelo Grupo, foram realizados com o apoio da nossa equipa de peritos internos. Foi ainda revista a adequação das divulgações apresentadas nas demonstrações financeiras consolidadas, em especial as que se referem às estimativas e pressupostos que apresentam maior sensibilidade na determinação do valor recuperável baseado no valor de uso, tendo por base o enunciado no normativo contabilístico aplicável e os fatores considerados relevantes.

Matérias relevantes de auditoria	*Síntese da abordagem de auditoria*
Conforme igualmente divulgado na notas 1.1.3 e 4 das demonstrações financeiras consolidadas, importa referir que o Plano de Reestruturação que venha a ser aprovado pela Comissão Europeia, se diferente do Plano de Reestruturação aprovado pelo Conselho de Administração em 2 de dezembro de 2020, pode originar impactos relevantes no cálculo do valor recuperável dos referidos ativos e afetar consequentemente, de forma significativa, a posição financeira e económica do Grupo. Face aos montantes envolvidos, à complexidade dos modelos de avaliação, aos pressupostos utilizados, ao elevado nível de julgamento e subjetividade que lhe estão inerentes, tendo adicionalmente em consideração a incerteza da evolução futura da pandemia COVID-19 e os seus impactos na atividade do transporte aéreo, bem como o facto do Plano de Reestruturação 2021-2025 do Grupo TAP não se encontrar, a esta data, aprovado pela Comissão Europeia, este tema constituiu uma matéria relevante para efeitos da nossa auditoria.	
Recuperabilidade dos ativos da operação de manutenção no Brasil *Divulgações relacionadas com a recuperabilidade dos ativos da operação de manutenção no Brasil apresentadas nas notas 1.1.3, 4, 6, 11, 12, 14, 28 e 32 das demonstrações financeiras consolidadas.* Conforme divulgado na nota 1.1.3 das demonstrações financeiras consolidadas, em 31 de dezembro de 2020, foi reconhecida uma perda por imparidade sobre os ativos da subsidiária TAP ME Brasil, no valor de 113 milhões de euros, a qual teve em consideração a perspetiva de valor recuperável existente à data, considerando as incertezas operacionais e contingências legais associadas.	Os procedimentos de auditoria desenvolvidos incluíram, entre outros, a avaliação do Plano de Reestruturação aprovado pelo Conselho de Administração em 2 de dezembro de 2020 e os impactos estimados para a operação de manutenção no Brasil. Inquirimos o Conselho de Administração quanto às perspetivas atuais para a subsidiária TAP ME Brasil, tendo em consideração os impactos da pandemia COVID-19 no setor e o facto do Grupo TAP se encontrar no âmbito de um Plano de Reestruturação junto da Comissão Europeia. Analisámos, ainda, as atas do Conselho de Administração.

Matérias relevantes de auditoria	*Síntese da abordagem de auditoria*
No âmbito do Plano de Reestruturação em curso do Grupo TAP, encontra-se previsto o abandono de atividades *non-core* como medida de contenção de custos e reforço de sustentabilidade financeira futura. Dada a performance económico-financeira histórica da subsidiária TAP ME Brasil, conjugada com os impactos da pandemia COVID-19 na atividade de manutenção de aeronaves e com os impactos operacionais para a subsidiária decorrentes da estratégia do Grupo TAP descrita no Plano de Reestruturação, o Conselho de Administração encontra-se a analisar opções de venda, reestruturação ou descontinuidade para a referida subsidiária. Face à magnitude dos montantes envolvidos e o grau de julgamento associado à avaliação da recuperabilidade dos ativos respeitantes à operação de manutenção no Brasil, este tema constituiu uma matéria relevante para efeitos da nossa auditoria.	Foi ainda revista a adequação das divulgações apresentadas nas demonstrações financeiras consolidadas, tendo por base o enunciado no normativo contabilístico aplicável e os fatores considerados relevantes.
Provisão para reestruturação	
Divulgações relacionadas com a provisão para reestruturação apresentadas nas notas 1.1.3, 2.22, 2.34, 18 e 30 das demonstrações financeiras consolidadas. Em 31 de dezembro de 2020, o Grupo apresenta nas suas demonstrações financeiras consolidadas uma provisão para reestruturação no valor de 93 milhões de euros. Nos termos da IAS 37 - Provisões, Passivos Contingentes e Ativos Contingentes, esta provisão é registada sempre que, à data da posição financeira, exista um plano formal da reestruturação e que tenha sido criada uma expetativa válida da sua concretização junto das entidades afetadas pelo plano.	Os procedimentos de auditoria desenvolvidos incluíram, entre outros, a verificação do cumprimento dos requisitos para efeitos do reconhecimento da provisão de reestruturação em 31 de dezembro de 2020. Para tal, analisámos o plano formal desenvolvido pelo Conselho de Administração, preparado com base no Plano de Reestruturação aprovado pelo Conselho de Administração em 2 de dezembro de 2020, obtivemos as deliberações governamentais e as comunicações efetuadas pelos Conselhos de Administração da TAP SGPS e da TAP SA às entidades afetadas. Para efeitos de avaliação da razoabilidade da provisão registada foram considerados os impactos decorrentes dos desenvolvimentos ocorridos no primeiro trimestre de 2021, e em

Matérias relevantes de auditoria	*Síntese da abordagem de auditoria*
No âmbito do Plano de Reestruturação aprovado pelo Conselho de Administração em 2 de dezembro de 2020, foram definidas medidas de reestruturação organizacional e eficiência operacional, entre as quais uma redução do número de colaboradores, de forma a garantir a sustentabilidade financeira e económica do Grupo. A provisão para reestruturação refere-se essencialmente aos custos estimados com a redução do número de colaboradores, cujo respetivo processo ainda se encontrava em curso a 31 de dezembro de 2020. Face ao montante envolvido, à complexidade da estimativa efetuada, aos pressupostos utilizados e ao nível de julgamento e subjetividade que lhe está inerente, este tema constituiu uma matéria relevante para efeitos da nossa auditoria.	particular, os Acordos de emergência assinados com os sindicatos representativos dos colaboradores do Grupo TAP, as atas do Conselho de Administração da TAP SA e da TAP SGPS, os programas de medidas laborais de adesão voluntária promovidos junto dos colaboradores e, sempre que aplicável, os acordos de rescisão por mútuo acordo. Avaliámos o modelo de cálculo da estimativa da provisão para reestruturação aprovado pelo Conselho de Administração e procedemos à reexecução matemática dos cálculos. Foi igualmente apreciada a razoabilidade dos pressupostos utilizados, tendo por base a documentação inerente ao processo de reestruturação. Numa base amostral, foi igualmente reconciliada, a informação considerada relevante no modelo de cálculo para efeitos de valorização da provisão com a documentação suporte, tendo ainda reexecutado os respetivos cálculos. Verificámos a adequação das divulgações apresentadas nas demonstrações financeiras consolidadas, tendo por base o enunciado no normativo contabilístico aplicável e os fatores considerados relevantes.
Recuperabilidade de ativos por impostos diferidos originados por prejuízos fiscais *Divulgações relacionadas com a recuperabilidade de ativos por impostos diferidos originados por prejuízos fiscais apresentadas nas notas 1.1.3, 2.15, 2.34, 10 e 34 das demonstrações financeiras consolidadas.* Na posição financeira consolidada de 31 de dezembro de 2020, os ativos por impostos diferidos ascendem a 131 milhões de euros, dos quais 77 milhões de euros respeitam a prejuízos	Os procedimentos de auditoria desenvolvidos incluíram, entre outros, a avaliação da adequação do modelo de análise da recuperabilidade dos ativos por impostos diferidos originados por prejuízos fiscais, aprovado pelo Conselho de Administração, a razoabilidade da metodologia utilizada e a reexecução matemática dos cálculos.

Matérias relevantes de auditoria	*Síntese da abordagem de auditoria*
fiscais gerados pela subsidiária TAP SA, nos exercícios de 2015, 2018 e 2019. Conforme divulgado nas notas 1.1.3 e 10 das demonstrações financeiras consolidadas, não foram reconhecidos os ativos por impostos diferidos, respeitantes ao prejuízo fiscal gerado pela TAP SA no exercício de 2020, no montante estimado de 251 milhões de euros. De acordo com a IAS 12 – Impostos sobre o rendimento, os ativos por impostos diferidos são reconhecidos na medida da expectativa do Conselho de Administração do Grupo quanto à sua recuperabilidade futura, tendo por base a capacidade de geração de lucros tributáveis futuros, conjugada com o horizonte temporal de recuperabilidade dos respetivos prejuízos fiscais. A estimativa de recuperação dos referidos ativos por impostos diferidos teve por base a projeção dos resultados antes de impostos embutida no Plano de Reestruturação aprovado, abrangendo os exercícios de 2021 a 2025, ajustados dos respetivos efeitos fiscais, tendo ainda em consideração que as demonstrações financeiras individuais da subsidiária TAP SA são preparadas em conformidade com as Normas Contabilísticas e de Relato Financeiro adotadas em Portugal através do Sistema de Normalização Contabilística (SNC). Conforme igualmente divulgado na nota 1.1.3 das demonstrações financeiras consolidadas, importa referir que o Plano de Reestruturação que venha a ser aprovado pela Comissão Europeia, se diferente do Plano de Reestruturação aprovado pelo Conselho de Administração da TAP SGPS em 2 de dezembro de 2020, pode originar impactos relevantes no cálculo do valor recuperável dos referidos ativos e afetar consequentemente, de forma significativa, a posição financeira e económica do Grupo.	Efetuámos a reconciliação dos resultados antes de impostos da subsidiária TAP SA utilizados no respetivo modelo com o Plano de Reestruturação, para os exercícios de 2021 a 2025, aprovado pelo Conselho de Administração em 2 dezembro de 2020. Avaliámos criticamente as estimativas e julgamentos realizados pelo Conselho de Administração, subjacentes aos pressupostos relevantes utilizados no modelo, nomeadamente períodos utilizados, resultados antes de impostos nos períodos de projeção e ajustamentos fiscais que concorrem para a determinação da estimativa dos lucros tributáveis futuros da subsidiária TAP SA. Na referida avaliação foi igualmente tido em consideração o período de reporte de utilização dos prejuízos fiscais, aplicável à TAP SA, em vigor à data de 31 de dezembro de 2020. Verificámos a adequação das divulgações apresentadas nas demonstrações financeiras consolidadas, tendo por base o enunciado no normativo contabilístico aplicável e os fatores considerados relevantes.

Matérias relevantes de auditoria	Síntese da abordagem de auditoria
Face aos montantes envolvidos, aos pressupostos utilizados e ao elevado nível de julgamento e subjetividade que lhe estão inerentes, tendo adicionalmente em consideração a incerteza da evolução futura da pandemia COVID-19 e seus impactos na atividade do transporte aéreo, bem como o facto do Plano de Reestruturação 2021-2025 do Grupo TAP não se encontrar, a esta data, aprovado pela Comissão Europeia, este tema constituiu uma matéria relevante para efeitos da nossa auditoria.	

Responsabilidades do órgão de gestão e do órgão de fiscalização pelas demonstrações financeiras consolidadas

O órgão de gestão é responsável pela:

a) preparação de demonstrações financeiras consolidadas que apresentem de forma verdadeira e apropriada a posição financeira consolidada, o desempenho financeiro e os fluxos de caixa consolidados do Grupo de acordo com as Normas Internacionais de Relato Financeiro (IFRS) tal como adotadas na União Europeia;

b) elaboração do relatório consolidado de gestão nos termos legais e regulamentares aplicáveis;

c) criação e manutenção de um sistema de controlo interno apropriado para permitir a preparação de demonstrações financeiras consolidadas isentas de distorções materiais devido a fraude ou a erro;

d) adoção de políticas e critérios contabilísticos adequados nas circunstâncias; e

e) avaliação da capacidade do Grupo de se manter em continuidade, divulgando, quando aplicável, as matérias que possam suscitar dúvidas significativas sobre a continuidade das atividades.

O órgão de fiscalização é responsável pela supervisão do processo de preparação e divulgação da informação financeira do Grupo.

Responsabilidades do auditor pela auditoria das demonstrações financeiras consolidadas

A nossa responsabilidade consiste em obter segurança razoável sobre se as demonstrações financeiras consolidadas como um todo estão isentas de distorções materiais devido a fraude ou a erro, e emitir um relatório onde conste a nossa opinião. Segurança razoável é um nível elevado de segurança, mas não é uma garantia de que uma auditoria executada de acordo com as ISAs detetará sempre uma distorção material quando exista. As distorções podem ter origem em fraude ou erro e são consideradas materiais se, isoladas ou conjuntamente, se possa razoavelmente esperar que influenciem decisões económicas dos utilizadores tomadas com base nessas demonstrações financeiras.

Como parte de uma auditoria de acordo com as ISAs, fazemos julgamentos profissionais e mantemos ceticismo profissional durante a auditoria e também:

a) identificamos e avaliamos os riscos de distorção material das demonstrações financeiras consolidadas, devido a fraude ou a erro, concebemos e executamos procedimentos de auditoria que respondam a esses riscos, e obtemos prova de auditoria que seja suficiente e apropriada para proporcionar uma base para a nossa opinião. O risco de não detetar uma distorção material devido a fraude é maior do que o risco de não detetar uma distorção material devido a erro, dado que a fraude pode envolver conluio, falsificação, omissões intencionais, falsas declarações ou sobreposição ao controlo interno;

b) obtemos uma compreensão do controlo interno relevante para a auditoria com o objetivo de conceber procedimentos de auditoria que sejam apropriados nas circunstâncias, mas não para expressar uma opinião sobre a eficácia do controlo interno do Grupo;

c) avaliamos a adequação das políticas contabilísticas usadas e a razoabilidade das estimativas contabilísticas e respetivas divulgações feitas pelo órgão de gestão;

d) concluímos sobre a apropriação do uso, pelo órgão de gestão, do pressuposto da continuidade e, com base na prova de auditoria obtida, se existe qualquer incerteza material relacionada com acontecimentos ou condições que possam suscitar dúvidas significativas sobre a capacidade do Grupo para dar continuidade às suas atividades. Se concluirmos que existe uma incerteza material, devemos chamar a atenção no nosso relatório para as divulgações relacionadas incluídas nas demonstrações financeiras consolidadas ou, caso essas divulgações não sejam adequadas, modificar a nossa opinião. As nossas conclusões são baseadas na prova de auditoria obtida até à data do nosso relatório. Porém, acontecimentos ou condições futuras podem levar a que o Grupo descontinue as suas atividades;

e) avaliamos a apresentação, estrutura e conteúdo global das demonstrações financeiras consolidadas, incluindo as divulgações, e se essas demonstrações financeiras representam as transações e os acontecimentos subjacentes de forma a atingir uma apresentação apropriada;

f) obtemos prova de auditoria suficiente e apropriada relativa à informação financeira das entidades ou atividades dentro do Grupo para expressar uma opinião sobre as demonstrações financeiras consolidadas. Somos responsáveis pela orientação, supervisão e desempenho da auditoria do Grupo e somos os responsáveis finais pela nossa opinião de auditoria;

g) comunicamos com os encarregados da governação, incluindo o órgão de fiscalização, entre outros assuntos, o âmbito e o calendário planeado da auditoria, e as conclusões significativas da auditoria incluindo qualquer deficiência significativa de controlo interno identificada durante a auditoria;

h) das matérias que comunicamos aos encarregados da governação, incluindo o órgão de fiscalização, determinamos as que foram as mais importantes na auditoria das demonstrações financeiras consolidadas do ano corrente e que são as matérias relevantes de auditoria. Descrevemos essas matérias no nosso relatório, exceto quando a lei ou regulamento proibir a sua divulgação pública; e

i) declaramos ao órgão de fiscalização que cumprimos os requisitos éticos relevantes relativos à independência e comunicamos-lhe todos os relacionamentos e outras matérias que possam ser percecionadas como ameaças à nossa independência e, quando aplicável, quais as medidas tomadas para eliminar as ameaças ou quais as salvaguardas aplicadas.

A nossa responsabilidade inclui ainda a verificação da concordância da informação constante do relatório consolidado de gestão com as demonstrações financeiras consolidadas.

Relato sobre outros requisitos legais e regulamentares

Sobre o relatório consolidado de gestão

Dando cumprimento ao artigo 451.º, n.º 3, alínea e) do Código das Sociedades Comerciais, somos de parecer que o relatório consolidado de gestão foi preparado de acordo com os requisitos legais e regulamentares aplicáveis em vigor, a informação nele constante é concordante com as demonstrações financeiras consolidadas auditadas e, tendo em conta o conhecimento e a apreciação sobre o Grupo, não identificámos incorreções materiais.

Sobre a demonstração não financeira consolidada

Dando cumprimento ao artigo 451.º, n.º 6, do Código das Sociedades Comerciais, informamos que o Grupo irá preparar um relatório separado do relatório consolidado de gestão que inclui a demonstração não financeira consolidada, conforme previsto no artigo 508.º-G do Código das Sociedades Comerciais, o qual deverá ser publicado no seu sítio na Internet no prazo legal.

Sobre os elementos adicionais previstos no artigo 10.º do Regulamento (UE) n.º 537/2014

Dando cumprimento ao artigo 10.º do Regulamento (UE) n.º 537/2014 do Parlamento Europeu e do Conselho, de 16 de abril de 2014, e para além das matérias relevantes de auditoria acima indicadas, relatamos ainda o seguinte:

a) Fomos nomeados auditores da TAP – Transportes Aéreos Portugueses, SGPS, S.A. pela primeira vez na assembleia geral de acionistas realizada em 2 de março de 2020 para um mandato compreendido entre 2019 e 2020.

b) O órgão de gestão confirmou-nos que não tem conhecimento da ocorrência de qualquer fraude ou suspeita de fraude com efeito material nas demonstrações financeiras consolidadas. No planeamento e execução da nossa auditoria de acordo com as ISAs mantivemos o ceticismo profissional e concebemos procedimentos de auditoria para responder à possibilidade de distorção material das demonstrações financeiras consolidadas devido a fraude. Em resultado do nosso trabalho não identificámos qualquer distorção material nas demonstrações financeiras consolidadas devido a fraude.

c) Confirmamos que a opinião de auditoria que emitimos é consistente com o relatório adicional que preparámos e entregámos ao órgão de fiscalização do Grupo em 23 de abril de 2021.

d) Declaramos que não prestámos quaisquer serviços proibidos nos termos do artigo 77.º, n.º 8, do Estatuto da Ordem dos Revisores Oficiais de Contas e que mantivemos a nossa independência face ao Grupo durante a realização da auditoria.

26 de abril de 2021

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
representada por:

António Joaquim Brochado Correia, R.O.C.