AIR PORTUGAL

TRANSPORTES AÉREOS PORTUGUESES, S.A.

First Half 2019

MANAGEMENT REPORT AND ACCOUNTS

A STAR ALLIANCE MEMBER

Share Capital: €41,500,000 | Head Office: Edifício 25 do Aeroporto de Lisboa, 1700-008 Lisbon | Corporate identification number 500 278 725, registered under the same number with the Commercial Registry of Lisbon

MANAGEMENT REPORT

FIRST HALF 2019

This document is a translation from the Portuguese original.
In the event of any inconsistencies the Portuguese version shall prevail.

Index

1. EVOLUTION OF ACTIVITY IN THE FIRST HALF OF 2019

<u>IFRS 16 Note</u>: Transportes Aéreos Portugueses, S.A. (“TAP” or “Company”) adopted on 1st January 2019 IFRS 16 – Leases, having selected the modified retrospective model as of the transition date, which does not foresee the restatement of the financial statements from previous years.

1.1. Summary

Highlights from the First Half of 2019

- Record number of passengers carried in the first six months of the year, reaching 7.9 million (+4.8% compared to the first half of 2018) as a result of the growth in the second quarter of 2019 (+8.9% year-on-year). In the first quarter there was a slight decrease in the number of passengers carried (-0.3% year-on-year).

- Strengthening of the expansion and fleet renewal strategy with the arrival of 15 new last generation Airbus aircraft from the NEO family and the exit of 5 older aircraft from the fleet, translating into a net increase of 10 aircraft during the first half of the year. TAP was the first company worldwide to have all the aircraft from Airbus NEO family: A330, A320, A321 and A321LR.

- The new aircraft enabled TAP’s expansion to eight new markets during the first half, from which we highlight the beginning of operations in the Middle East and investment in the USA, with the contribution of new routes that started in June (San Francisco, Chicago and Washington).

- North America, with a focus in the US, already represented 13.1% of TAP’s passenger revenues in the first half of 2019, an increase of 8 percentage points in just five years that consolidated the North American market as one of the Company’s three main markets. In 2020, it is expected that TAP will operate 71 weekly frequencies in the North American market and 88 frequencies in the Brazilian market, which represents a significant diversification of markets in comparison to 2015, when the company only operated 16 weekly frequencies in the North American market and 77 in the Brazilian market.

- Passenger revenues’ growth in all markets, except for Brazil and Central America, highlighting the routes of North America and domestic routes (Mainland and Islands), which increased 14.2% and 12.0% respectively, in comparison with the first half of the previous year.

- Brazil Passenger revenues decreased in EUR 43.1 million in the first half of 2019 (-10.6%) as a result of the continuation of the political and economic instability that began in the second half of 2018, which greatly affected revenues in the first six months of 2019.

- Overall passenger operating income with a slight decrease in the first half (-0.3%), with a different pattern in the two quarters, having registered a year-on-year decrease in the first quarter of 8.1% and growing 6.2% year-on-year in the second quarter of 2019.

- Even in a context of increasing capacity, there was a decrease in operating costs of 0.1% in the first half of 2019 compared with the same period of the previous year. Total operating unit costs per ASK (CASK) registered a year-on-year decrease of 7.3% in the first half of 2019 and total operating unit costs per ASK excluding fuel costs (CASK ex-fuel) saw a decrease of 7.5%.

- Among the main operating cost items and excluding Depreciation, Amortization and impairment losses, Employee costs was the only item that registered a unit cost increase (per ASK) during the first half when compared to the same period of 2018, increasing EUR 46.5 million, an year-on-year increase of +16.2%, as a result of the hiring of new employees and of the salary revisions negotiated in 2018.

- Decrease in unit fuel costs per ASK by 6.5%, reflecting the higher fuel efficiency of the new aircraft that at the end of the first half already represented 20% of the operational fleet and by the successful hedging policy implemented at the end of 2018. This efficiency will be further reinforced by the increase in the weight of the new NEO aircraft in the fleet, that should reach approximately 35% at the end of 2019.

- Adjusted EBITDAR reached EUR 5.5 million in the first quarter of 2019 (-22.3% year-on-year) and EUR 126.7 million in the second quarter (+88.3% year-on-year), summing up to EUR 132.2 million in the first half of 2019, an increase of EUR 57.8 million (+77.8% compared to the first half of the previous year).

- Net income in the first half reached EUR -112.0 million, which compares with EUR -70.1 million in the first half of 2018. Net Income for the first quarter of 2019 was largely affected by the mentioned performance of Brazil, reaching EUR -106.6 million (worse in EUR 55.4 million than the EUR -51.2 million of the first quarter of 2018), evolving to EUR -5.4 million in the second quarter (an improvement of EUR 13.5 million compared to the EUR -18.9 million registered in the same period of 2018).

- The success in the issuance of TAP 2019-2023 bonds resulted in the largest cash and equivalents position in the history of TAP, reaching EUR 386.7 million, an increase of EUR 163.0 million compared to the end of 2018 (+72.9%).

- Strengthening of TAP's role as an engine of the Portuguese economy and one of the largest employers of Portugal, having continued during the first half of 2019 the recruitment effort for new employees in order to meet the anticipated growth in activity, with a special focus in pilots and flight attendants. From a total of 566 new admissions during the first half of 2019, 144 pilots and 222 flight attendants were hired.

- Improvement in TAP's punctuality and regularity indicators during the first half of 2019 when compared to the previous year. The number of cancelled flights in the first half decreased 78.3% compared to the same period last year, with cancelled flights corresponding to 0.5% of the Company's total flights, in line with industry standards. The Company's overall punctuality improved 7.9 percentage points in the first half compared to the same period in 2018, being worth highlighting the air bridge Lisbon-Oporto, which saw an improvement of 26.3 points in punctuality.

- TAP climbed 11 positions in the NPS ranking of the 28 member companies of Star Alliance. In only one year, from June 2018 to the same month of 2019, TAP went up from number 26th to number 15th, increasing NPS in 26.2 points. The second quarter of 2019 was the period where TAP's NPS, that expresses clients' satisfaction, was closer to Star Alliance's average NPS, showing the good results of the initiatives that have been implemented by the Company.

- TAP Miles & Go, TAP's client loyalty program, has been attaining substantially higher levels of activity compared to the previous year, since its reformulation at the end of 2018. It is worth highlighting the acceleration in revenues from the sale of miles in the first half of 2019 which reached EUR 21.6 million, a value that compares with EUR 9.1 million in the same period last year (+137%).

- The results' recovery observed during the second quarter of 2019 leads to a perspective of continuous improvement in the last six months of this year, with the expectation of a better operating result than the one observed in 2018.

In conclusion, TAP maintains the trajectory of implementation of its strategic plan of Company transformation. In the first six months of the year, the renewal of the fleet was continued, becoming more efficient and less polluting.

An investment that was also reflected in the improvement of passengers' comfort and in markets diversification, with an emphasis in the increase of routes to the USA. A higher operational efficiency was accomplished, that translated in important improvements in punctuality, regularity and client service.

In what concerns the financial structure, there was a strengthening of the cash and equivalents position and an extension of the average maturity of financial debt.

In relation to profitability, the first half of 2019 was still heavily impacted by the decrease of the Brazilian market. The performance during the second half of the year will be fundamental to increase the Company's profitability, given the sector features, in which the second half historically records higher values than the first half.

1.2. Operational and Economic-Financial Performance

Adoption of IFRS 16

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

The main impacts in the statement of financial position as of the transition date resulting from the adoption of IFRS 16 are (1) the recognition of the assets corresponding to the rights of use (mainly associated with aircraft under operating leases), (2) the recognition of the liabilities corresponding to the contractual responsibilities assumed, (3) the reclassification of maintenance reserves to assets and, (4) the increase in equity in the amount corresponding to the effects of IFRS 16 in the treatment of maintenance costs of aircraft under operating lease. The statement of financial position as of 31 December 2018 and 1 January 2019 is as follow:

EUR million	31-Dec-18	Impact of IFRS 16 adoption	1-jan-19
ASSETS			
Non-current assets	**687.0**	**1,222.2**	**1,909.3**
Tangible fixed assets	521.0	1,179.0	1,700.0
Other receivables	61.1	43.2	104.4
Other items of non-current assets	104.9	-	104.9
Current Assets	**1,515.9**	**-**	**1,515.9**
Total Assets	**2,203.0**	**1,222.2**	**3,425.2**
EQUITY AND LIABILITIES			
Equity and Reserves			
Retained earnings	(12.0)	90.9	79.0
Other items of Equity and Reserves	116.8	-	116.8
Total equity	**104.8**	**90.9**	**195.7**
Non-current liabilities	**762.2**	**877.5**	**1,639.7**
Deferred tax liabilities	18.8	38.1	56.8
Provisions	12.2	26.1	38.3
Liabilities with contractual obligations	-	863.1	863.1
Other payables	49.7	(49.7)	-
Other items of non-current liabilities	681.5	-	681.5
Current liabilities	**1,336.0**	**253.8**	**1,589.7**
Liabilities with contractual obligations	-	303.6	303.6
Other payables	667.5	(49.8)	617.7
Other items of current liabilities	668.5	-	668.5
Total liabilities	**2,098.2**	**1,131.3**	**3,229.5**
Total equity and liabilities	**2,203.0**	**1,222.2**	**3,425.2**

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

Operational Performance

Main Operational Indicators	First Half 2019	First Half 2018	% Change
Passenger ('000)	7,900	7,539	+4.8%
RPK (million)	19,119	18,317	+4.4%
ASK (million)	23,986	22,262	+7.7%
Fleet (end of period)[1]	106	91	+16.5%
Block Hours	191,102	186,123	+2.7%
Punctuality until 15'	69.2%	61.3%	+7.9p.p.
Regularity	99.5%	97.7%	+1.8p.p.
Active Staff (30 June)[2]	8,800	7,863	+11.9%

1) Includes aircraft operated under *wet-lease* agreements

2) Excludes staff not placed and not active

In the first half of 2019 TAP reached a record number of passengers carried for the first six months of the year, with a year-on-year increase of 361 thousand passengers (+4.8%) to 7.9 million passengers, as a result of the second quarter growth (+8.9% year-on-year). In the first quarter there was a slight decrease in the number of passengers carried (-0.3% year-on-year).

The increase in the number of passengers was cross-sectional to the majority of regions operated by TAP's network, with the following evolution by geography:

- North America, with an increase of 9.6% in passengers carried, to a total of 428 thousand, as a result of the opening of new routes and increased frequencies;
- Africa, where TAP grew 8.5%, to a total of 586 thousand passengers, also resulting from the launch of new routes;
- European routes – excluding Portugal – in which TAP experienced the largest growth in absolute terms, reaching 4.8 million passengers, an increase of 227 thousand (+4.9%), compared to the first six months of the previous year;
- The flights between airports in Mainland Portugal (Lisbon, Oporto and Faro), in which TAP grew 1.8%, and in the routes of Azores and Madeira, which increased 4.9%, reaching 633 thousand passengers;
- The air bridge Lisbon-Oporto, increased 5.8% in the first half, reaching 400 thousand passengers, reflecting the usage of jet planes and the rationalization of frequencies that allowed to improve client service substantially;

- Brazil, which experienced a decrease of 2% in the number of passengers carried during the first half, reflecting the continuation of economic and political instability that began in the second half of 2018, but showing signs of improvement at the end of the second quarter of 2019. In June, TAP increased the number of passengers carried in the Brazilian routes by 3.4%, when compared to the same month of 2018.

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

Capacity in the first half of 2019, measured in ASK, increased 7.7% year-on-year, as a result of the introduction of more frequencies and 8 new routes (Tel Aviv, Basel and Dublin in March, Chicago, Washington, S. Francisco, Naples and Tenerife in June). Demand in terms of passenger traffic, expressed in RPK, increased 4.4%, with the impact of the new routes in traffic growth likely to only be visible throughout the second half of 2019, since most new routes only started at the end of the first half.

The fleet renewal and expansion strategy has been one of the key pillars in the pursuit of TAP's growth and margin expansion objectives. As of 30 June 2019, TAP's fleet was composed of 106 aircraft (including 21 aircraft operated under wet lease agreements with White and Portugália), as a result of the entry into operation during the first half of 2019 of 15 new last generation Airbus of the NEO family (7 A330-900neo, 2 A321LR, 2 A321neo and 4 A320neo) and the exit from operation of 5 older aircraft, translating into a net increase of 10 aircraft during the first half of 2019 and of 15 aircraft compared to the end of the first half of 2018.

Economic-Financial performance

TAP's main financial indicators for the first half of 2019 are presented below, including also the quarterly values for reference, given the seasonality of activity:

EUR million	2019 1H	2018 1H[1]	Change Abs.	Change %	2019 2Q	2018 2Q[1]	Change %	2019 1Q	2018 1Q[1]	Change %
Operating Income	**1,448.9**	**1,489.7**	**-40.8**	**-2.7%**	**835.1**	**828.5**	**0.8%**	**613.7**	**661.2**	**-7.2%**
Passenger	1,275.1	1,279.2	-4.0	-0.3%	742.3	699.3	6.2%	532.8	579.9	-8.1%
Maintenance	92.5	124.7	-32.1	-25.8%	48.8	82.2	-40.6%	43.7	42.4	3.0%
Cargo and mail	65.8	66.8	-1.0	-1.5%	34.8	35.1	-0.8%	31.0	31.7	-2.2%
Other operating income	15.4	19.1	-3.7	-19.2%	9.2	11.9	-22.8%	6.3	7.2	-13.2%
Operating Costs	**1,533.8**	**1,535.5**	**-1.6**	**-0.1%**	**818.7**	**826.5**	**-1.0%**	**715.1**	**708.9**	**0.9%**
Aircraft fuel	360.3	357.5	2.7	0.8%	205.4	195.2	5.3%	154.9	162.4	-4.6%
Traffic operating costs	374.3	451.5	-77.1	-17.1%	201.6	243.6	-17.2%	172.7	207.8	-16.9%
Employee costs	332.9	286.5	46.5	16.2%	178.3	157.9	12.9%	154.7	128.6	20.3%
Aircraft rents	0.0	71.0	-71.0	na	0.0	36.2	na	0.0	34.8	na
Depreciation, amortisation and impairment losses	212.6	31.2	181.4	na	107.8	16.3	na	104.8	14.9	na
Aircraft maintenance costs	28.4	65.6	-37.2	-56.7%	17.3	28.0	-38.3%	11.2	37.6	-70.3%
Cost of materials consumed	64.7	94.3	-29.6	-31.4%	32.4	60.5	-46.5%	32.3	33.8	-4.4%
Commercial, communication and marketing costs	84.1	93.6	-9.5	-10.1%	37.6	44.3	-15.1%	46.5	49.2	-5.6%
Impair. losses in inventories, receiv. and provisions	0.3	0.1	0.3	na	-0.8	-0.2	na	1.2	0.3	na
Other operating expenses	71.6	66.3	5.3	7.9%	36.7	31.9	15.2%	34.9	34.5	1.2%
Restructuring	3.6	3.5	0.1	2.4%	2.0	2.2	-10.3%	1.6	1.3	24.5%
Other non recurrent items	0.9	14.3	-13.4	-93.6%	0.4	10.6	-96.2%	0.5	3.7	-86.2%
Adjusted EBITDAR[2]	**132.2**	**74.3**	**57.8**	**77.8%**	**126.7**	**67.3**	**88.3%**	**5.5**	**7.1**	**-22.3%**
EBIT (Operating Result)	**-85.0**	**-45.8**	**-39.2**	**na**	**16.4**	**1.9**	**na**	**-101.4**	**-47.7**	**na**
Net income	**-112.0**	**-70.1**	**-41.9**	**na**	**-5.4**	**-18.9**	**na**	**-106.6**	**-51.2**	**na**

1) TAP adopted in 1st January 2019 IFRS 16, having chosen the modified retrospective model as of the transition date, which does not foresee the restatement of the financial statements from previous years. Therefore, the values in relation to 2018 periods presented have not been restated.

2) Adjusted EBITDAR = Operating Result + Aircraft rents + Restructuring + Other non recurrent items + Depreciation, amortisation and impairment losses.

During the first half of 2019 total operating income reached EUR 1,448.9 million, a decrease of EUR 40.8 million (-2.7%) compared to the first half of 2018, mainly due to the decrease in income from maintenance activities to third parties of EUR 32.1 million (-25.8%).

Passenger income reached EUR 1,275.1 million, a year-on-year decrease of 0.3%, having represented 88.0% of total operating income.

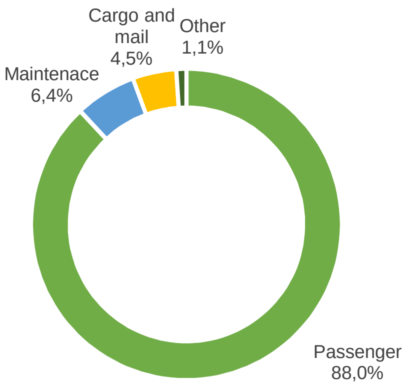
Passenger income followed a different trend in the first and second quarter of 2019 when compared to the same period last year. Revenues in the first quarter were particularly impacted by political and economic instability in Brazil. The impact of Brazil decreased in the second quarter, with Passenger operating income experiencing a significant year-on-year increase of 6.2%.

All regions grew in terms of Passenger revenues, except for Brazil and Central America, with an emphasis on North America and Portugal (Mainland and Island) routes, which increased 14.2% and 12.0% year-on-year, respectively. North American routes already accounted for 13.1% of total passenger revenues in the first half of 2019, which follows the strategy of markets diversification followed by TAP. Passenger revenues from Latin America experienced a decrease of 10.8% in the first half of 2019 compared to the same period of the previous year, more than offsetting increases in the remaining markets. This performance is the result of the continuation of economic and political instability in Brazil.

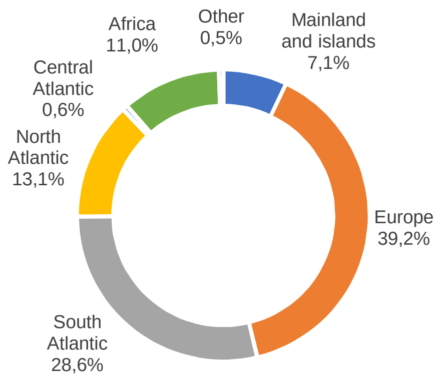
Income from maintenance to third parties decreased EUR 32.1 million year-on-year (-25.8%), essentially reflecting the higher usage of hangar slots in the maintenance of TAP's equipment, a situation that should change once the ongoing process of *phase-in* of new equipment and *phase-out* of older equipment in TAP's fleet comes to an end, leading to an increase in the availability of hangar slots for third parties. Additionally, in what concerns the engines activity and even though the number of shop visits did not experience a significant change, the average value of events decreased, mostly due to the absence of events that included the replacement of high value life limited parts. The decrease in maintenance revenues for third parties was more than compensated by the decrease in the related operating costs, resulting in an improvement in the operating result for this business segment of EUR 1.6 million in the first half, a year-on-year increase of 9.0%.

Lastly, Cargo and mail revenues reached EUR 65.8 million in the first half of 2019, a year-on-year decrease of EUR 1.0 million (-1.5%) which was, nevertheless, a better performance when compared to cargo and mail volumes globally, which fell 3.6% year-on-year in the same period, according to IATA.

Operating Income by Activity
(First Half 2019)



Passenger Sales and Services Rendered by Region
(First Half 2019)



Total operating costs reached EUR 1,533.8 million in the first half of 2019, a year-on-year decrease of EUR 1.6 million (-0.1%), representing a year-on-year decrease in operational unit costs per ASK (CASK) of 7.3%.

Fuel and CO_2 emission licenses' costs increased by only 0.8% year-on-year in the first half, below the growth in block hours (+2.7%) and representing a decrease in unit fuel costs per ASK of 6.5%, reflecting the higher fuel efficiency of new aircraft.

Traffic operating costs decreased in EUR 77.1 million (-17.1%) in the first half of 2019 compared to the same period of the previous year, essentially as a result of the recognition since 1st January 2019 of wet-lease agreements as rights of use under IFRS 16, as well as the improvement in operational efficiency with less cancellations that reduced the need for wet-leases.

The decrease in EUR 37.2 million of aircraft maintenance costs mainly results from the capitalization of costs with the major maintenances of aircraft under operating leases, pursuant to IFRS 16.

The decrease in costs of materials consumed in EUR 29.6 million (-31.4%), results essentially from the decrease in the activity of maintenance to third parties, namely in what concerns the replacement of high value life limited parts, when compared to the first half of the previous year.

The decrease in commercial, communication and marketing costs in EUR 9.5 million (-10.1%), includes the effect of lower booking fees as a result of increased sales through direct channels and of the commercial negotiations aiming at reducing booking fees.

The decrease in aircraft rents results from the adoption of IFRS 16 and the resulting treatment of rents as use rights.

The increase in employee costs of EUR 46.5 million (+16.2%) is due to the new hiring of employees to address the anticipated growth in activity with the expansion of the fleet, new routes and increased frequencies, as well as the wage increases agreed with labor unions in 2018.

The increase in depreciation, amortization and impairment losses of EUR 181.4 million, includes a EUR 177 million impact from the adoption of IFRS 16, of which EUR 16.3 million related to non-recoverable costs of the phase-out of aircraft that left the fleet during the period.

Adjusted EBITDAR reached EUR 5.5 million in the first quarter of 2019 (-22.3% year-on-year) and EUR 126.7 million in the second quarter (+88.3% year-on-year), summing-up to EUR 132.2 million in the first half of 2019, a year-on-year increase of EUR 57.8 million (+77.8%).

EBIT (Operating Result) reached negative EUR 85.0 million in the first half of 2019 (worse in EUR 39.2 million than the same period last year), due to the poor performance in the first quarter, given that the second quarter registered a positive value of EUR 16.4 million (an increase of EUR 14.5 million compared to the same period of 2018).

The above-mentioned factors, namely the weak performance of Brazil, resulted in a Net income during the first quarter of 2019 negative in EUR 106.6 million (worse in EUR 54.4 million than in the first quarter of 2018), evolving to EUR -5.4 million in the second quarter (an improvement of EUR 13.5 million compared to the same period of 2018). In the accumulated of the first half, TAP had a negative Net Income of EUR 112.0 million, a value that compares with negative EUR 70.1 million in the first half of 2018.

EUR million	30-Jun-19	1-Jan-19[2]	31-Dec-18[3]
Financial Position			
Assets	4,603.3	3,425.2	2,203.0
Equity	107.2	195.7	104.8
Net Debt[1]	691.3	552.2	552.2
Cash and cash equivalents	386.7	223.7	223.7

1) Excludes operating leases.

2) Reflects the impact of IFRS 16 adoption as of the transition date.

3) TAP adopted IFRS 16 on 1st January 2019, having chosen the modified retrospective model as of the transition date, which does not foresee the restatement of the financial statements from previous years. Therefore, the values as of 31-dec-18 presented have not been restated.

In what concerns TAP's financial position at the end of the first half of 2019, total Equity stood at EUR 107.2 million, an increase of EUR 2.4 million compared to the end of 2018, explained by the positive effect of IFRS 16 adoption in retained earnings and the increase in hedge reserves, which more than offset the negative net income in the first half of the year.

Net debt (excluding operating leases) at the end of the first half of 2019 was EUR 691.3 million, an increase of EUR 139.1 million (+25.2%) when compared to the end of 2018. It is worth highlighting the significant strengthening of the cash and cash equivalents' position, which stood at EUR 386.7 million, an increase of EUR 163.0 million compared to the end of 2018 (+72.9%).

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

- Financing with maturity in 2034, in the amount of approximately EUR 137 million, placed with international institutional investors;
- Public Offering of TAP 2019-2023 Bonds with a 4-year maturity, in the amount of EUR 200 million, with a total of 6,092 retail and institutional investors participating in the Offering. The Bonds are admitted to trading on Euronext Lisbon.

The average maturity of TAP's remunerated debt (excluding operating leases) at the end of the first half of 2019, extended by 1.4 years in relation to the average maturity at the end of 2018.

Lastly, we would highlight that during the first half of 2019, following the Agreement of Adaptation and Monitoring of the Financial Liabilities related to Group TAP signed in the course of the Company's privatization with several Portuguese banking entities, TAP began the debt amortization plan foreseen in that agreement, having amortized until 30th June 2019 an amount of EUR 58.0 million.

1.3. Main Strategic Plan Developments during the First Half of 2019

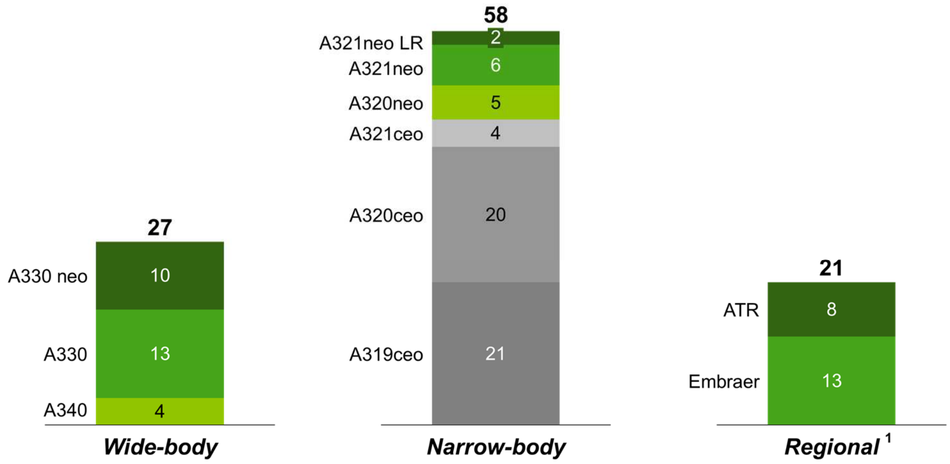
During the first half of 2019 TAP continued to give significant steps in the implementation of its strategic plan as described below.

Strategic Investments

During the first half of 2019, TAP pursued its strategy of renewal and expansion of the fleet with the entrance of 15 new last generation Airbus aircraft from the NEO family (7 A330-900neo, 2 A321LR, 2 A321neo and 4 A320neo).

The renewal of the fleet allows to significantly improve the offer for passengers, as well as to provide a consistent product in all the long-haul equipment. These aircraft also present significant efficiency gains, namely in fuel saving and CO_2 emissions, which meets TAP's goal to become a more sustainable and less polluting company.

As of June 30, 2019, TAP's fleet was composed of 106 aircraft, as follows:



1) White and Portugalia's fleet, operated by TAP under wet-lease agreements

Operational Strategy

The first half of 2019 saw the continuation of TAP's growth strategy by exploring its strategic geographic position in order to seize passenger traffic between North and South America and Africa to Europe, maintaining the long-haul flight policy. There was also a continued focus in the promotion and consolidation of the Lisbon hub, the center of the connections of European and intercontinental destinations.

During the first half of 2019 new destinations were launched in order to expand the Company's portfolio, offering more options to Passengers and contributing to further reinforce TAP's network. In this context, the focus was on the consolidation and expansion of the North American market, a region where TAP has been improving its offer through the inauguration of new routes - Washington DC, Chicago and San Francisco – destinations that started operating during the first half of 2019, but also through increased frequencies in flights of existing routes. During the first half of 2019, North America already represented 13.1% of passenger revenues, which compares to 11.4% in 2018.

Brazil continued to be one of TAP's main markets, although the first half of the year saw a decrease in revenues explained not only by the economic slowdown, but also by the devaluation of BRL in relation to the EUR (-4.7%), when comparing the average exchange rate of the first half of 2019 with the same period last year. During the first quarter of 2019, Brazil's GDP contracted 0.2% compared to the fourth quarter of 2018.

The developments that have been implemented in the network and routes, not only created more connections to the Lisbon hub, but also created a more attractive product for the leisure and corporate segments.

By the end of the first half of 2019, TAP flew to 94 airports in 36 countries.

In addition to the network transformation, TAP has focused on its customers with several measures aimed at increasing their satisfaction, namely:

- Operational improvements to solve flight delays;
- Monitoring of Net Promoter Score ("NPS") and of the impact of improvement measures;
- Reinforcement of the call center to answer phone calls and solve passengers' problems;
- Dynamization of the Miles&Go frequent flyer program, making it more adapted to clients' needs. During the first half of 2019 TAP added new benefits to the Miles&Go program, with TAP's Miles&Go Clients being able to bid upgrades and benefit from the new functionality Plusgrade that allows to bid with miles to change reserved seats in Economy class to Executive class, as an alternative to bidding in cash.

Punctuality and regularity indicators of TAP during the first half of 2019 registered an improvement when compared to the same period of the previous year. The number of cancelled flights decreased 78.3% when compared to the same period last year, with cancelled flights corresponding to 0.5% of the Company's total flights, in line with industry standards. The company's overall punctuality improved 7.9 percentage points in the first half compared to the same period in 2018, being worth highlighting the air bridge Lisbon-Oporto, which saw an improvement of 26.3 points in punctuality.

In what concerns NPS, TAP climbed 11 positions in the ranking of the 28 member companies of Star Alliance. In only one year, from June 2018 to the same month of 2019, TAP went up from number 26th to number 15th, increasing NPS in 26.2 points. The second quarter of 2019 was the period where TAP's NPS, that expresses clients' satisfaction, was closer to Star Alliance's average NPS, showing the good results of the initiatives that have been implemented by the Company.

TAP's client loyalty program, TAP Miles & Go, has been attaining substantially higher levels of activity compared to the previous year, since its reformulation at the end of 2018, being worth highlighting the acceleration in revenues from the sale of miles in the first half of 2019 which reached EUR 21.6 million, a value that compares with EUR 9.1 million in the same period last year (+137%). The number of new clients reached 541,000 in the first half of 2019, an increase of 39% compared to the same period last year.

Focus on staff and management improvement

Similarly to 2018, the first half of 2019 demanded a high effort in processes of recruitment, selection and hiring of staff for various positions, with a special emphasis in pilots and flight attendants. Consequently, of a total of 566 new admissions during the first half, 144 pilots and 222 flight attendants were hired.

Among the main projects implemented in Human Resources during the first half of 2019, we highlight the revision of the Employee Passenger Program, making it more uniform, cross-sectional and equitable, and the creation of “RH Consigo”, a unique point of contact between TAP’s employees and the Human Resources department, with new communication channels with the HR Team.

Profitability

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

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

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

Lastly, it should be referred that the constraints that have been affecting the Lisbon airport, have a direct impact in the punctuality and consequently in the Company's Profitability. We estimate that infrastructure restrictions (including air traffic control) in Lisbon have an impact of 15-20 p.p. in TAP's punctuality.

In this context, it is understood that once the operation is normalized, TAP will be able to benefit from the implemented changes, resuming the trajectory of profitability recovery initiated since privatization.

It should be noted that during the second quarter of 2019, there were already signs of trend reversal, with a significant increase in EBIT compared to the second quarter of the previous year. EBIT for the second quarter of 2019 was EUR 16.4 million, an increase of EUR 14.5 million compared to the same period of the previous year. Additionally, one should highlight the seasonality that characterizes the sector, with the second half registering higher levels of activity than the first half.

Capitalization and debt

During the first half of the year, there were two large financing transactions that raised an aggregate amount of EUR 337 million, allowing TAP to diversify its funding sources and extend the average maturity of its debt, as well as significantly strengthening the Company's liquidity position.

The average maturity of TAP's remunerated debt (excluding operating leases) at the end of the first half of 2019, increased by 1.4 years compared to the average maturity at the end of 2018.

We highlight the strong demand for TAP 2019-2023 bond issuance that took place in June 2019, which allowed the final amount of the offering to be set at EUR 200 million, 4 times the initial amount of EUR 50 million.

Lastly, we note that during the first half of 2019, following the Agreement of Adaptation and Monitoring of the Financial Liabilities related to Group TAP, signed with several Portuguese banking entities in the course of the privatization, TAP began the debt amortization plan foreseen in that agreement, having amortized until 30th June 2019 an amount of EUR 58.0 million.

Social and Environmental Balance

The creation of employment and the generation of tax revenues is a relevant social and financial contribution of TAP for the Portuguese Economy. TAP currently has 8,800 employees, having carried out 566 new admissions during the first half of 2019. In the first half of the year, TAP's employee costs totaled EUR 333 million, placing TAP among the largest employers in the country.

TAP also contributes significantly to tax revenues and social contributions, paying during the first half of 2019 circa EUR 138 million in taxes and social contributions (value net of taxes received).

In another perspective, the importance of TAP also comes from its contribution to domestic tourism: in the first half of 2019 alone, the Company was responsible for bringing more than two million tourists to Portugal, that contributed with over EUR 1.2 billion in spending in the Portuguese economy. TAP is also Portugal's largest services exporter.

From an environmental point of view, the already mentioned modernization of TAP's fleet with considerably more efficient aircraft, already brought a significant improvement in fuel consumption and CO2 emissions. It should be noted that, between 2015 and 2018, the environmental performance indicator for TAP's global operation, improved 13.5% (CO2 emissions per passenger) and the trend is of improvement. For 2019, TAP estimates a 4.5% reduction in this indicator, as a result of the entry into operation of the last generation NEO aircraft from Airbus, that allow TAP to be one of the Companies with one of the most modern, efficient and environment friendly fleets.

2. OULTLOOK

2.1. Sector

According to the revised estimates from IATA (as of June 2019), the growth in capacity (ASK) in Europe in 2019 should be 5.6%, above the growth at a global level (4.7%). In what concerns the estimated growth in passenger traffic measured by RPK in 2019, this is of 4.9% in Europe and 5.0% globally. Despite the significant growth in both indicators, there is the expectation of growth deceleration across all regions when compared to the previous year.

	Passenger Capacity (ASK) %YoY					Passenger Traffic (RPK) %YoY				
	2017	2018	2019E	2018 vs 2017	2019E vs 2018	2017	2018	2019E	2018 vs 2017	2019E vs 2018
Global	**6.7%**	**6.9%**	**4.7%**	**0.2p.p.**	**-2.2p.p.**	**8.1%**	**7.4%**	**5.0%**	**-0.7p.p.**	**-2.4p.p.**
Regions										
North America	3.8%	4.9%	4.1%	1.1p.p.	-0.8p.p.	3.9%	5.3%	4.3%	1.4p.p.	-1.0p.p.
Europe	6.7%	6.6%	5.6%	-0.1p.p.	-1.0p.p.	9.1%	7.5%	4.9%	-1.6p.p.	-2.6p.p.
Asia-Pacific	9.1%	8.8%	5.7%	-0.3p.p.	-3.1p.p.	10.9%	9.5%	6.3%	-1.4p.p.	-3.2p.p.
Middle East	6.7%	5.9%	0.6%	-0.8p.p.	-5.3p.p.	6.8%	5.0%	2.0%	-1.8p.p.	-3.0p.p.
Latin America	5.5%	7.3%	5.1%	1.8p.p.	-2.2p.p.	7.4%	7.0%	6.2%	-0.4p.p.	-0.8p.p.
Africa	3.5%	4.4%	3.7%	0.9p.p.	-0.7p.p.	7.0%	6.1%	4.3%	-0.9p.p.	-1.8p.p.

Source: IATA (June 2019)

In terms of global air transport revenues, IATA revised downwards its estimate for 2019 in USD 20 billion to USD 865 billion, compared to its previous estimates from December 2018. Despite this revision in estimates, it still represents a growth of 6.5% vs 2018 and above the expected capacity increase (ASK) in the same period (+4.7%). This increase should be sustained by the acceleration of growth in adjacent revenues (+17.9%), since passenger revenues should grow below total revenues and cargo revenues should stagnate in 2019.

	System-wide Global Commercial Airlines Revenues (USD billion)				
	2017	2018	2019E	2018 vs 2017	2019E vs 2018
Total Revenues	**755**	**812**	**865**	**7.5%**	**6.5%**
Passenger Revenues	534	561	589	5.1%	5.0%
Cargo Revenues	96	111	111	16.1%	0.0%
Other Revenues	125	140	165	11.7%	17.9%

Source: IATA (June 2019)

2.2. Outlook for the Second Half of 2019

In this global and European context, TAP intends to continue focusing on the priorities it set out for 2019:

- Increase the Company's profitability, by increasing revenues and controlling costs.
- Improve customer service by focusing on punctuality and improving on-board experience with greater comfort.
- Improve fleet efficiency, with the entry into operation of the new aircraft and focus on profitable routes.
- Training and instruction of new employees, in order to address the Company's growth in terms of fleet and destinations.

During the second half of 2019 TAP expects to accomplish the substitution of 14 older aircraft by new generation Airbus aircraft from the NEO family. The arrival of these new aircraft that present a lower fuel consumption than the previous models will allow an even more significant reduction of fuel consumption. These aircraft also present a significant reduction of cabin noise translating into an improvement in passenger comfort.

The impact of the launch of TAP new routes, some in the first half (Tel Aviv, Basel, Dublin, Chicago, Washington, S. Francisco, Naples and Tenerife) and others already during the second half (Conakry and Oporto-Brussels, Oporto-Munich, Lisbon-Banjul), will only produce full effects during the second half of the year. The effect of the new routes and increased frequencies, together with the traditionally higher traffic in the second half of the year, allows the Company to foresee a new record in terms of passengers carried for the rest of the year.

The focus in the US market is key to reduce the dependency from the Brazilian market and simultaneously, to obtain diversification of revenues in terms of currency (USD).

Although it is anticipated that the second half of 2019 will still be a transition period in terms of results, as a consequence of the entrance of new aircraft in the fleet and by the gradual evolution of the new routes' profitability which is typical of the sector, the recovery of results observed in the second quarter of 2019, leaves a perspective of continuous improvement for the last six months of this year, with the expectation of a better operational result than in 2018.

The performance of the Company in the second half of 2019 will naturally depend on the domestic and international economic environment and specially on the evolution of the following factors: i) demand for air travel in TAP's main markets, namely in Portugal, Brazil and USA; ii) the price of jet fuel in the international markets and; iii) the exchange rate of the main currencies to which TAP is exposed, namely USD and BRL in relation to the Euro; and additionally, by the capacity of suppliers to deliver the new aircraft in the agreed dates.

3. MAIN EVENTS OF FIRST HALF 2019

January 2019

- Announcement of new connections between Oporto and New York/ Newark beginning in 1st June, increasing from two weekly flights between the two cities to six weekly flights.
- Beginning of the sale of new TAP destinations from Oporto (Brussels and Munich) that will start operating on 1st September.
- Conclusion of a financing transaction coordinated by the Macquarie Group, in an amount of approximately EUR 137 million.

February 2019

- TAP was distinguished in Phoenix at the MicroStrategy Customer Awards 2019, in recognition of the dashboards developed for the Company, which allow it to continue improving the overall performance, namely punctuality and client satisfaction.
- TAP receives in Lisbon a new airbus A320neo, the first aircraft from this model to arrive the Company this year, progressing on the goal of modernizing its fleet.
- TAP announces the increase in the number of connections between Oporto and São Paulo, beginning in June, increasing to three the number of connections between the two cities.
- TAP adds new benefits to its loyalty program Miles&Go, with TAP's Miles&Go clients being able to use miles to bid for upgrades and benefit from the new functionality Plusgrade that allows bidding with miles to change reserved seats from Economy class to Executive class, as an alternative to bidding in cash.

March 2019

- TAP announces Conakry as a new destination starting in July offering three flights per week, thereby flying to 17 cities in 11 African countries.
- TAP celebrates 74 years and extends the Stopover Program to Brazil. In day of anniversary celebration, it receives the fifth new Airbus aircraft A330neo.
- TAP carries out the first commercial flight in an A330neo in the USA, in a flight between Lisbon and Miami.
- In March, TAP achieves the first place in terms of punctuality among the list of European companies most active in Humberto Delgado's Airport – Lisbon.

April 2019

- TAP carries out the inaugural flight between Lisbon and Tel Aviv. The Company also starts direct flights to Dublin and Basel.
- TAP receives the first Airbus A321 Long Range, becoming the first company in the world to operate simultaneously Airbus A330neo and Airbus A321 Long Range. The Airbus A321 Long Range is the first TAP narrow body aircraft with capacity to operate transatlantic routes, allowing the expansion of the connections in the east coast of USA and the northeast of Brazil.

May 2019

- TAP reaches 100 aircraft in its fleet, for the first time in its 74 years of existence, by receiving an additional Airbus A330neo.

June 2019

- TAP is awarded at the World Travel Awards in an event taking place in the Island of Madeira, winning in the three categories for which it was nominated. TAP was considered i) European Airline leader in the connections to Africa, ii) European Airline leader in the connections to South America and also iii) European Airline with the best in-flight magazine, UP magazine.
- TAP receives three more Airbus A330neo in two days.
- TAP begins flights to Washington DC completing the group of new routes launched this year to North America. In the same month in which it starts three new routes to the USA (Chicago, San Francisco and Washington), TAP also strengthens its network in Europe, with the start of flights to Naples in Italy and Tenerife in Spain. Naples is TAP's sixth route to Italy and Tenerife is the eleventh route to Spain and the second to the Canary Islands.
- TAP concludes an inaugural offer in the Portuguese bond market. The bond issuance, in the amount of EUR 200 million, was the largest public bond offer by a Portuguese corporate issuer in the Portuguese Capital Market since 2012. More than 6,000 investors (retail and institutional) participated in the offer.

4. RISK MANAGEMENT

TAP uses the Corporate Risk Management methodology with the goal of identifying, evaluating and monitoring the relevant indicators to management, of the main risks of the Organization.

Once risks are identified, managing those risks involves:

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

- Refusal - no-go of the process or action, whenever the level of risk is not appropriate to the intended operation and to the risk profile of the organization.

The main risks applicable to TAP are identified in the Management Report of 2018.

The main internal risks are those related to: i) operational risk; ii) human resources; iii) security; iv) informatic risks; v) internal control and vi) commercial organization.

The main external risks are those related to: i) cyber-attack, ii) economic environment, iii) legal framework; iv) airport infrastructure, v) sector evolution and vi) partnerships.

The main risks identified above are the ones also foreseen for the second half of 2019.

APPENDIX

I - GOVERNING BODIES

Three-year period 2018-2020

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

General Meeting Committee

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

Board of Directors

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

Executive Committee

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

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

Company Secretary

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

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

Supervisory Board

Transportes Aéreos Portugueses, S.A.

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

Statutory Auditor

Permanent Oliveira, Reis & Associados, SROC, Lda. represented by Joaquim Oliveira de Jesus

Deputy Fernando Marques Oliveira

II - QUALIFIED HOLDINGS, SECURITIES HELD BY GOVERNING BODIES AND CONFORMITY STATEMENT

1. Qualified shareholdings in the Company as of June 30, 2019

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

*On 10th April 2017, the public share offer of TAP – Transportes Aéreos Portugueses, SGPS S.A ("TAP SGPS"), reserved to the employees of TAP SGPS and other companies of TAP Group, was launched, pursuant to the indirect reprivatization process of TAP's share capital, in accordance with the Council of Ministers Resolution number 42-A/2017, of 23rd March 2017, following which, Group TAP employees acquired a total of 75,000 shares representative of 5% of the share capital and voting rights of TAP SGPS, with a part of these shares having already been sold to third parties.

2. Indication of the number of securities issued by TAP and by companies with which it is in a relation of control or group, held by governing bodies and all the acquisitions, encumbrance or transmissions during the considered period

In accordance and for the purposes of article 9, number 1, a) of CMVM Regulation number 5/2008, we inform that Mr. Antonoaldo Grangeon Trancoso Neves, Chairman of the Executive Committee and Member of the Board of Directors of TAP, acquired on 24th June 2019, a total of 20 (twenty) bonds, in an aggregate amount corresponding to €20,000 (twenty thousand euros), in the public subscription offer of bonds issued by TAP ("Obrigações TAP 2019-2023"), maintaining at the present date, the above described position.

3. Statement issued in accordance with article 246 of the Portuguese Securities Code

In accordance and for the purposes of article 246, number 1 c) of the Portuguese Securities Code, the members of the Board of Directors of Transportes Aéreos Portugueses, S.A. identified below declare that, to the best of their knowledge, the condensed financial statements for the first half of 2019 have been prepared in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, financial position and results of the Company, and that the interim management report faithfully describes the important events that occurred in such period and the impact on the respective financial statements, as well as a description of the main risks and uncertainties for the following six months.

Lisbon, 20th September 2019

BOARD OF DIRECTORS

Humberto Manuel dos Santos Pedrosa
Chairmain of the Board of Directors

David Gary Neeleman
Member of the Board of Directors

Antonoaldo Grangeon Trancoso Neves
Member of the Board of Directors and Chairman of the Executive Committee

David Humberto Canas Pedrosa
Member of the Board of Directors and Member of the Executive Committee

Raffael Guarita Quintas Alves
Member of the Board of Directors and Member of the Executive Committee

III - GLOSSARY

Adjusted EBITDAR: Operating Result + Aircraft rents + Restructuring Costs + Other non-recurrent items + Depreciation, amortization and impairment losses.

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).

Net Promoter Score: Methodology that measures the degree of customer loyalty to any type of company.

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

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

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

Shop Visit: Maintenance event of an engine in workshop.

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

Passenger Yield: Passenger traffic revenue divided by total number of passenger-kilometers (RPK).

IV - SPECIAL PURPOSE FINANCIAL STATEMENTS

TRANSPORTES AÉREOS PORTUGUESES, S.A.

SPECIAL PURPOSE FINANCIAL STATEMENTS
30 JUNE 2019

INDEX

STATEMENT OF FINANCIAL POSITION

Amounts stated in euros	Notes	30-jun-19	31-dec-18
Assets			
Non-current assets			
Tangible fixed assets	2	2,476,477,273	521,036,349
Investment Properties	3	3,130,764	1,925,764
Intagible assets	4	18,466,971	11,245,385
Investments in associates		172,325	172,310
Other financial assets	5	5,298,774	481,040
Other non-current assets	10	20,016,474	-
Deferred tax assets	6	83,426,376	91,040,705
Other receivables	7	96,600,103	61,136,878
		2,703,589,060	**687,038,431**
Current Assets			
Inventories	8	85,406,748	63,944,563
Other receivables	7	1,331,552,922	1,154,621,266
Income tax receivable	9	38,455,799	8,329,644
Other financial assets	5	13,306,068	13,224,721
Other current assets	10	44,272,081	52,102,695
Cash and cash equivalents	11	386,714,615	223,714,593
		1,899,708,233	**1,515,937,482**
Total Assets		**4,603,297,293**	**2,202,975,913**
EQUITY AND LIABILITIES			
Equity			
Share Capital	12	41,500,000	41,500,000
Supplementary capital contributions	13	154,353,400	154,353,400
Legal reserves	13	8,300,000	8,300,000
Hedge reserves	13 and 21	6,912,408	(29,132,283)
Other reserves	13	(200,588)	(200,588)
Retained earnings	13	8,354,399	(11,956,732)
Net income/(loss) for the period		(111,981,794)	(58,065,358)
Total equity		**107,237,825**	**104,798,439**
Non-current liabilities			
Deferred tax liabilities	6	58,730,294	18,760,179
Post-employment benefits obligations	14	102,520,899	86,212,751
Provisions	15	60,006,773	12,214,655
Borrowings	16	872,264,926	595,293,034
Lease liabilities	17	1,455,163,224	-
Other payables	18	-	49,741,211
		2,548,686,116	**762,221,830**
Current Liabilities			
Borrowings	16	205,700,322	180,646,796
Lease liabilities	17	360,225,687	-
Other payables	18	613,423,454	667,492,728
Income tax payable	9	17,430	19,326
Other current liabilities	19	88,153,192	94,331,082
Liabilities from unused flight documents	20	679,853,267	393,465,712
		1,947,373,352	**1,335,955,644**
Total liabilities		**4,496,059,468**	**2,098,177,474**
Total equity and libilities		**4,603,297,293**	**2,202,975,913**

The accompanying notes form an integral part of the statement of financial position as at 30 June 2019.

INCOME STATEMENT

Amounts stated in euros	Notes	30-jun-19	30-jun-18
Operating Income			
Passenger	22	1,275,122,771	1,279,167,068
Maintenance	22	92,523,080	124,651,326
Cargo and mail	22	65,789,589	66,794,773
Other operating income	23	15,420,002	19,086,346
		1,448,855,442	**1,489,699,513**
Operating costs			
Aircraft fuel	24	(360,281,462)	(357,531,618)
Traffic operating costs	24	(374,325,170)	(451,461,479)
Aircraft rents	24	-	(71,009,884)
Aircraft maintenance costs	24	(28,445,783)	(65,642,674)
Cost of materials consumed	24	(64,658,855)	(94,252,627)
Comercial, communication and marketing costs	24	(84,092,237)	(93,567,444)
Employee costs	25	(332,945,317)	(286,482,523)
Impairment losses in inventories, receivables and provisions	26	(330,505)	(78,467)
Other operating expenses	27	(71,602,086)	(66,336,810)
Restructuring	28	(3,635,472)	(3,548,701)
Other non recurrent items	29	(919,197)	(14,333,638)
Depreciation, amortisation and impairment losses	30	(212,582,968)	(31,218,255)
Operating income/(loss)		**(84,963,610)**	**(45,764,607)**
Interests and similar income	31	16,613,565	18,853,772
Interests and similar expenses	31	(71,921,097)	(16,445,083)
Net currency exchange	31	(2,087,137)	(46,734,960)
Net income/(loss) before income tax		**(142,358,279)**	**(90,090,878)**
Income tax for the period	32	30,376,485	20,011,873
Net income/(loss) for the period		**(111,981,794)**	**(70,079,005)**
Results per share			
Basic and diluted earnings per share	33	(13.5)	(8.4)

The accompanying notes form an integral part of the income statement as at 30 June 2019.

STATEMENT OF COMPREHENSIVE INCOME

Amounts stated in euros	Notes	30-jun-19	30-jun-18
Net income/(loss) for the period		**(111,981,794)**	**(70,079,005)**
Items that may be reclassified to income statement:			
Gains and losses in derivate financial instruments - cash flow hedge	21	51,127,221	5,763,493
Deferred tax on derivative financial instruments - cash flow hedge	6	(15,082,530)	(1,700,230)
Items that will not be reclassified to income statement:			
Remeasurements of defined benefit plans	14	(17,824,911)	(8,306,538)
Deferred tax on remeasurements	6	5,258,349	2,450,429
Other comprehensive income/(loss) net of tax		**23,478,129**	**(1,792,846)**
Comprehensive income/(loss) for the period		**(88,503,665)**	**(71,871,851)**

The accompanying notes form an integral part of the income statement as at 30 June 2019.

STATEMENT OF CHANGES IN EQUITY

Amounts stated in euros	Notes	Share Capital	Supplementary capital contributions	Legal reserves	Hedge reserves	Other reserves	Retained earnings	Net income/(loss) for the period	Total
Equity as at 1 January 2018		**41,500,000**	**154,353,400**	**8,300,000**	**-**	**(200,588)**	**(70,390,762)**	**100,411,383**	**233,973,433**
Application of net income/(loss) of the year 2017		-	-	-	-	-	100,411,383	(100,411,383)	-
Dividends		-	-	-	-	-	(30,000,000)	-	(30,000,000)
Remeasurement *	6 and 14	-	-	-	-	-	(5,856,109)	-	(5,856,109)
Fair value of derivative financial instruments *	6 and 21	-	-	-	4,063,263	-	-	-	4,063,263
Net income/(loss) for the period		-	-	-	-	-	-	(70,079,005)	(70,079,005)
Equity as at 30 June 2018		**41,500,000**	**154,353,400**	**8,300,000**	**4,063,263**	**(200,588)**	**(5,835,488)**	**(70,079,005)**	**132,101,582**
Remeasurement *	6 and 14	-	-	-	-	-	(6,121,244)	-	(6,121,244)
Fair value of derivative financial instruments *	6 and 21	-	-	-	(33,195,546)	-	-	-	(33,195,546)
Net income/(loss) for the period		-	-	-	-	-	-	12,013,647	12,013,647
Equity as at 31 December 2018		**41,500,000**	**154,353,400**	**8,300,000**	**(29,132,283)**	**(200,588)**	**(11,956,732)**	**(58,065,358)**	**104,798,439**
Application of net income/(loss) of the year 2018		-	-	-	-	-	(58,065,358)	58,065,358	-
Change in accounting policy - adoption of IFRS 16 *	1.2.	-	-	-	-	-	90,943,051	-	90,943,051
Remeasurement *	6 and 14	-	-	-	-	-	(12,566,562)	-	(12,566,562)
Fair value of derivative financial instruments *	6 and 21	-	-	-	36,044,691	-	-	-	36,044,691
Net income/(loss) for the period		-	-	-	-	-	-	(111,981,794)	(111,981,794)
Equity as at 30 June 2019		**41,500,000**	**154,353,400**	**8,300,000**	**6,912,408**	**(200,588)**	**8,354,399**	**(111,981,794)**	**107,237,825**

*Amounts net of deffered taxes, if applicable

The accompanying notes form an integral part of the statement of changes in equity as at 30 June 2019.

STATEMENT OF CASH FLOWS

Amounts stated in euros	30-jun-19	31-dec-18	30-jun-18
Operating activities:			
Receipts from customers	1,728,640,947	3,364,357,295	1,714,141,552
Payments to suppliers	(1,192,366,803)	(2,766,811,521)	(1,307,964,600)
Payments to employees	(312,648,129)	(567,176,507)	(269,496,448)
Payments of low value and short-term leases	(4,260,336)	-	-
Cash generated from operations	219,365,679	30,369,267	136,680,504
Income tax (payment)/receipt	574,281	(14,903,006)	1,176,156
Other receipts/payments relating to operating activities	49,408,312	(7,978,494)	(40,749,757)
Cash flow from operating activities (1)	**269,348,272**	**7,487,767**	**97,106,903**
Investment activities:			
Receipts from:			
Other financial assets	-	66,543,254	22,414,761
Tangible fixed assets	18,139,709	44,586,526	17,490,051
Investment government grants	-	256,530	-
Loans granted	318,790,000	793,950,596	280,640,596
Interests and similar income	14,431,134	35,663,848	15,395,388
	351,360,843	941,000,754	335,940,796
Payments relating to:			
Other financial assets	(6,583,661)	(7,497,818)	(7,497,819)
Tangible fixed assets	(90,347,196)	(124,887,681)	(58,145,544)
Intagible assets	(2,955,544)	(7,345,321)	(1,852,707)
Loans granted	(325,190,000)	(793,835,000)	(312,725,000)
	(425,076,401)	(933,565,820)	(380,221,070)
Cash flow from investment activities (2)	**(73,715,558)**	**7,434,934**	**(44,280,274)**
Financing activities:			
Receipts from:			
Borrowings	327,045,778	70,000,000	70,000,000
Financial leases	-	96,397,383	71,496,988
	327,045,778	166,397,383	141,496,988
Payments relating to:			
Borrowings	(76,176,264)	(7,500,000)	(7,500,000)
Financial leases	(19,067,333)	(45,471,784)	(21,697,675)
Principal elements of operating lease payments	(185,431,626)	-	-
Interests and similar costs	(15,950,215)	(30,195,851)	(16,518,909)
Interest elements of operating lease payments	(52,031,178)	-	-
Dividends	-	(30,000,000)	-
	(348,656,616)	(113,167,635)	(45,716,584)
Cash flow from financing activities (3)	**(21,610,838)**	**53,229,748**	**95,780,404**
Net increase (decrease) in cash and cash equivalents (1)+(2)+(3)	174,021,876	68,152,449	148,607,033
Effects of currency exchange differences	(695,937)	(11,891,274)	(11,635,989)
Cash and cash equivalents at the beginning of the period	213,354,955	157,093,780	157,093,780
Megasis Merger	33,721	-	-
Cash and cash equivalents at the end of the period	**386,714,615**	**213,354,955**	**294,064,824**

The accompanying notes form an integral part of the statement of cash flows as at 30 June 2019.

NOTES TO THE FINANCIAL STATEMENTS

Introduction

TAP – Transportes Aéreos Portugueses, S.A. (“Company” or “TAP S.A.”) is a public limited company with its head office in Lisbon, which is governed by Decree-Law no. 312/91, of 17 August, and which succeeded the public company Transportes Aéreos Portugueses, EP, continuing its legal personality and retaining all the rights and obligations that are part of its legal area at the time of its transformation into a public limited company.

The Company’s core business consists in the air transport of passengers, cargo and mail, operating in Portugal, Mainland and its Autonomous Regions, Europe, Africa, North Atlantic, Mid-Atlantic, South Atlantic and Middle East. The Company has 21 representative offices in foreign countries and 4 in Portugal. Additionally, it carries out maintenance and engineering work for its fleet and for third parties.

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

The Company is affiliated to the IATA - International Air Transport Association.

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

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

With the transmission of 61% of the share capital of TAP SGPS to Atlantic Gateway on 12 November 2015, among other contractual instruments, it should be noted the “Agreement on Economic and Financial Stability of TAP” (“Acordo Relativo À Estabilidade Económica-Financeira”), between Parpública, Atlantic Gateway, TAP SGPS, TAP S.A. and Portugália, in which Atlantic Gateway, as buyer, and TAP S.A. and Portugália, as borrowers, assumed some obligations related to TAP Group financial debt and debt service.

As part of the process of notification to the Portuguese Civil Aviation Authority ("ANAC") of the transaction concluded on 12 November, 2015, which led to the acquisition by Atlantic Gateway of shares representing 61% of the share capital of TAP SGPS, it should be noted that, by resolution of 19 February 2016, the Board of Directors of ANAC imposed a set of precautionary measures to the TAP Group. This proceeding with ANAC was, concluded favourably on 23 December 2016, at which date the Board of Directors of ANAC deliberated that TAP SA fulfilled the conditions set forth in Article 4 of Regulation (CE) nº 1008 / 2008 of the European Parliament and of the Council of 24 September 2008, on common rules for the operation of air services in the European Community.

Additionally, in December 2015 the Portuguese State informed Atlantic Gateway of its intention to review, by negotiation, the terms and conditions of its participation in TAP SGPS, namely through an increase in its participation in the equity of TAP SGPS, with Atlantic Gateway and its partners, HPGB and DGN, being willing to take part in the negotiation process proposed by the Portuguese State.

This way, on 6 February 2016, the Portuguese State and Atlantic Gateway formalised a "Memorandum of Understanding", which was amended on 26 April 2016, with the purpose of establishing the principles, rules and conditions to be followed by the parties during the revision of the participation of the Portuguese State, through Parpública, in TAP SGPS.

In accordance with the Memorandum of Understanding, Parpública, HPGB, DGN and Atlantic Gateway signed a purchase agreement on 19 May 2016, under which, once fulfilled certain precedent conditions, Atlantic Gateway undertook to sell shares representing the equity of TAP SGPS to Parpública, so that Parpública becomes the holder of 50% of TAP SGPS (the "Share Purchase Agreement"). Among the precedent conditions for the conclusion of this Agreement, we highlight the conclusion of the offer to sell shares representing up to 5% of TAP SGPS share capital to the Group’s employees, the necessary third party authorizations and the bank debt restructuration of TAP Group. The draft Shareholders' Agreement and Strategic Commitments of TAP SGPS to be signed between Parpública and Atlantic Gateway on the date of the conclusion of the Share Purchase Agreement ("Shareholders Agreement and strategic commitments of TAP SGPS") were attached to this Share Purchase Agreement.

The Resolution of the Council of Ministers nº 30/2016 of 19 May, which approved the minutes of the Share Purchase Agreement and the Shareholders Agreement and Strategic Commitments of TAP SGPS, also determined, among others, (i) the immediate cessation of the effects of the Strategic Commitment Agreement formalised on 24 June 2015, referred to above, on the date that the Shareholders Agreement and Strategic Commitments of TAP SGPS became effective, as well as (ii) the expiration of the unavailability scheme provided for in the specifications of the Reprivatization Process - with respect to the number of shares of TAP SGPS and TAP SA that are necessary to ensure the majority of the voting rights and effective control of mentioned companies - on the effective date of the transfer of the shares of TAP SGPS to Parbública.

Following the capitalization plan of the TAP Group defined under the scope of the Reprivatization Process, by resolution of TAP SGPS General Meeting on 8 March 2016, previously authorised by ANAC, it was approved the issuance by TAP SGPS of a convertible bond into up to 130,800 special shares of the company in the amount of Euro 120 million and maturity in 10 years. The aforementioned issue is composed by two series: the first (series A), amounting Euro 90 million, subscribed by Azul Linhas Aéreas Brasileiras, SA ("Azul SA") on 16 March 2016, and the second (series B) in the amount of Euro 30 million subscribed by Parpública on 14 June 2016. The conversion of these bonds into shares of TAP SGPS and the collateralisation under this issue were subject to the express approval of ANAC, which occurred on 23 December 2016.

After the deliberation of the Board of Directors of ANAC dated 23 December 2016, on 12 January 2017, the General Meeting of TAP SGPS decided to recognise the full production of the effects of the bonds issued by TAP SGPS, which was approved by the General Meeting of TAP SGPS on 8 March 2016, as well as the effects of the guarantee agreement entered into under the aforementioned bond issuance between TAP SGPS, TAP SA, Megasis - Sociedade de Serviços de Engenharia e Informática, S.A. (Company that was merged into TAP S.A. during the first half of 2019), Azul S.A. and Bondholders, SL. It should be noted that the TAP Group has not yet fulfilled the contractually agreed guarantees, having agreed with the bond underwriters about the extension of the term for those guarantees.

Following the privatization of TAP SGPS, it was determined and concluded the public offering of shares available for TAP Group's employees, consisting on the sale of shares representing up to 5% of TAP SGPS' share capital, from Parpública, to the employees of TAP SGPS and other Group companies, as identified in Annex II of the Council of Ministers Resolution n.º 4-A/2015, from 20 January, amended by nº 7 of the Council of Ministers Resolution n.º 4-A/2015, from 23 March. This public offering of shares to employees was launched in 10 April 2017, in accordance with the Council of Ministers Resolution n.º 42-A/2017, from 23 March, TAP Group's employees acquired a total of 75,000 shares representing 5% of TAP SGPS' share capital and voting rights.

In accordance with the Council of Ministers Resolution n.º 95/2017, from 4 July, approved in 29 June 2017, with effects from that date, Parpública and Atlantic Gateway concluded on 30 June 2017 the transfer of shares established in the Share Purchase Agreement, which was notified to ANAC under the terms and conditions legally foreseen. On 20 September 2018 it was decided, by resolution of the board of directors of ANAC, that the operation complied with the requirements of Regulation (EC) n.º1008/2008 of the European Parliament and of the Council of 24 September 2008, related to common rules for the operation of air services in the Community.

On that same day, 30 June 2017, also occurred the General Meeting of TAP SGPS to decide, among others, about the election of the new members of the Board of Directors and about the amendment of the TAP SGPS articles os association, according to the Share Purchase Agreement.

Therefore, TAP SGPS' share capital is as follows:

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

In accordance with the current TAP SGPS corporate structure, TAP SGPS still does not qualify as a public company of the Portuguese State's business public sector, under the terms and for the purposes of Decree-Law nº 133/2013 from 3 October and subsequent amendments.

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

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

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

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

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

These special purpose financial statements ("financial statements") for the period ended 30 June 2019, approved at the Board of Directors meeting on 20 September 2019, were prepared to be presented to the different *stakeholders*. The statutory financial statements of the Company were prepared in accordance with the accounting principles generally accepted in Portugal ("Sistema de Normalização Contabilística").

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

1 Summary of the significant accounting policies

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

1.1. Basis of preparation

The financial statements presented refer to the six months period comprised between 1 January to 30 June 2019, and have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS – formerly referred to as the International Accounting Standards - IAS) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or by the former Standing Interpretations Committee (SIC) in force on the date of preparation of the mentioned financial statements. The standards and interpretations previously mentioned are hereinafter referred to as “IFRS”.

The Board of Directors believes that these financial statements and the following notes ensure a fair presentation of the interim financial information prepared under IAS 34 - Interim Financial Reporting. Therefore, these interim financial statements do not include all information required to the annual financial statements and should be read together with the Company's financial statements for the year ended 31 December 2018.

Consequently, part of the notes to the financial statements for the year ended 31 December 2018 are not disclosed, either because they have not significantly changed or are not materially relevant to the understanding of these financial statements.

The presented interim financial statements have been prepared in accordance with the same accounting principles and policies, including the financial risk management policies adopted by the Company in the preparation of the special purpose annual financial statements for the year ended 31 December 2018, which essentially incorporated an explanation of the relevant events and changes occurred during this semester for the understanding of the changes in the Company's financial position and operating performance since the last date of the annual report, except with respect to the adoption of new standards, in particular IFRS 16 – Leases, as referred to in Note 1.2.

The accompanying financial statements were prepared on a going concern basis from the accounting books and records of the Company based on historic cost, except for derivative financial instruments and investment properties, which are recorded at fair value.

In the preparation of the financial statements, accordingly with IFRS, the Board of Directors used important estimates, assumptions and judgments in the application of the accounting policies, which have impact on the measurement of assets and liabilities and on the recognition of gains and expenses at each reporting date. Despite the estimates used being based on the best information available during the preparation of these financial statements and best knowledge available at the reporting date, we note that actual and future results may differ from these estimates. The principal assertions which involve a greater degree of judgment or complexity and the most significant assumptions and estimates used in the preparation of those financial statements are disclosed in Note 1.4.

In the preparation and presentation of these financial statements, the Company declares that is in compliance, explicitly and without qualifications, with the IFRS.

The amounts expressed are presented in Euros, unless otherwise indicated.

1.2. New standards and interpretations adopted by the Company

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

Description	Changes	Effective Date
1. New standards, amendments and interpretations effective on 1 january 2019		
• IFRS 16 – Leases	New definition of lease. New accounting of lease contracts by lessees. No major changes to lessor lease accounting.	1 january 2019
• IFRS 9 – Financial instruments	Accounting treatment options for financial assets with negative compensation features	1 january 2019
• IAS 19 – Employee benefits	Requirement to use updated assumptions for the calculation of remaining responsibilities, with impact on income statement except for any reduced excess under "asset ceiling' accounting treatment	1 january 2019
• IAS 28 – Investments in Associates and Joint Ventures	Clarification regarding long-term investments in associates and joint ventures that are not being measured through the equity method	1 january 2019
• Standards improvements 2015 – 2017	Clarifications: IAS 23, IAS 12, IFRS 3, IFRS 11	1 january 2019
• IFRIC 23 – Uncertainty over Income Tax Treatments	Clarifies how the recognition and measurement requirements of IAS 12 'Income taxes' are applied where there is uncertainty over income tax treatments	1 january 2019

From the above menthioned accountig standards, IFRS 16 – Leases should be highlighted. It was adopted by the Company in the elaboration of its financial statements for the period ended at 30 June 2019, with significant impacts.

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

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

From 1 January 2019 onwards, leases that meet the requirements of IFRS 16, are recognised as a right-of-use asset, in the caption “Tangible fixed assets” (within the same line item as that within which the corresponding underlying assets would be presented if they were owned) and the related lease liability is presented in the caption ”Lease liabilities”, at the commencement date of the lease. Each lease payment is alocated between the lease liability and the financial expense. The financial expense is recognised in the income statement throught the lease term, based on the interest rate applicable to each lease and the lease liability remaining. The right-of-use assets are depreciated on a straight-line basis over the lease term.

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

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

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

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

- lease payments change based on an index or rate, or a change of expected payments as guaranteed residual values, in which case a re-assessment of the lease liability takes place at the interest rate implicit in the lease (unless the change in lease payments is due to changes in a variable interest rate, which motivates the use of an incremental borrowing rate); and
- the lease contract is modified and the modification does not qualify as a separate lease, in which case a re-assessment of the lease liability takes place at the interest rate implicit in the lease at the modification date.

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

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

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

Subsequent costs, including structural maintenance, are included in the cost of acquisition of the right-of-use asset whenever future economic benefits are likely to flow to the Company, and subsequentely depreciated over the lease term. Other costs with current maintenance and repairs are recognised as expenses in the period as are incurred.

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

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

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

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

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

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

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

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

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

Sale & Leaseback

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

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

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

1.3. Comparability of the financial statements

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

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

Therefore, the financial statements for the period ended on 30 June 2019 are not comparable with the financial statements as at 31 December 2018 or with the period ended 30 June 2018.

The main changes induced by IFRS 16 are the following:

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

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

- Accounting of the other-asset leases

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

- Accounting of the maintenance on leased aircraft

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

  - **Overhaul and restoration works**

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

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

  - Airframe and engine structural maintenance

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

At the date of adoption of IFRS 16, rights-of-use assets and lease liabilities were recognised in the amount of some Euro 1,166 million. The reconciliation of operating lease commitments disclosed in the financial statements as of 31 December 2018 and the caption “Lease liability” on 1 January 2019, is as follows:

Amounts stated in thousand Euro	
Operating lease commitments disclosed as at 31 December 2018	1,182,364
ACMI contracts commitments, including non-lease components	289,374
Impact of the financial discount of the rents	(305,003)
Liabilities with contractual obligations as at 1 January 2019	**1,166,735**

The average discount rate used to discount future rents on 1 January 2019 is 6.5%.

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

Amounts stated in euros	31-dec-18	IFRS 16 adoption impact	01-jan-19
Assets			
Non-current assets			
Tangible fixed assets	521,036,349	1,178,987,847	1,700,024,196
Investment properties	1,925,764	-	1,925,764
Intagible assets	11,245,385	-	11,245,385
Investments in associates	172,310	-	172,310
Other financial assets	481,040	-	481,040
Deferred tax assets	91,040,705	-	91,040,705
Other receivables	61,136,878	43,248,286	104,385,164
	687,038,431	**1,222,236,133**	**1,909,274,564**
Current Assets			
Inventories	63,944,563	-	63,944,563
Other receivables	1,154,621,266	-	1,154,621,266
Income tax receivable	8,329,644	-	8,329,644
Other financial assets	13,224,721	-	13,224,721
Other current assests	52,102,695	-	52,102,695
Cash and cash equivalents	223,714,593	-	223,714,593
	1,515,937,482	**-**	**1,515,937,482**
Total Assets	**2,202,975,913**	**1,222,236,133**	**3,425,212,046**
EQUITY AND LIABILITIES			
Equity			
Share Capital	41,500,000	-	41,500,000
Supplementary capital contribuitions	154,353,400	-	154,353,400
Legal reserves	8,300,000	-	8,300,000
Hedge reserves	(29,132,283)	-	(29,132,283)
Other reserves	(200,588)	-	(200,588)
Retained earnings	(11,956,732)	90,943,051	78,986,319
Net income/(loss) for the year	(58,065,358)	-	(58,065,358)
Total equity	**104,798,439**	**90,943,051**	**195,741,490**
Non-current liabilities			
Deferred tax liabilities (Note 6)	18,760,179	38,054,184	56,814,363
Post-employment benefits obligations	86,212,751	-	86,212,751
Provisions (Note 15)	12,214,655	26,082,076	38,296,731
Borrowings	595,293,034	-	595,293,034
Lease liabilities	-	863,122,497	863,122,497
Other payables	49,741,211	(49,741,211)	-
	762,221,830	**877,517,547**	**1,639,739,377**
Current Liabilities			
Borrowings	180,646,796	-	180,646,796
Lease liabilities	-	303,612,692	303,612,692
Other payables	667,492,728	(49,837,157)	617,655,571
Income tax payable	19,326	-	19,326
Other current liabilities	94,331,082	-	94,331,082
Liabilities from unused flight documents	393,465,712	-	393,465,712
	1,335,955,644	**253,775,535**	**1,589,731,179**
Total liabilities	**2,098,177,474**	**1,131,293,082**	**3,229,470,556**
Total equity and libilities	**2,202,975,913**	**1,222,236,133**	**3,425,212,046**

The recognition of the right-of-use assets and the corresponding liability resulted in an increase in depreciation expenses of Euro 177 million and interest expenses of Euro 49 million. Foreign exchange differences recognised in the income statement, related to lease liabilities, amounted to Euro 0.4 million. On the other hand, the operating lease and other contractual obligations expenses (recognised until 31 December 2018 in the captions “Aircraft rents”, “Traffic operating costs” and “Other operating expenses”) decreased by Euro 183 million. In the first half of 2019, Euro 39 million of expenses with aircraft and engines structural maintenance were recognised in the caption tangible fixed assets.

Additionally, the presentation of payments related to operating lease contracts resulted in a reclassification in the amount of Euro 185 million, from cash flows from operating activities to cash flows from financing activities.

Seasonality

The Company's activities have a high seasonality inherent to the air transport business. Consequently, the activity in the months from June to September is significantly higher than the average activity in the remaining months of the year.

1.4. Accounting estimates and judgements

The preparation of financial statements requires that TAP’s management makes judgments and estimates that affect the amount of revenue, costs, assets, liabilities and disclosures at the reporting date.

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

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

✈ **Deferred tax (Note 6)**

The Company recognises and settles income tax based on the earnings of its operations, calculated in accordance with the local corporate legislation, considering the rules of the tax legislation, which are different from the values calculated in accordance with the IFRS. Pursuant to IAS 12, the Company recognises deferred tax assets and liabilities based on the existing difference between the book value and tax base of its assets and liabilities. The Company periodically analyses the recoverability of the deferred tax assets based on historical information on taxable profit, the projection of future taxable profit and the estimated time of reversal of temporary differences.

✈ **Post-employment benefits (Note 14)**

Liabilities relating to defined-benefit plans are calculated based on actuarial assumptions. Changes to those assumptions can have a material impact on the aforesaid liabilities. The key demographic and financial assumptions for pension obligations are detailed in Note 14. The Company's policy is to periodically review the main demographic and financial assumptions, when their impact on the financial statements is considered relevant.

✈ **Recognition of provisions and impairments (Notes 7, 8 and 15)**

The Company is involved in several lawsuits, for which, based on the opinion of its lawyers, a judgment is made in order to decide if a provision for those contingencies should be recorded.

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

Impairment losses in inventories are calculated based on criteria's that consider the nature, purpose of use, ageing and moving average stock levels.

✈ **Customer loyalty program (Note 19)**

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

✈ **Liabilities from unused flight documents (Note 20)**

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

✈ **Useful life and residual value of tangible fixed assets (Note 2)**

The determination of the useful life of tangible fixed assets and their residual value, as well as the method of depreciation/amortisation, is essential to estimate the amount of depreciation/amortisation to be recorded in the income statement for each financial period.

These parameters are defined in accordance with the best judgement of the Board of Directors for the referred assets in question, also considering the practices adopted by peers.

✈ **Leases (Notes 2 and 17)**

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

✈ **Aircraft redelivery provision in operating lease contracts (Note 2 and 17)**

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

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

2 Tangible fixed assets

During the periods ended 30 June 2019 and 31 December 2018, changes in tangible fixed assets, as well as the accumulated depreciation and impairment losses, were as follows:

	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Tools and utensils	Administrative equipment	Other tangible fixed assets	Other assets in progress	Advances to suppliers of tangible assets	Right-of-use assets (Note 1.2)	Total
Acquisition Cost											
Balance as at 1 January 2018	**41,168,153**	**156,172,681**	**1,288,811,771**	**2,405,474**	**23,824,794**	**56,220,858**	**12,143,578**	**46,991,329**	**180,849,770**	**-**	**1,808,588,408**
Acquisitions	-	293,361	86,484,187	12,457	1,624,264	999,719	417,598	37,011,066	42,366,558	-	169,209,210
Disposals	(25,346)	(127,557)	(821,449)	(154,465)	-	(429,269)	-	(27,237,795)	-	-	(28,795,881)
Regularisation, transfer and write-off	(17,210)	(1,013,611)	6,411,642	(86,542)	(12,490)	(434,939)	(140,111)	(17,719,460)	(126,301,735)	-	(139,314,456)
Balance as at 31 December 2018	**41,125,597**	**155,324,874**	**1,380,886,151**	**2,176,924**	**25,436,568**	**56,356,369**	**12,421,065**	**39,045,140**	**96,914,593**	**-**	**1,809,687,281**
IFRS 16 Adoption	-	-	-	-	-	-	-	-	-	1,178,987,847	1,178,987,847
Acquisitions	-	13,168	31,588,623	14,153	759,437	772,356	107,424	66,471,400	19,728,114	875,231,904	994,686,579
Megasis Merger	-	-	7,650,870	-	-	9,341,947	21,102	6,510	-	-	17,020,429
Disposals	-	-	(50,410,106)	-	-	(5,033)	-	(6,347,846)	-	-	(56,762,985)
Regularisation, transfer and write-off	-	-	(11,536,895)	69,824	(5,646)	(1,249,710)	(15,829)	3,078,026	-	-	(9,660,230)
Balance as at 30 June 2019	**41,125,597**	**155,338,042**	**1,358,178,643**	**2,260,901**	**26,190,359**	**65,215,929**	**12,533,762**	**102,253,230**	**116,642,707**	**2,054,219,751**	**3,933,958,921**
Accumulated deprec. and impairment losses											
Balance as at 1 January 2018	**-**	**74,329,200**	**1,072,404,941**	**2,189,827**	**16,134,913**	**54,422,514**	**10,688,436**	**-**	**-**	**-**	**1,230,169,831**
Depreciations	-	5,409,679	56,639,172	91,089	674,540	880,014	332,964	-	-	-	64,027,458
Impairment loss	-	-	4,186,407	-	-	-	-	-	-	-	4,186,407
Disposals	-	(51,792)	(778,643)	(104,693)	-	(428,602)	-	-	-	-	(1,363,730)
Regularisation, transfer and write-off	-	(920,709)	(6,790,784)	(86,542)	(11,488)	(419,400)	(140,111)	-	-	-	(8,369,034)
Balance as at 31 December 2018	**-**	**78,766,378**	**1,125,661,093**	**2,089,681**	**16,797,965**	**54,454,526**	**10,881,289**	**-**	**-**	**-**	**1,288,650,932**
Depreciations (Note 30)	-	2,707,912	27,669,475	28,429	315,873	516,911	139,501	-	-	177,491,139	208,869,240
Megasis Merger	-	-	6,501,452	-	-	8,846,575	18,631	-	-	-	15,366,658
Impairment loss (Note 30)	-	-	1,408,626	-	-	-	-	-	-	-	1,408,626
Disposals	-	-	(46,376,777)	-	-	(4,652)	-	-	-	-	(46,381,429)
Regularisation, transfer and write-off	-	-	(9,163,863)	2,291	(5,302)	(1,249,676)	(15,829)	-	-	-	(10,432,379)
Balance as at 30 June 2019	**-**	**81,474,290**	**1,105,700,006**	**2,120,401**	**17,108,536**	**62,563,684**	**11,023,592**	**-**	**-**	**177,491,139**	**1,457,481,648**
Carrying amount as at 31 December 2018	**41,125,597**	**76,558,496**	**255,225,058**	**87,243**	**8,638,603**	**1,901,843**	**1,539,776**	**39,045,140**	**96,914,593**	**-**	**521,036,349**
Carrying amount as at 30 June 2019	**41,125,597**	**73,863,752**	**252,478,637**	**140,500**	**9,081,823**	**2,652,245**	**1,510,170**	**102,253,230**	**116,642,707**	**1,876,728,612**	**2,476,477,273**

As at 30 June 2019, the caption "Right-of-use assets" details as follows:

	30-jun-19			
	Buildings and other constructions	Basic equipment	Transport equipment	**Total**
Assets				
Opening balance	-	-	-	**-**
IFRS 16 Adoption	1,832,381	1,176,363,069	792,397	**1,178,987,847**
Acquisitions	-	875,132,012	99,892	**875,231,904**
Closing balance	**1,832,381**	**2,051,495,081**	**892,289**	**2,054,219,751**
Accumulated depreciations				
Opening balance	-	-	-	**-**
Depreciations (Note 30)	357,142	176,990,317	143,680	**177,491,139**
Closing balance	**357,142**	**176,990,317**	**143,680**	**177,491,139**
Carrying amount	**1,475,239**	**1,874,504,764**	**748,609**	**1,876,728,612**

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

To assure the payments of the amounts due under a loan agreement with a national institution, in the amount of Euro 75 million, a mortgage was established on an urban building owned by TAP S.A., consisting of twenty-nine office buildings, workshops for construction materials and others, located at the Lisbon Airport (Note 16). As at 30 June 2019, the debt amounts to Euro 71 million.

The main impacts occurred during the first half of 2019 are as follows:

- ✈ Additions of basic equipment in the amount of Euro 31,588,623 mainly relate to: (i) capitalisation of structural maintenance costs of owned aircraft or under finance lease in the amount of about Euro 18,506,276 and (ii) acquisition of spare parts in the amount of Euro 8,714,794.

- ✈ Disposals of basic equipment in the net amount of Euro 4,033,329 relate, essentially, to the sale of one aircraft (A330), which generated a gain in the amount of Euro 1,698,236 (Note 23).

- ✈ Transfers and write-off of basic equipment, in the net amount of Euro 2,373,032, relate mainly to the write-off of spare parts and other miscellaneous maintenance equipments.

- ✈ Additions of other assets in progress in the amount of Euro 66,471,400 relate essentially to: (i) equipment to the future NEO fleet, in the amount of Euro 32,147,049; (ii) two engines in the amount of Euro 19,641,236; and (iii) ongoing structural maintenance, in the amount of Euro 13,696,716.

- ✈ Disposals of other assets in progress in the amount of Euro 6,347,846 relate essentially, to equipment initially acquired by the Company for the purpose of incorporation into the new aircraft included in the Purchase Agreement with Airbus, which were disposed to the manufacturer at acquisition cost.

- ✈ The increase verified in the caption "Advances to suppliers of tangible assets" in the amount of Euro 19,728,114 refers essentially to: (i) advances related to investment projects in fleet equipment of medium and long-haul, in about Euro 10,000,000; (ii) the advances to the acquisition of a new Trent engine, in the amount of Euro 3,782,680; and (iii) advances related to Rolls Royce “Total Care”, in the amount of Euro 5,826,046.

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

As at 30 June 2019 and 31 December 2018, the heading "Basic equipment" is detailed, as follows:

	30-jun-19			31-dec-18		
	Acquisition cost	Accumulated depreciation	Carrying amount	Acquisition cost	Accumulated depreciation	Carrying amount
Flight equipment						
Aircraft	563,079,742	(491,088,847)	71,990,895	605,358,303	(526,441,146)	78,917,157
Spare engines	4,616,890	(3,529,759)	1,087,131	11,483,714	(7,811,898)	3,671,816
Spare parts	114,825,261	(76,311,547)	38,513,714	109,178,704	(76,666,174)	32,512,530
	682,521,893	(570,930,153)	111,591,740	726,020,721	(610,919,218)	115,101,503
Flight equipment under finance leases						
Aircraft	549,790,462	(459,609,097)	90,181,365	538,555,849	(446,427,835)	92,128,014
Reserve engines	40,774,455	(5,822,209)	34,952,246	33,907,632	(524,284)	33,383,348
	590,564,917	(465,431,306)	125,133,611	572,463,481	(446,952,119)	125,511,362
Machines and miscellaneous equipment	85,091,833	(69,338,547)	15,753,286	82,401,949	(67,789,756)	14,612,193
	1,358,178,643	**(1,105,700,006)**	**252,478,637**	**1,380,886,151**	**(1,125,661,093)**	**255,225,058**

As at 30 June 2019 and 31 December 2018, Company aircraft fleet is detailed, as follows:

	30-jun-19					31-dec-18				
	Owned by TAP	Finance leases	Operating leases	ACMI	Total	Owned by TAP	Finance leases	Operating leases	ACMI	Total
Airbus A340	4	-	-	-	**4**	4	-	-	-	**4**
Airbus A330	2	-	11	-	**13**	3	-	14	-	**17**
Airbus A330 NEO	-	-	10	-	**10**	-	-	3	-	**3**
Airbus A319	-	9	12	-	**21**	-	9	12	-	**21**
Airbus A320	-	5	15	-	**20**	-	5	16	-	**21**
Airbus A320 NEO	-	-	5	-	**5**	-	-	1	-	**1**
Airbus A321	-	2	2	-	**4**	-	2	2	-	**4**
Airbus A321 NEO	-	-	6	-	**6**	-	-	4	-	**4**
Airbus A321 NEO LR	-	-	2	-	**2**	-	-	-	-	-
Embraer 190	-	-	-	9	**9**	-	-	-	9	**9**
Embraer 195	-	-	-	4	**4**	-	-	-	4	**4**
ATR 72	-	-	-	8	**8**	-	-	-	8	**8**
	6	**16**	**63**	**21**	**106**	**7**	**16**	**52**	**21**	**96**

During the first half of 2019, the following changes occurred in the aircraft fleet:

- Phase-in of five aircraft of NEO fleet contracted previously with the Airbus, two A321 NEO LR and three A330 NEO;
- Phase-in of ten placement aircraft (four A320 NEO, two A321 NEO and four A330 NEO);
- Phase-out of three A330 aircraft in April and May of 2019, and one A320 aircraft;
- Disposal of one A330 aircraft in May 2019.

3 Investment properties

During the period ended at 30 June 2019 and 31 December 2018, the movements recorded in investment properties were as follows:

	30-jun-19	31-dec-18
Opening balance	**1,925,764**	**883,849**
Transfers	-	110,111
Megasis Merger	1,205,000	-
Disposals	-	(361,000)
Fair value adjustments	-	1,292,804
Closing balance	**3,130,764**	**1,925,764**

The impact due to the Megasis merger, in the amount of Euro 1,205,000, refers to buildings owned by Megasis (see introductory note).

4 Intangible assets

During the period ended at 30 June 2019 and 31 December 2018, changes in “Intangible assets” were as follows:

	Industrial property and other rights	Computer programmes	Assets in progress	Advances to suppliers of intangible assets	Total
Acquisition Cost					
Balance as at 1 January 2018	**11,951,704**	**1,881,434**	**1,484,968**	**-**	**15,318,106**
Acquisitions	-	6,085,323	3,555,255	1,215,922	**10,856,500**
Regularisation, transfer and write-off	-	380,060	(380,060)	-	**-**
Balance as at 31 December 2018	**11,951,704**	**8,346,817**	**4,660,163**	**1,215,922**	**26,174,606**
Acquisitions	-	5,670,279	2,013,072	526,915	**8,210,266**
Regularisation, transfer and write-off	-	8,592,688	(1,228,195)	-	**7,364,493**
Balance as at 30 June 2019	**11,951,704**	**22,609,784**	**5,445,040**	**1,742,837**	**41,749,365**
Accumulated amort. and impairment losses					
Balance as at 1 January 2018	**(11,951,704)**	**(485,270)**	**-**	**-**	**(12,436,974)**
Amortisations and impairment losses	-	(2,492,247)	-	-	(2,492,247)
Balance as at 31 December 2018	**(11,951,704)**	**(2,977,517)**	**-**	**-**	**(14,929,221)**
Amortisations and impairment losses (Note 30)	-	(2,305,102)	-	-	(2,305,102)
Regularisation, transfer and write-off	-	(6,048,071)	-	-	**(6,048,071)**
Balance as at 30 June 2019	**(11,951,704)**	**(5,282,619)**	**-**	**-**	**(23,282,394)**
Carrying amount as at 31 December 2018	**-**	**5,369,300**	**4,660,163**	**1,215,922**	**11,245,385**
Carrying amount as at 30 June 2019	**-**	**17,327,165**	**5,445,040**	**1,742,837**	**18,466,971**

- The additions in the first half of 2019 under the captions of computer programmes and assets in progress relate essentially to the acquisition and development of software related to the Company operating activity.

5 Other financial assets

As at 30 June 2019 and 31 December 2018, the caption "Other financial assets" details as follows:

	30-jun-19		31-dec-18	
	Current	**Non-current**	**Current**	**Non-current**
Angola's treasury bonds	13,306,068	4,817,733	13,224,721	-
Bank deposits in Guinea Bissau	-	1,733,733	-	1,727,665
SITA Group Foundation	-	455,915	-	455,915
Other	-	39,684	-	39,684
	13,306,068	**7,047,065**	**13,224,721**	**2,223,264**
Impairment losses	-	(1,748,291)	-	(1,742,224)
	13,306,068	**5,298,774**	**13,224,721**	**481,040**

The movement verified in this caption during the periods ended at 30 June 2019 and 31 December 2018 is as follows:

	30-jun-19		31-dec-18	
	Current	**Non-current**	**Current**	**Non-current**
Opening balance	13,224,721	481,040	34,852,859	46,440,556
Increases	-	4,830,936	7,497,818	-
Decreases	-	-	(66,543,254)	-
Transfers	-	-	47,272,685	(47,272,685)
Currency translation differences	81,347	(13,202)	480,690	1,313,169
Other	-	-	(10,336,077)	-
Closing balance	**13,306,068**	**5,298,774**	**13,224,721**	**481,040**

The increase in the first half of 2019 in the amount of Euro 4,830,936, refers to the “Angola’s Treasury bonds” subscribed in the amount of Kwanza 1,737,479 thousand, corresponding to the original exchange rate of 316.909 kwanzas per dollar, with maturity date on 18 December 2020, and indexed to the dollar.

6 Deferred tax assets and liabilities

As at 30 June 2019 and 31 December 2018 the tax rate used to calculate the deferred tax assets relating to tax losses carried forward was 21%. In the case of temporary differences, the rate used was 29.5%, when it was deemed that the taxation of temporary differences in the estimated period of application of the aforesaid rate was probable.

Tax benefits are considered at 100%, whereas, in some cases, their full acceptance is still dependent on the approval of the authorities granting these tax benefits. The deferred taxes arising from tax benefits are recorded when the authorities granting these tax benefits have approved them.

The main temporary differences between accounting and taxable amounts as at 30 June 2019 and 31 December 2018, the corresponding deferred tax assets and liabilities and the respective effect on the results for 30 June 2019 and 31 December 2018 are as follows:

	30-jun-19				
	Opening balance	Megasis merger	Effect in results (Note 32)	Effect in comprehensive income	Closing balance
Deferred tax assets					
Tax losses carried forward	37,163,328	-	(186,000)	-	36,977,328
Employee benefits obligations	25,432,762	103,615	(551,061)	5,258,349	30,243,665
Impairment losses in inventories	6,831,884	-	(235,010)	-	6,596,874
Impairment losses of accounts receivable	7,020,375	13,488	(229,814)	-	6,804,049
SIFIDE,CFEI and international double taxation convention	442,275	-	(442,275)	-	-
Other provisions and adjustments not accepted for tax purposes	122,949	-	(1,844)	-	121,105
Impairment losses in other fixed assets	1,837,028	-	846,327	-	2,683,355
Derivative financial instruments (Note 21)	12,190,104	-	-	(12,190,104)	-
	91,040,705	**117,103**	**(799,677)**	**(6,931,755)**	**83,426,376**
Deferred tax liabilities					
Revaluations	18,760,179	258,203	(465,767)	-	18,552,615
Derivative financial instruments	-	-	-	2,892,426	2,892,426
Ajustments due the adoption of IFRS 16 (Note 1.3.)	-	-	(768,931)	38,054,184	37,285,253
	18,760,179	**258,203**	**(1,234,698)**	**40,946,610**	**58,730,294**
			435,021	**(47,878,365)**	

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

✈ Tax losses carried forward

Under the terms of current tax legislation in Portugal, tax losses generated in 2014 and 2015 are reportable for a period of twelve years, tax losses generated after 2017 are reportable for a period of five years, after its occurrence, and susceptible to deduction of tax profits generated during those periods, until the limit of 70% of taxable income.

The Company considers that tax losses carried forward are partially recoverable, through their use in the reduction of future taxable profit, and therefore recorded the corresponding deferred tax assets. It should be noted that, despite the Group having exercised its legitimate right of challenge, no deferred tax assets were recorded related to the tax losses carried forward resulting from the securitization operation in the years 2014 and 2015 amounting to Euro 99 million, currently under discussion in a tax court.

Since 2017, the Company has been taxed according to the special taxation regime for groups of companies (RETGS – "*Regime Especial de Tributação de Grupos de Sociedades*"), and the tax result was determined by TAP SGPS. However, the tax estimate is recorded based on its tax results.

For additional information regarding tax losses, see the special purpose financial statements of TAP, S.A. as of 31 December 2018.

7 Other receivables

As at 30 June 2019 and 31 December 2018, other receivables are detailed as follows:

	30-jun-19		31-dec-18	
	Current	Non-current	Current	Non-current
Trade receivables	387,893,432	-	230,470,984	-
Recoverable maintenance reserves	12,202,988	46,142,849	-	-
Security deposits of lease contracts (Note 17)	6,569,505	43,024,121	6,030,928	53,749,191
Accrued income	33,068,290	-	24,861,437	-
Advances to suppliers	21,589,034	-	35,761,944	-
Other debtors	935,491,318	9,354,521	922,878,956	9,309,075
	1,396,814,567	**98,521,491**	**1,220,004,249**	**63,058,266**
Impairment losses	(65,261,645)	(1,921,388)	(65,382,983)	(1,921,388)
	1,331,552,922	**96,600,103**	**1,154,621,266**	**61,136,878**

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

✈ Trade receivables

As at 30 June 2019 and 31 December 2018, the caption "Trade receivables" is detailed as follows:

	30-jun-19	31-dec-18
Private entities	180,406,808	77,527,813
Travel agency	94,529,165	49,498,969
Airlines	34,944,286	22,904,051
Related parties (Note 36)	18,664,910	19,922,448
Other	5,722,563	7,644,151
Doubtful debtors	53,625,700	52,973,552
	387,893,432	**230,470,984**
Impairment losses	(61,038,932)	(61,191,973)
	326,854,500	**169,279,011**

The increase in the balance of trade receivables in the first half of 2019 is mainly due to the seasonality of the air transport business and the decrease, verified in December 2018, related to the sale operation without recourse of the credit card installment sales receivables, in the amount of Euro 66,381 thousand.

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

✈ **Recoverable maintenance reserves**

The change in the caption "Recoverable maintenance reserves" is due to the adoption of IFRS 16, since until 31 December 2018 these reserves were presented under the caption "Other payables", deducted to the estimated liabilities with structural maintenance of aircraft in operating lease.

✈ **Security deposits of lease contracts**

The security deposits of lease contracts are constituted under the operating lease contracts for aircraft and engines, and will be returned, without interests, when the aircraft and engines are returned to their lessors. The increase in this caption is related to the security deposits associated with new aircraft and engines operating lease agreements made during the first half of 2019. As at 30 June 2019 and 31 December 2018, the amount of Euro 375,220 and Euro 372,926, respectively, refer to security deposits made to related entities, namely Aigle Azur (Note 36).

✈ **Accrued income**

As at 30 June 2019 and 31 December 2018, the amount recorded under the caption Accrued income corresponds to:

	30-jun-19	31-dec-18
Related parties (Note 36)	10,469,426	8,542,029
Jet Fuel sw aps (Notes 13 and 21)	9,804,834	-
Airport facilities - incentives	1,642,441	3,796,633
Fuel	318,718	-
Other	10,832,871	12,522,775
	33,068,290	**24,861,437**

✈ **Other debtors - current**

As at 30 June 2019 and 31 December 2018, the caption "Other debtors – current" is detailed as follows:

	30-jun-19	31-dec-18
Related parties (Note 36)	824,219,319	819,729,783
Advances related to lease contracts	34,127,978	45,366,677
Suppliers receivables	29,436,974	16,357,029
Employees	13,509,810	12,674,574
Interline invoicing and other	9,970,084	8,828,410
Doubtful debtors	4,222,713	4,191,009
Deposits and guarantees	2,366,921	2,126,622
Representations VAT	2,242,883	2,285,775
Other	15,394,636	11,319,077
	935,491,318	**922,878,956**
Impairment losses	(4,222,713)	(4,191,010)
	931,268,605	**918,687,946**

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

✈ **Impairment losses of other receivables**

The movement in receivables impairment losses during the first half of 2019 and the year of 2018 is as follows:

	30-jun-19	31-dec-18
Opening balance	67,304,371	66,235,623
Increases (Note 26)	2,678,672	2,422,962
Reversals (Note 26)	(1,062,633)	(1,350,689)
Utilisation	(1,737,377)	(3,525)
Closing balance	**67,183,033**	**67,304,371**

8 Inventories

As at 30 June 2019 and 31 December 2018, the detail of the inventories is as follows:

	30-jun-19	31-dec-18
Raw materials, inputs and consumables	107,769,031	87,103,493
Inventory impairment losses	(22,362,283)	(23,158,930)
	85,406,748	**63,944,563**

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

The movement of Inventory impairment losses during the periods ended at 30 June 2019 and 31 December 2018 is as follows:

	30-jun-19	31-dec-18
Opening balance	23,158,930	28,197,961
Increases (Note 26)	52,652	1,402,836
Reversals (Note 26)	(845,019)	(499,964)
Utilisation	(4,280)	(5,941,903)
Closing balance	**22,362,283**	**23,158,930**

9 Income tax receivable/ payable

Since 2017, the Company started to be taxed through the Special Taxation Regime for Groups of Companies ("RETGS"), being the tax result determined in TAP SGPS. However, the Company's income tax estimate is recorded based on its taxable income.

For the periods ended at 30 June 2019 and 31 December 2018 the balance relating to income tax receivable or payable is detailed as follows:

	30-jun-19		31-dec-18	
	Current assets	Current liabilities	Current assets	Current liabilities
RETGS: Related Parties (Note 36)				
Payments on account	7,971,920	-	7,889,280	-
Withholding taxes	639,653	-	639,653	-
Current income tax (Note 32)	29,487,350	-	(199,289)	-
Income tax receivable/payable				
Other	356,876	-	-	-
	38,455,799	**-**	**8,329,644**	**-**
Income tax receivable/payable				
Other	-	(17,430)	-	(19,326)
	-	**(17,430)**	**-**	**(19,326)**
	38,455,799	**(17,430)**	**8,329,644**	**(19,326)**

10 Other current and non-current assets

Other current and non-current assets as of 30 June 2019 and 31 December 2018 are as follows:

	30-jun-19		31-dec-18	
	Current	Non-current	Current	Non-current
Deferred expenses	38,263,317	20,016,474	47,472,655	-
State	6,008,764	-	4,630,040	-
	44,272,081	**20,016,474**	**52,102,695**	**-**

✈ Deferred expenses

As of 30 June 2019 and 31 December 2018, deferred expenses details as follows:

	30-jun-19		31-dec-18	
	Current	Non-current	Current	Non-current
Security deposits	-	20,016,474	-	-
Aircrafts and engine leases	18,286,548	-	34,227,664	-
Rental costs	3,779,161	-	4,310,856	-
Commissions	4,165,106	-	1,871,632	-
Related parties (Note 36)	5,423,271	-	4,696,968	-
Other deferred expenses	6,609,231	-	2,365,535	-
	38,263,317	**20,016,474**	**47,472,655**	**-**

Deferred expenses related to aircraft and engine leases refer to initial costs incurred between the inception and commencement date, to be recognised on a straight-line basis throughout the lease agreement. As at 31 December 2018, this caption also included the deferral of the rent paid in advance to the lessor.

The commissions refer to amounts paid to agents for tickets sold, but not yet flown and not expired, until 30 June 2019 and 31 December 2018.

✈ **State**

For the periods ended at 30 June 2019 and 31 December 2018, the balance of this caption is detailed as follows:

	30-jun-19	31-dec-18
VAT	6,008,211	3,918,899
Other taxes	553	711,141
	6,008,764	**4,630,040**

As at 30 June 2019, the outstanding balance of the VAT refers to requests for reimbursements, not yet received, for the months of April, May and June 2019.

11 Cash and cash equivalents

As at 30 June 2019 and 31 December 2018, the detail of cash and cash equivalents is as follows:

	30-jun-19	31-dec-18
Term deposits	156,295,739	54,940,178
Bank deposits available on demand	230,132,375	158,227,412
Other bank deposits	111,000	10,488,153
Cash	175,501	58,850
Cash and cash equivalent in the statement of financial position	**386,714,615**	**223,714,593**
Other deposits	-	(10,359,638)
Cash and cash equivalents in the cash flow statement	**386,714,615**	**213,354,955**

12 Equity

As at 30 June 2019 and 31 December 2018, the share capital of TAP S.A. was fully underwritten and paid up, represented by 8,300,000 shares with a nominal value of Euro 5, fully owned by TAP - Transportes Aéreos Portugueses, SGPS, S.A..

13 Supplementary capital contributions and reserves

Supplementary capital contributions

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

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

Reserves

✈ **Legal reserve**

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

This reserve cannot be distributed, except in the case of the Company's liquidation, but can be incorporated into the share capital or used to absorb losses after all other reserves have been depleted.

As at 30 June 2019 and 31 December 2018, the legal reserve was fully constituted in accordance with the commercial legislation in force.

✈ **Hedge reserves**

As at 30 June 2019, the positive amount of Euro 6,912,408, presented under the heading “Hedge reserves”, corresponds to the fair value of the financial instruments classified as hedging accounting (Euro 9,804,834), net of tax, in the amount of Euro 2,892,426 (Notes 7 and 21).

✈ **Other reserves**

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

Retained earnings

The caption "Retained earnings" corresponds to the net results of previous years, as deliberated at the General Meeting Assemblies. The impact that resulted from the first-time adoption of the International Financial Reporting Standards (IFRS) was also recorded under this caption, as well as gains or losses from the remeasurements of post-employment benefits, net of tax, and IFRS 16 first time adoption adjustments (additionaly see Note 1.2).

14 Post-employment benefits obligations

Assumptions used in the assessment of liabilities

The Company's liabilities were determined by actuarial studies, reported as of 30 June 2019 and 31 December 2018, prepared by independent entities, using the "Projected Credit Unit Method" and essentially using the following financial and demographic assumptions:

	30-jun-19		31-dec-18	
	Portugal VIVA	Portugal Jubileu	Portugal VIVA	Portugal Jubileu
Mortality table	TV 88/90	TV 88/90	TV 88/90	TV 88/90
Invalidity table	EKV1980	EKV1980	EKV1980	EKV1980
Discount rate	1.50%	1.50%	2.00%	2.00%
Fund yield rate	1.50%	1.50%	2.00%	2.00%
Growth rate				
Wages	[1,5%-5%]	2.00%	[1,5%-5%]	2.00%
Pensions	1.00%	1.00%	1.00%	1.00%
Trend of medical costs	1.50%	--	1.50%	--
Retirement age	66	65	66	65

The Company reviews periodically the actuarial assumptions, or whenever relevant events occur, based on market financial information and information related to the beneficiaries covered by these plans. At 30 June 2019, the discount rate if VIVA and Jublieu was reduced to 1.5%, following the decrease of the high quality bonds interest rates.

Net liabilities as at 30 June 2019 and 31 December 2018 are detailed as follows:

	30-jun-19					
	VIVA fund	VIVA pensions	Medical acts	Jubileu bonus	England Representation	Total
Liabilities from past services						
- Active employees	332,041	3,208,880	-	98,075,261	-	101,616,182
- Early retirement	3,052	18,363,378	438,246	-	-	18,804,676
- Retired	12,153,226	28,654,836	2,598,463	-	16,919,499	60,326,024
Fair value of the fund	(14,949,785)	-	-	(47,778,674)	(15,497,524)	(78,225,983)
Deficit/(surplus)	**(2,461,466)**	**50,227,094**	**3,036,709**	**50,296,587**	**1,421,975**	**102,520,899**

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

Evolution of liabilities from past services

The movement of the liabilities from past services, reflected in the statement of financial position, during the period comprised between 1 January 2019 and 30 June 2019 and during the year of 2018, is as follows:

	30-jun-19					
	VIVA Fund	VIVA Pensions	Medical acts	Jubileu bonus	England Representation	Total
Liabilities at the beginning of the period	10,955,825	51,031,672	3,036,709	83,939,828	16,919,499	165,883,533
Currency translation differences	-	-	-	-	-	-
Values recorded through profit or loss for the period:						
Current services	320	-	-	2,292,062	-	2,292,382
Net interest	109,558	510,317	-	872,006	-	1,491,881
Reestructuring - early retairment (Note 28)	-	1,240,743	-	-	-	1,240,743
Remeasurements	1,855,600	344,400	-	15,578,446	-	17,778,446
Megasis merger	-	460,515	-	-	-	460,515
Benefits paid	(432,984)	(3,360,553)	-	(4,607,081)	-	(8,400,618)
Liabilities at the end of the period	**12,488,319**	**50,227,094**	**3,036,709**	**98,075,261**	**16,919,499**	**180,746,882**

	31-dec-18					
	VIVA Fund	VIVA Pensions	Medical acts	Jubileu bonus	England Representation	Total
Liabilities at the beginning of the year	10,591,863	35,020,845	2,773,101	70,210,638	17,058,710	135,655,157
Currency translation differences	-	-	-	-	(456,065)	(456,065)
Values recorded through profit or loss for the year:						
Current services	21,891	-	-	4,437,586	-	4,459,477
Net interest	211,837	700,417	55,461	1,535,840	316,854	2,820,409
Reestructuring - early retairment	-	17,305,876	-	-	-	17,305,876
Remeasurements	867,369	1,967,522	208,147	13,822,725	-	16,865,763
Benefits paid	(737,135)	(3,962,988)	-	(6,066,961)	-	(10,767,084)
Liabilities at the end of the year	**10,955,825**	**51,031,672**	**3,036,709**	**83,939,828**	**16,919,499**	**165,883,533**

Evolution of funds allocated to pensions benefit schemes

During the period comprised between 1 January 2019 and 30 June 2019, and during the year of 2018, the fund assets evolution was as follows:

	30-jun-19			
	VIVA Fund	Jubileu bonus	England Representation	Total
Opening balance	15,230,464	48,942,794	15,497,524	79,670,782
Contributions in the period	-	3,000,000	-	3,000,000
Net interest	152,305	489,428	-	641,733
Benefits paid	(432,984)	(4,607,083)	-	(5,040,067)
Remeasurements	-	(46,465)	-	(46,465)
Currency translation differences	-	-	-	-
Closing Balance	**14,949,785**	**47,778,674**	**15,497,524**	**78,225,983**

	31-dec-18			
	Fundo VIVA	Prémios Jubileu	Representação Inglaterra	Total
Opening balance	16,398,887	48,296,222	15,625,035	80,320,144
Contributions in the year	-	5,871,000	328,554	6,199,554
Net interest	(431,287)	965,924	-	534,637
Benefits paid	(737,136)	(6,066,961)	-	(6,804,097)
Remeasurements	-	(123,391)	-	(123,391)
Currency translation differences	-	-	(456,065)	(456,065)
Closing Balance	**15,230,464**	**48,942,794**	**15,497,524**	**79,670,782**

Expenses related to pensions and other post-employment benefits

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

	30-jun-19					
	VIVA Fund	VIVA Pensions	Medical acts	Jubileu Bonus	England representation	Total
Current Services	320	-	-	2,292,062	-	2,292,382
Net Interest	(42,747)	510,317	-	382,578	-	850,148
Sub-total (Note 25)	**(42,427)**	**510,317**	**-**	**2,674,640**	**-**	**3,142,530**
Restructuring - early retirement (Note 28)	-	1,240,743	-	-	-	1,240,743
Total	**(42,427)**	**1,751,060**	**-**	**2,674,640**	**-**	**4,383,273**

	30-jun-18					
	VIVA fund	VIVA pensions	Medical acts	Jubileu bonus	England Representation	Total
Current Services	10,945	-	-	4,085,111	-	4,096,056
Net interest	(120,297)	348,832	27,731	995,245	1,910	1,253,421
Total (Note 25)	**(109,352)**	**348,832**	**27,731**	**5,080,356**	**1,910**	**5,349,477**

As previously mentioned, the Company’s pilots, admitted after 1 June 2007, benefit from a defined contribution plan. During the period comprised between 1 January 2019 and 30 June 2019, an expense was recognised in the heading “Employee costs - post-employment benefits" in the amount of Euro 1,252,428 (between 1 January 2018 and 30 June 2018: Euro 780,153), relative to the contributions made during the year in favour of its employees (Note 25).

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

Remeasurement gains/losses

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

	30-jun-19					
	VIVA Fund	VIVA Pensons	Medical Acts	Jubileu Bonus	England Representation	Total
Remeasurements						
Return of assets, excluding amounts included in the income statement	-	-	-	46,465	-	46,465
	-	**-**	**-**	**46,465**	**-**	**46,465**
(Gains)/losses due to changes in financial assumptions	1,855,600	344,400	-	6,800,000	-	9,000,000
(Gains)/losses due to experience	-	-	-	8,778,446	-	8,778,446
	1,855,600	**344,400**	**-**	**15,578,446**	**-**	**17,778,446**
Total remeasurements	**1,855,600**	**344,400**	**-**	**15,624,911**	**-**	**17,824,911**

	30-jun-18					
	VIVA Fund	VIVA Pensons	Medical Acts	Jubileu Bonus	England Representation	Total
Remeasurements						
Return of assets, excluding amounts included in the income statement	-	-	-	45,533	-	45,533
	-	**-**	**-**	**45,533**	**-**	**45,533**
(Gains)/losses due to changes in financial assumptions	-	-	-	3,669,039	-	3,669,039
(Gains)/losses due to experience	921,601	(154,548)	(108,322)	3,933,235	-	4,591,966
	921,601	**(154,548)**	**(108,322)**	**7,602,274**	**-**	**8,261,005**
Total remeasurements	**921,601**	**(154,548)**	**(108,322)**	**7,647,807**	**-**	**8,306,538**

Total remeasurements recognised in 2019, amounting to Euro 17,824,911, mainly derive from the reduction of the discount rate, accompanied by the salary review and agreements established in 2018 with the pilots, which had an impact on the 2019 salary review higher than expected.

Gains/losses on remeasurements were recognised directly in the Company's comprehensive income.

15 Provisions

During the first semester of 2019 and the financial year of 2018, the movements in provisions were as follows:

	Provision for legal claims	Others	Redelivery costs	Total
1 January 2018	**8,771,552**	**451,197**	**-**	**9,222,749**
Increases	3,438,992	1,877,168	-	5,316,160
Reversals	(255,166)	(34,420)	-	(289,586)
Utilisation	(157,500)	(1,877,168)	-	(2,034,668)
31 December 2018	**11,797,878**	**416,777**	**-**	**12,214,655**
IFRS 16 adoption	-	-	26,082,076	26,082,076
Increases	236,231	-	22,644,806	22,881,037
Reversals	(723,148)	(6,250)	-	(729,398)
Utilisation	(136,100)	-	(1,910,907)	(2,047,007)
Other movements	-	-	1,605,410	1,605,410
30 June 2019	**11,174,861**	**410,527**	**48,421,385**	**60,006,773**

From these movements, resulted gains in the amount of Euro 493,167 at 30 June 2019, which were recorded in the caption Impairment losses in inventories, receivables and provisions in the income statement (Note 26).

✈ **Provision for legal claims**

Provisions for legal claims are recognised in accordance with the Company's and its legal advisors risk assessments, based on historical success rates by type of legal action and probability of unfavourable outcomes for the Company. As at 30 June 2019, the existing provision, amounting to Euro 11,174,861, is intended to cover the risk of several legal proceedings against the Company, in Portugal and foreign countries.

✈ ***Redelivery costs***

As mentioned in Note 1.2, the increase of the provisions for redelivery costs is recorded against the right-of-use assets, being subsequently subject to depreciation.

16 Borrowings

✈ **Current and non-current borrowings**

As at 30 June 2019 and 31 December 2018, the borrowings are detailed as follows:

	30-jun-19		31-dec-18	
	Current	**Non-Current**	**Current**	**Non-Current**
Bank loans	166,837,112	410,349,203	150,628,347	498,485,039
Interest accrued	2,774,108	-	3,621,389	-
Initial charges	(1,880,785)	(4,811,843)	(3,952,807)	(4,811,843)
Remunerated bank debt	**167,730,435**	**405,537,360**	**150,296,929**	**493,673,196**
Bonds	2,539,714	324,478,606	-	-
Interest accrued	2,603,006	-	-	-
Initial expenses	(1,017,422)	(13,246,417)	-	-
Bonds	**4,125,298**	**311,232,189**	**-**	**-**
Financial leases	33,558,219	156,257,867	30,045,208	102,050,837
Interest accrued	486,748	-	562,988	-
Initial expenses	(200,378)	(762,490)	(258,329)	(430,999)
Financial leases	**33,844,589**	**155,495,377**	**30,349,867**	**101,619,838**
Borrowings	**205,700,322**	**872,264,926**	**180,646,796**	**595,293,034**

As at 30 June 2019 and 31 December 2018, the remunerated debt, by maturity and by interest rate, is as follows:

	30-jun-19	31-dec-18
Up to 1 year	205,700,322	180,646,796
1 to 2 years	188,069,024	192,845,190
2 to 3 years	152,820,583	160,219,305
3 a 4 years	293,948,634	144,726,370
4 to 5 years	41,558,430	23,334,839
Over 5 years	195,868,255	74,167,330
	1,077,965,248	**775,939,830**

	30-jun-19	31-dec-18
Variable rate		
Up to 1 year	187,864,902	166,739,901
1 to 2 years	175,043,371	173,099,130
2 to 3 years	139,353,880	149,833,718
Over 3 years	150,615,939	199,622,007
	652,878,092	**689,294,756**
Fixed rate		
Up to 1 year	17,835,420	13,906,895
1 to 2 years	13,025,653	19,746,060
2 to 3 years	13,466,703	10,385,587
Over 3 years	380,759,380	42,606,532
	425,087,156	**86,645,074**
	1,077,965,248	**775,939,830**

✈ Net debt

As at 30 June 2019 and 31 December 2018 net debt is detailed as follows:

	30-jun-19	31-dec-18
Borrowings		
Non-current	872,264,926	595,293,034
Current	205,700,322	180,646,796
	1,077,965,248	**775,939,830**
Cash and cash equivalents (Note 11)		
Cash	175,501	58,850
Bank deposits available on demand	156,295,739	54,940,178
Other deposits	230,243,375	168,715,565
	386,714,615	**223,714,593**
Net debt	**691,250,633**	**552,225,237**

✈ Remunerated bank debt

Under the Share Purchase Agreement of TAP SGPS, and the Debt service agreement on the debt service restructuring and monitoring of TAP Group, referred to in the Introductory Note, on 30 June 2017 TAP Group bank debt was restructured, being the main changes related to the maturity of the loans and its financial conditions, namely the reference rate and the applicable spread.

As at 30 June 2019 and 31 December 2018, the currency of all remunerated bank debt is Euro.

✈ Bonds

The Company issued a private subscription bond loan, fully subscribed on 17 January 2019, in the amount of Euro 137 million and maturity in 2034.

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

At 30 June 2019 and 31 December 2018 all loans are denominated in Euros.

✈ Finance Leases

As at 30 June 2019 and 31 December 2018, the finance lease liabilities (acrrued of interests and deducted of initial charges), respect essentialy to airplains and engines.

Finance leases, by currency, are detailed as follows:

	30-jun-19	31-dez-18
Finance leases in EUR	99,911,665	69,522,862
Finance leases in USD	89,428,301	62,446,843
	189,339,966	**131,969,705**

✈ Financial covenants

The financial covenants in the lease and loan contracts are the usual ones in operations of this nature, including compulsory provisions such as the maintenance of the airline operator activity, commitments to periodically disclose the available financial information, and, in the specific case of finance leases, operating duties relative to registrations at official entities, information relative to leased aircraft, strict compliance with all the regulations, and procedures defined by the authorities, amongst others.

Additionally, in the context of the bank debt restructuring referred above and the bond issuance, some commitments were assumed regarding the follow up of the TAP Group's financial performance, through the analysis and accomplishment of certain ratios determined throught the consolidated financial statements, namely equity, EBITDAR, Net Debt / EBITDAR, unsecured financial net debt and minimum unrestricted cash and cash equivalent amount. These ratios have as main objective to follow up the TAP Group's financial situation and its capability to repay the debt.

17 Lease Liabilities

The caption “Lease Liabilities” refers essentially to the Company's operating lease contracts, which vary in duration up to 12 years and may be extended at the express wish of the contracting parties, which are now recognised in the statement of financial position from 1 January 2019 with the adoption of IFRS 16.

As at 30 June 2019, there were 63 aircraft and 24 engines under operating lease and 21 aircraft under ACMI, as detailed in Note 2.

As at 30 June 2019, lease liabilities, by maturity, break down as follows:

	30-jun-19
Up to 1 year	360,225,687
1 to 2 years	329,538,479
2 to 3 years	258,842,869
3 a 4 years	178,482,498
4 to 5 years	118,401,053
Over 5 years	569,898,325
	1,815,388,911

These liabilities are mainly indexed to the US dollar.

18 Other payables

As at 30 June 2019 and 31 December 2018, the caption "Other payables" is detailed as follows:

	30-jun-19		31-dec-18	
	Current	Non-current	Current	Non-current
Suppliers	181,618,995	-	236,954,507	-
Accrued expenses	244,855,274	-	308,895,811	49,741,211
Advances from customers	925,115	-	835,687	-
Other payables	186,024,070	-	120,806,723	-
	613,423,454	**-**	**667,492,728**	**49,741,211**

✈ Suppliers

As at 30 June 2019 and 31 December 2018, the caption "Suppliers" is detailed as follows:

	30-jun-19	31-dec-18
Suppliers - current account	63,997,420	92,617,537
Suppliers - related parties (Note 36)	40,938,448	60,006,523
Suppliers - pending invoices	76,683,127	84,330,447
	181,618,995	**236,954,507**

✈ Accrued expenses

As at 30 June 2019 and 31 December 2018, the caption "Accrued expenses" is detailed as follows:

	30-jun-19		31-dec-18	
	Current	Non-current	Current	Non-current
Remunerations	103,602,308	-	93,556,918	-
Maintenance - operating leases	-	-	54,197,716	49,741,211
Aircraft fuel and CO2 emission licences	52,638,952	-	49,429,139	-
Remuneration - air crew	25,514,814	-	18,799,079	-
Navigation charges	8,536,049	-	5,057,486	-
Special sales charges	8,090,216	-	10,002,238	-
Related parties (Note 36)	7,117,268	-	6,523,323	-
Handling services	6,277,001	-	5,693,489	-
Insurance	5,513,317	-	2,109,991	-
Specialised w ork	5,220,412	-	4,997,659	-
Landing charges	5,006,432	-	1,333,571	-
Sw aps jet fuel (Note 21)	-	-	41,322,387	-
Other accrued expenses	17,338,505	-	15,872,815	-
	244,855,274	**-**	**308,895,811**	**49,741,211**

The change in the heading “Maintenance - operating leases” results from the adoption of IFRS 16 (see Note 1.2.). At 31 December 2018, the balance of this caption corresponds to the estimated structural maintenance charges for aircraft under operating lease, less the maintenance reserves paid that are estimated to be recoverable considering the current contractual conditions established with the lessors and the estimate of the respective charges for the structural maintenance of these aircraft.

The increase in remunerations is associated with the average salary increase in the second half of 2018 as well as the increase in the number of employees.

Special sales charges refer to commissions granted to agents according with the revenue for the period obtained throught this sale channel.

✈ Other payables - current

As at 30 June 2019 and 31 December 2018, the caption “Other payable – current” is detailed as follows:

	30-jun-19	31-dec-18
Taxes and fees	151,875,353	88,733,129
Tangible assets suppliers	9,568,192	16,283,365
Customers payable	9,785,944	3,057,731
Related parties (Note 36)	1,105,703	2,588,237
Indemnities	976,253	937,034
Other	12,712,625	9,207,227
	186,024,070	**120,806,723**

The caption Taxes and fees refers, essentially, to amounts payable to several entities, related to taxes and fees charged to customers on the issued tickets. The variation when compared to 31 December 2018 is due to the seasonality of the air transport activity and its increase.

19 Other current liabilities

As at 30 June 2019 and 31 December 2018, the caption other current liabilities refers essentially to:

	30-jun-19	31-dec-18
Deferred income	62,936,509	58,594,413
State	25,216,683	35,736,669
	88,153,192	**94,331,082**

✈ Deferred income

As at 30 June 2019 and 31 December 2018, the caption "Deferred income" is detailed as follows:

	30-jun-19	31-dec-18
Customer loyalty program	47,895,230	52,035,848
Aircrafts leases	3,263,723	3,230,195
Work for aviation companies	2,406,692	-
Related Parties (Note 36)	335,296	348,496
Investment grants	276,787	2,882,523
Other deferred revenue	8,758,781	97,351
	62,936,509	**58,594,413**

Other deferred revenue essentially includes contractual compensation received in the first half of 2019 related to the year of 2019.

In the scope of application of IFRS 15 - Revenue from contracts with customers, at the initial miles allocation to customers adhering to the loyalty program called "TAP Miles & Go", a contractual obligation is recognised based on the unit value of the mile.

The caption "work for aviation companies" corresponds to customer contract liabilities, as provided by IFRS 15.

✈ State

For the period ended at 30 June 2019 and the financial year ended at 31 December 2018, the balance of this caption is detailed as follows:

	30-jun-19	31-dec-18
Social security contribution	12,703,078	18,867,431
Personal income tax - IRS	11,629,651	16,832,098
Corporate income tax - IRC	845,292	37,140
Other	38,662	-
	25,216,683	**35,736,669**

20 Liabilities from unused flight documents

As at 30 June 2019 and 31 December 2018, the Company's liabilities relative to unused flight documents were as follows:

	30-jun-19	31-dec-18
Passengers	679,670,339	393,260,983
Cargo	182,928	204,729
	679,853,267	**393,465,712**

21 Derivative financial instruments

As at 30 June 2019 and 31 December 2018, the Company had negotiated the following derivative financial instruments related to jet fuel swaps classified as hedge instruments:

	30-jun-19	31-dec-18
Jet fuel swaps (Notes 7 and 18)	9,804,834	(41,322,387)
	9,804,834	**(41,322,387)**

The jet fuel derivative financial instruments, classified as hedging instruments, presented the following evolution during the period ended at 30 June 2019 and 31 December 2018:

	Assets	Liabilities
Fair value 1 January 2018	**-**	**-**
Acquisitions during the year - payment/(receipt)	-	(4,109,128)
Payment/(receipt) of swaps during the year	-	-
Receipt/(payment) of swaps retained through profit or loss	-	4,109,128
Increase/(decrease) of fair value reflected in equity	-	(41,322,387)
Fair value 31 December 2018	**-**	**(41,322,387)**
Acquisitions during the year - payment/(receipt)	-	-
Payment/(receipt) of swaps during the period	805,490	-
Receipt/(payment) of swaps retained through profit or loss	(805,490)	-
Increase/(decrease) of fair value reflected in equity	9,804,834	41,322,387
Fair value 30 June 2019	**9,804,834**	**-**

As at 30 June 2019, the Company had contracted jet fuel derivative financial instruments whose fair value amounts to Euro 9,804,834, which maturity is between July 2019 and December 2020, covering approximately 40% of the estimated consumption.

22 Segment reporting

The following business segments have been identified: air transport and maintenance and engeneering. The net income/(loss) of each segment correspond to those directly allocated to them, as well as to those that can be reasonable attributed to those segments. The activities aggregated in "Other" do not qualify to report separately.

The financial information by operational segment at 30 June 2019 and 2018, is detailed as follows:

	30-jun-19				30-jun-18			
	Air Transport	Maintenance and engeneering	Other	Total	Air Transport	Maintenance and engeneering	Other	Total
Operating Income	1,348,768,553	95,248,766	4,838,123	1,448,855,442	1,356,210,980	128,044,082	5,444,451	1,489,699,513
Operating results	(96,864,771)	19,175,506	(7,274,345)	(84,963,610)	(57,237,955)	17,591,515	(6,118,167)	(45,764,607)
External net financial results	(54,739,738)	(2,654,931)	-	(57,394,669)	(46,328,735)	2,002,464	-	(44,326,271)
Income tax	32,335,374	(3,500,020)	1,541,131	30,376,485	23,005,254	(4,352,408)	1,359,027	20,011,873
Net results	**(119,269,135)**	**13,020,555**	**(5,733,214)**	**(111,981,794)**	**(80,561,436)**	**15,241,571**	**(4,759,140)**	**(70,079,005)**

The Company does not present segmental assets and liabilities considering that this information is not presented to the chief operating decision maker.

The operating revenues by geographic market are detailed as follows:

	30-jun-19					30-jun-18				
	Air Transport	Maintenance	Cargo and Mail	Outros	Total	Air Transport	Maintenance	Cargo and Mail	Outros	Total
Mainland and islands	90,060,857	7,047,117	3,787,906	3,263,004	104,158,884	80,392,495	2,302,718	3,616,064	2,854,144	89,165,421
Europe	499,777,009	78,802,573	6,400,835	951,037	585,931,454	495,799,456	99,812,731	6,618,924	682,364	602,913,475
South Atlantic	365,080,738	3,657,300	35,604,264	161,545	404,503,847	408,204,029	1,084,558	38,431,258	126,229	447,846,074
North Atlantic	166,992,931	817,437	11,572,986	84,526	179,467,880	146,166,151	2,610,461	9,896,620	57,437	158,730,669
Mid Atlantic	7,088,681	-	573,065	3,500	7,665,246	9,244,293	7	650,196	2,996	9,897,492
Africa	140,056,168	490,506	7,848,089	111,593	148,506,356	139,352,989	11,855,070	7,581,711	75,918	158,865,688
Other	6,066,387	1,708,147	2,444	6,863	7,783,841	7,655	6,985,781	-	-	6,993,436
	1,275,122,771	**92,523,080**	**65,789,589**	**4,582,068**	**1,438,017,508**	**1,279,167,068**	**124,651,326**	**66,794,773**	**3,799,088**	**1,474,412,255**

23 Other operating income

For the periods ended at 30 June 2019 and 2018, this caption is presented as follows:

	30-jun-19	30-jun-18
Recovered w arehouse material	2,121,836	2,802,712
Rents and sub-leases	1,932,236	2,070,179
Gains from tangible fixed assets	1,815,205	4,091,540
Operating government grants	1,008,232	861,119
Advertising	890,184	1,024,033
Fair value variation	-	1,276,287
Other	7,652,309	6,960,476
	15,420,002	**19,086,346**

24 Expenses by nature

For the periods ended at 30 June 2019 and 2018, the operating expenses by nature are as follows:

	30-jun-19	30-jun-18
Aircraft fuel	360,281,462	357,531,618
Traffic operating costs	374,325,170	451,461,479
Aircraft rents	-	71,009,884
Aircraft maintenance costs	28,445,783	65,642,674
Cost of materials consumed	64,658,855	94,252,627
Comercial, communication and marketing costs	84,092,237	93,567,444
	911,803,507	**1,133,465,726**

✈ Aircraft fuel

The caption "aircraft fuel" details for the periods ended at 30 June 2019 and 2018 are as follows:

	30-jun-19	30-jun-18
Aircraft fuel	354,697,176	348,631,955
CO2 emission licences	5,584,286	8,899,663
	360,281,462	**357,531,618**

✈ Traffic operating costs

The caption "traffic operating costs" for the periods ended at 30 June 2019 and 2018 details as follows:

	30-jun-19	30-jun-18
Handling	96,154,767	94,779,421
Navigation fees	81,332,584	78,415,888
Landing charges	50,213,601	45,689,475
In-flight expenses	48,067,173	46,075,414
Operational irregularities	30,122,356	25,484,119
Aircraft charters	6,853,255	99,842,707
Other traffic operating costs	61,581,434	61,174,455
	374,325,170	**451,461,479**

The reduction in charter costs is mainly due to the adoption of IFRS 16, as mentioned in Note 1.2.

✈ Aircraft rents

The caption "aircraft rents" for the periods ended at 30 June 2019 and 2018 is detailed as follows:

	30-jun-19	30-jun-18
Aircraft operating leases	-	64,865,209
Spare parts operating leases	-	6,144,675
	-	**71,009,884**

The reduction in aircraft and spare parts operating leases results from the adoption of IFRS 16, as referred to in Note 1.2.

✈ Aircraft maintenance costs

The caption “aircraft maintenance costs” refers to the structural and recurrent maintenance expenses of the TAP fleet, including line maintenance. From 1 January 2019, following the adoption of IFRS 16, the charges for structural maintenance of aircraft under operating leases began to be capitalised together with the right of use, and depreciated over the estimated period of use, as per referred to in Note 1.2.

✈ Costs of materials consumed

The costs of materials consumed in rendering maintenance services to third parties for the periods ended at 30 June 2019 and 2018 are as follows:

	30-jun-19	30-jun-18
Consumed inventories	49,446,401	79,354,151
Maintenance subcontracting for third parties flight equipment	15,212,454	14,898,476
	64,658,855	**94,252,627**

The variation in the costs of materials consumed in the first semester of 2019 is directly related to the decrease in maintenance and engineering services rendered to the third parties fleet (Note 22).

✈ Commercial, communication and marketing costs

The items for “commercial, communication and marketing costs” for the periods ended at 30 June 2019 and 2018 are as follows:

	30-jun-19	30-jun-18
Booking fees	34,038,251	37,881,346
Commissions	22,027,531	22,711,024
Other comercial, communication and marketing expeses	28,026,455	32,975,074
	84,092,237	**93,567,444**

25 Employee costs

Employee costs incurred during the periods ended at 30 June 2019 and 2018 were as follows:

	30-jun-19	30-jun-18
Remunerations		
Employees	332,920,817	286,461,523
Statutory Bodies	24,500	21,000
	332,945,317	**286,482,523**
Fixed remuneration	163,148,134	148,517,329
Variable remuneration	84,978,910	65,962,803
Social security contributions	54,130,001	44,970,407
Post-employment benefits (Note 14)	4,460,485	6,129,630
Other expenses w ith employees	26,227,787	20,902,354
	332,945,317	**286,482,523**

The increase in employee expenses is due to the headcount variation, and related training expenses, the average salary increase and the increase in variable remuneration, as a result of the strong growth of the operation and of the agreements established with the employees and their representants in 2018.

26 Impairment losses in inventories, receivables and provisions

During the first half of 2019 and 2018, this caption is detailed as follows:

	30-jun-19	30-jun-18
Inventories impairment (Note 8)	(792,367)	(4,450)
Receivables impairment (Note 7)	1,616,039	290,083
Provisions (Note 15)	(493,167)	(207,166)
	330,505	**78,467**

27 Other expenses

The caption other expenses is detailed as follows:

	30-jun-19	30-jun-18
Specialised w ork and subcontracts	39,463,395	42,369,240
Conservation and repair of other assets	5,790,443	4,151,238
Comunication	5,082,571	1,901,186
Rents	4,817,291	3,440,384
Other operating expenses	16,448,386	14,474,762
	71,602,086	**66,336,810**

Rents expenses mainly concern leases exempt under IFRS 16 for their low value, or lease agreements that do not contain an asset.

28 Restructuring

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

	30-jun-19	30-jun-18
Early retirements (Note 14)	1,240,743	-
Employee indemnities	2,394,729	3,548,701
	3,635,472	**3,548,701**

29 Other non-recurring items

The detail of the caption other non-recurring items, beyond the restructuring (Note 28), results mainly from agreements celebrated with labor unions as follows:

	30-jun-19	30-jun-18
Pilots special payment	919,197	1,773,094
Seniority - compensatory benefits to crew employees	-	9,873,779
SNPVAC - Pregnancy Complement	-	2,686,765
	919,197	**14,333,638**

Following the Regulation of Recourse to Outsourcing ("RRCE" – "Regulamento de Recurso à Contratação Externa") celebrated on 14 May 2018 with the Civil Aviation Pilots Union ("SPAC" – "Sindicato dos Pilotos da Aviação Civil)", which replaced the Regulation of Internal Employees and Recourse to Outsourcing ("RERCE " – "Regulamento de Efetivos e de Recurso à Contratação Externa)" from 30 July 1998, that establishes new conditions for outsourcing, it has been agreed the payment of extraordinary benefits for the years 2017 and 2018, the cost of which was recognised during 2018.

The Company signed on 17 May 2016 a memorandum of understanding on the seniority attribution model to the Company's pilots. Within the scope of this memorandum, it was defined that TAP S.A. will reinstate until 2019, without any retroactive effects, the seniorities for the years 2011 to 2016, included in the scope of the prohibition of salaries increase imposed by the budgetary regimes in force at that date.

Whithin the scope of the agreement signed on 30 January 2018 with the Civil Aviation Flight Personnel Union ("SNPVAC" – "Sindicato Nacional do Pessoal de Voo da Aviação Civil"), the payment of pregnancy supplement was agreed in situations previously not covered, referring to previous years, in the total amount of Euro 2,687 thousand, which cost was recognised in 2018.

Due to their nature, these situations were considered by the Board of Directors to be non-recurring in the context of these financial statements.

30 Depreciation, amortisation and impairment losses

In the first's semesters of 2019 and 2018, the caption depreciation, amortisation and impairment losses is detailed as follows:

	30-jun-19	30-jun-18
Depreciation of Tangible fixed assets (Note 2)		
Land and natural resources		
Buildings and other constructions	2,707,912	2,703,329
Basic equipment	27,669,475	26,468,043
Transport equipment	28,429	54,508
Tools and utensils	315,873	310,237
Administrative equipment	516,911	331,042
Other tangible fixed assets	139,501	144,524
	31,378,101	**30,011,683**
Depreciation of Right-of-use (Note 2)		
Buildings and other constructions	357,142	-
Basic equipment	176,990,317	-
Transport equipment	143,680	-
	177,491,139	**-**
Amortisation of Intangible assets (Note 4)		
Computer programmes	2,305,102	194,816
	2,305,102	**194,816**
Impairment losses on fixed assets (Note 2)		
Basic equipment	1,408,626	1,011,756
Total	**212,582,968**	**31,218,255**

31 Finance results

The detail of the finance results for the years 2018 and 2017 is as follows:

	30-jun-19	30-jun-18
Interest expenses	(15,354,443)	(10,397,443)
Operating lease interests	(47,415,900)	-
Interests from amortised cost application	(4,615,278)	-
Other financial expenses and losses	(4,535,476)	(6,047,640)
Interests and similar expenses	**(71,921,097)**	**(16,445,083)**
Interest income	16,613,565	18,853,772
Interests and similar income	**16,613,565**	**18,853,772**
Net foreign exchange differences	(2,087,137)	(46,734,960)
Net currency exchange	**(2,087,137)**	**(46,734,960)**
	(57,394,669)	**(44,326,271)**

Interest expenses related to operating lease agreements derive from the adoption of IFRS 16 as of 1 January 2019.

The unfavorable exchange rate differences that occurred in the first half of 2018 were mainly due to the devaluation of the brazilian real and the kwanza, as well as the appreciation of the dollar considering the debt in this currency.

32 Income tax

As at 30 June 2019 and 2018, the detail of the income tax, recognised in the financial statements, is as follows:

	30-jun-19	30-jun-18
Deferred income tax (Note 6)	(435,021)	(383,554)
Current income tax (Note 9)	(29,487,350)	(18,866,290)
Insufficient/(surplus) taxes estimate	(454,114)	(762,029)
	(30,376,485)	**(20,011,873)**

33 Earnings per share

There are no convertible financial instruments on the shares of TAP S.A., therefore there is no dilution of results.

	30-jun-19	30-jun-18
Net income/(loss) attributable to the shareholder of TAP S.A.	(111,981,794)	(70,079,005)
Wheighted average number of shares	8,300,000	8,300,000
Basic and diluted earnings per share	(13.5)	(8.4)

34 Commitments

✈ Purchase Commitments

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

A contract is also in force with CFM International Inc., S.A., for the purchase of 83 LEAP-A1 engines, including 5 reserve engines, which will equip and serve the new fleet of A320 NEO Family aircraft. Highlighting that these engines will be acquired directly by Airbus, with the exception of the reserve engines.

Contracts were also signed with Rolls-Royce, which include maintenance support for all TRENT 7000 engines, which equip the A330 NEO aircraft, as well as the acquisition of 3 spare engines. With respect to the reserve engines, as of 30 June 2019, two engines have already been acquired and financed under finance lease, and the third reserve engine has been contracted for financing, which is expected to be delivered by May 2020.

✈ Other commitments

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

35 Contingencies

As at 30 June 2019 and 31 December 2018, the Company has no contingent assets or liabilities for disclosure.

✈ Guarantees

As at 30 June 2019 and 31 December 2018, the pledged guarantees provided by the Company are detailed as follows:

	30-jun-19	31-dec-18
Bank guarantees provided by Head office		
Aircrafts	74,577,092	57,092,188
INEA - "Spice" project	-	2,625,993
Fuel	1,528,735	1,523,362
Portuguese State - Operation of the Azores routes	1,653,985	1,653,985
Airports	998,116	-
Clean Sky - Investigation project - M&E	-	1,612,116
Labour Court	418,946	374,530
Other	6,115,452	6,463,628
Bank guarantees provided by Representations	2,044,314	1,969,596
	87,336,640	**73,315,398**

The reinforcement of the pledged guarantees provided by head office during the first half of 2019 is essentially related to the operating lease contracts.

The guarantees provided under loan agreements are disclosed in Note 16.

As mentioned in the Introductory Note, the General Meeting of TAP SGPS, on 8 March 2016, approved the recognition of the full effects of the bonds issuance by TAP SGPS as well as the effects of the guarantee agreement concluded within the scope of the aforementioned bond issuance, between TAP SGPS, TAP SA, Megasis - Sociedade de Serviços de Engenharia e Informática, SA, Azul SA and Bondholders, SL..

36 Related Parties

The balances and transactions with related parties as at 30 June 2019 and 31 December 2018 are as follows:

✈ Balances

	30-jun-19 - Assets							
	Trade receivables (Note 7)	Advances to suppliers (Note 7)	Accrued income (Note 7)	Deferred expenses (Note 10)	Income tax receivable (Note 9)	Other debtors non-current (Note 7)	Other debtors current (Note 7)	Total
TAP SGPS	5,890	-	885	-	8,565,923	-	815,224,011	**823,796,709**
Azul S.A.	3,303,400	-	-	-	-	-	155,820	**3,459,220**
TAPGER	-	-	250,000	-	-	-	329	**250,329**
PGA	-	-	7,043,845	-	-	-	209,781	**7,253,626**
SPdH	583,804	-	3,154,356	1,471,775	-	-	614,132	**5,824,067**
TAP ME Brasil	14,355,063	6,404,984	-	-	-	-	7,079,424	**27,839,471**
Cateringpor	59,200	-	20,340	632,111	-	-	178,249	**889,900**
UCS	176,277	1,000	-	1,408,651	-	-	756,346	**2,342,274**
Aigle Azur Compagnie de Transport Aérien	179,043	-	-	1,910,734	-	375,220	-	**2,464,997**
Barraqueiro Group	2,233	-	-	-	-	-	1,227	**3,460**
	18,664,910	**6,405,984**	**10,469,426**	**5,423,271**	**8,565,923**	**375,220**	**824,219,319**	**874,124,053**

	30-jun-19 - Liabilities				
	Suppliers (Note 18)	Accrued expenses (Note 18)	Deferred income (Note 19)	Other current payables (Note 18)	Total
TAP SGPS	(11,070)	(2,483,200)	-	-	**(2,494,270)**
Azul S.A.	(188,822)	(123,902)	-	-	**(312,724)**
PGA	(8,293,865)	(1,432)	-	(1,098,326)	**(9,393,623)**
SPdH	(14,856,673)	(1,350,119)	(103,113)	(433)	**(16,310,338)**
TAP ME Brasil	(8,170,677)	(4,597)	-	-	**(8,175,274)**
Cateringpor	(6,695,698)	(3,001,018)	(203,675)	-	**(9,900,391)**
UCS	(2,017,497)	(153,000)	(28,508)	(6,939)	**(2,205,944)**
Aigle Azur Compagnie de Transport Aérien	(704,146)	-	-	-	**(704,146)**
Barraqueiro Group	-	-	-	(5)	**(5)**
	(40,938,448)	**(7,117,268)**	**(335,296)**	**(1,105,703)**	**(49,496,715)**

	31-dec-18 - Assets							
	Trade receivables (Note 7)	Advances to suppliers (Note 7)	Accrued income (Note 7)	Deferred expenses (Note 10)	Income tax receivable (Note 9)	Other debtors non-current (Note 7)	Other debtors current (Note 7)	Total
TAP SGPS	3,243	-	885	-	8,329,644	-	808,491,987	**816,825,759**
Azul S.A.	3,220,887	-	-	-	-	-	16,269	**3,237,156**
TAPGER	615,000	-	-	-	-	-	329	**615,329**
PGA	166,842	-	5,781,144	616,182	-	-	308,623	**6,872,791**
SPdH	983,757	-	2,760,000	-	-	-	655,665	**4,399,422**
MEGASIS	356,771	-	-	-	-	-	1,805,184	**2,161,955**
TAP ME Brasil	14,170,372	20,371,710	-	-	-	-	6,037,598	**40,579,680**
Cateringpor	42,780	-	-	-	-	-	404,156	**446,936**
UCS	295,942	-	-	-	-	-	2,009,972	**2,305,914**
Aigle Azur Compagnie de Transport Aérien	64,472	-	-	4,080,786	-	372,926	-	**4,518,184**
Barraqueiro Group	2,382	-	-	-	-	-	-	**2,382**
	19,922,448	**20,371,710**	**8,542,029**	**4,696,968**	**8,329,644**	**372,926**	**819,729,783**	**881,965,508**

	31-dec-18 - Liabilities				
	Suppliers (Note 18)	Accrued expenses (Note 18)	Deferred income (Note 19)	Other current payables (Note 18)	Total
TAP SGPS	(362,279)	(2,483,200)	-	(30,581)	**(2,876,060)**
Azul S.A.	(36,681)	(152,838)	-	-	**(189,519)**
PGA	(9,659,422)	-	-	-	**(9,659,422)**
SPdH	(11,105,356)	(1,530,825)	(103,113)	-	**(12,739,294)**
MEGASIS	(6,337,242)	-	(16,368)	(2,540,663)	**(8,894,273)**
TAP ME Brasil	(24,533,545)	-	-	-	**(24,533,545)**
Cateringpor	(4,372,245)	(2,356,460)	(200,507)	-	**(6,929,212)**
UCS	(3,095,617)	-	(28,508)	(16,993)	**(3,141,118)**
Aigle Azur Compagnie de Transport Aérien	(502,183)	-	-	-	**(502,183)**
Barraqueiro Group	(1,953)	-	-	-	**(1,953)**
	(60,006,523)	**(6,523,323)**	**(348,496)**	**(2,588,237)**	**(69,466,579)**

✈ Transactions

	30-jun-19					
	Operating income	Operating expenses	Interest income	Interest expense	Consolidated tax	Total
TAP SGPS	-	(3,000,030)	15,144,174	(4,734)	(96,330)	12,043,080
Azul S.A.	99,147	(136,117)	-	-	-	(36,970)
TAPGER	250,000	-	-	-	-	250,000
PGA	1,063,833	(58,983,427)	-	-	-	(57,919,594)
SPdH	3,607,158	(48,324,618)	-	-	-	(44,717,460)
TAP ME Brasil	70,878	(5,537,503)	-	-	-	(5,466,625)
Cateringpor	807,711	(24,856,985)	-	-	-	(24,049,274)
UCS	487,005	(2,523,914)	-	-	-	(2,036,909)
Aigle Azur Compagnie de Transport Aérien	184,064	(5,232,405)	-	-	-	(5,048,341)
Barraqueiro Group	286	(107,762)	-	-	-	(107,476)
	6,570,082	**(148,702,761)**	**15,144,174**	**(4,734)**	**(96,330)**	**(127,089,569)**

	30-jun-18					
	Operating income	Operating expenses	Interest income	Interest expense	Consolidated tax	Total
TAP SGPS	-	(2,073,325)	15,401,244	-	-	13,327,919
Azul S.A.	2,341,934	(181,585)	-	-	-	2,160,349
TAPGER	250,000	-	-	-	-	250,000
PGA	678,571	(59,076,538)	-	-	-	(58,397,967)
SPdH	3,044,242	(49,397,818)	-	-	-	(46,353,576)
MEGASIS	1,255,238	(17,508,734)	-	-	-	(16,253,496)
TAP ME Brasil	176,135	(5,765,090)	-	-	-	(5,588,955)
Cateringpor	937,937	(20,751,690)	-	-	-	(19,813,753)
UCS	361,153	(2,115,082)	-	-	-	(1,753,929)
Aigle Azur Compagnie de Transport Aérien	11,248	(2,286,816)	-	-	-	(2,275,568)
Barraqueiro Group	117	(51,533)	-	-	-	(51,416)
	9,056,575	**(159,208,211)**	**15,401,244**	**-**	**-**	**(134,750,392)**

The transactions with SPdH, in the amount of Euro 48,324,818 (30 June 2018: Euro 49,397,818), refer essentially to services rendered on ground by SPdH, supporting aircraft, passengers, luggage, cargo and mail.

The terms and conditions enforced between the Company and the related parties are similar in substance to the terms, which would normally be contracted between independent entities in comparable operations.

In addition to the mentioned operations, the Company in the scope of the normal development of its air transport business, maintains code-share commercial relationships with Azul and Aigle Azur. These transactions are carried out on terms and conditions similar to those agreed with other airlines.

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

Members of the Board of Directors are remunerated exclusively by the functions performed at TAP SGPS, and are not remunerated by the functions performed at TAP S.A..

37 Subsequent Events

The Board of Directors is not aware of any subsequent events as at the reporting date that may have significant impact on the financial statements for the period ended as at 30 June 2019.

38 Note added for translation

The accompanying financial statements are a translation of financial statements originally issued in Portuguese. In the event of any discrepancies, the Portuguese version prevails.

CHARTERED ACCOUNTANT

Sandra Candeias Matos da Luz

BOARD OF DIRECTORS

Humberto Manuel dos Santos Pedrosa
Chairman

David Gary Neeleman
Member

Antonoaldo Grangeon Trancoso Neves
Chairman of the Executive Committee

David Humberto Canas Pedrosa
Executive Committee Member

Raffael Guarita Quintas Alves
Executive Committee Member

Review Report on the Special Purpose Financial Statements

(Free translation from the original in Portuguese)

Introduction

We have reviewed the accompanying special purpose financial statements of Transportes Aéreos Portugueses, S.A. (the Entity), which comprise the statement of financial position as at June 30, 2019 (which shows total assets of Euros 4,603,297,293 and total shareholder's equity of Euros 107,237,825, including a net loss of Euros 111,981,794), the statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and the accompanying explanatory notes to the special purpose financial statements, which includes a summary of significant accounting policies.

Management's responsibility

The Management is responsible to prepare special purpose financial statements which present fairly the financial position of the Entity and its financial performance and cash flows in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union, as well as to create and maintain appropriate systems of internal control to enable the preparation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the accompanying special purpose financial statements. We conducted our review in accordance with the international standards on review engagements and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Those standards require that we conduct the review in order to conclude whether anything has come to our attention that causes us to believe that the special purpose financial statements, taken as a whole, are not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union.

A review of financial statements is a limited assurance engagement. The procedures performed mainly consist of making inquiries and applying analytical procedures, and evaluating the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (ISAs). Accordingly, we do not express an opinion on these special purpose financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying special purpose financial statements do not present fairly, in all material respects, the financial position of Transportes Aéreos Portugueses, S.A. as at June 30, 2019 and the financial performance and cash flows for the six-month period then ended, in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union.

Emphasis

Without qualifying our conclusion expressed in the paragraph above, we draw attention to the special purpose of these financial statements considering that the Entity prepares its statutory financial statements in accordance with the generally accepted accounting principles in Portugal, in order to comply with the applicable legal and regulatory requirements, as disclosed in the introduction of the accompanying explanatory notes to the special purpose financial statements.

September 20, 2019

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

Hugo Miguel Patrício Dias, R.O.C.

(This is a translation, not to be signed)