



# TAP Credit Story

Transportes Aéreos Portugueses, S.A.

October 2022



# Executive Summary

TAP is **Portugal's flag carrier and market leader** in a **highly attractive home market** with a **unique geographical location** offering operational and economic advantages

TAP emerges from the pandemic as a **new airline** with

- new shareholder structure
- new management
- new fleet
- new personnel cost base
- a new approach to sustainability

TAP is **recovering faster than its peers** and its **restructuring plan is showing first positive results**, resulting in a **strengthened balance sheet**

TAP **aims to start deleveraging to further improve its financial profile** and continue to be an attractive investment to its bondholders



# Agenda

- 1. Introduction:** Leading airline in a unique market
- 2. Recovery:** New airline emerging from the pandemic
- 3. Transformation:** Restructuring plan shows first results
- 4. Balance Sheet:** Strengthened financial profile
- 5. Outlook:** Focus on executing the restructuring plan



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# Introduction:

Leading airline in unique market



# Portugal's flag carrier and #1 commercial passenger airline



AIRPORTUGAL



EUR **3.3**bn

Revenues 2019 (pre-crisis)

**5.8%**

EBIT Margin in 2Q 2022

**<10** years

Average fleet age



**53%**

Market Share @ LIS airporthy



**66%**

Share of neo aircraft in long/medium-haul fleet



**96**

Aircraft at Q2 2022

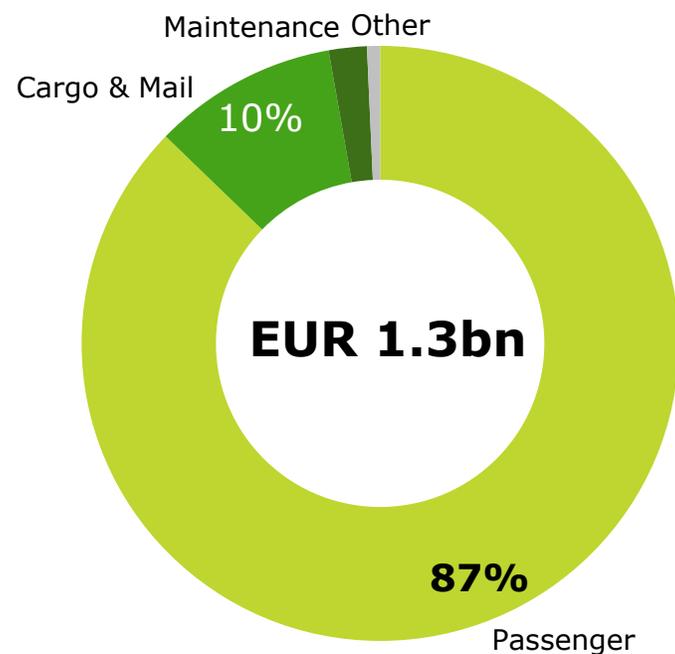


**17**m

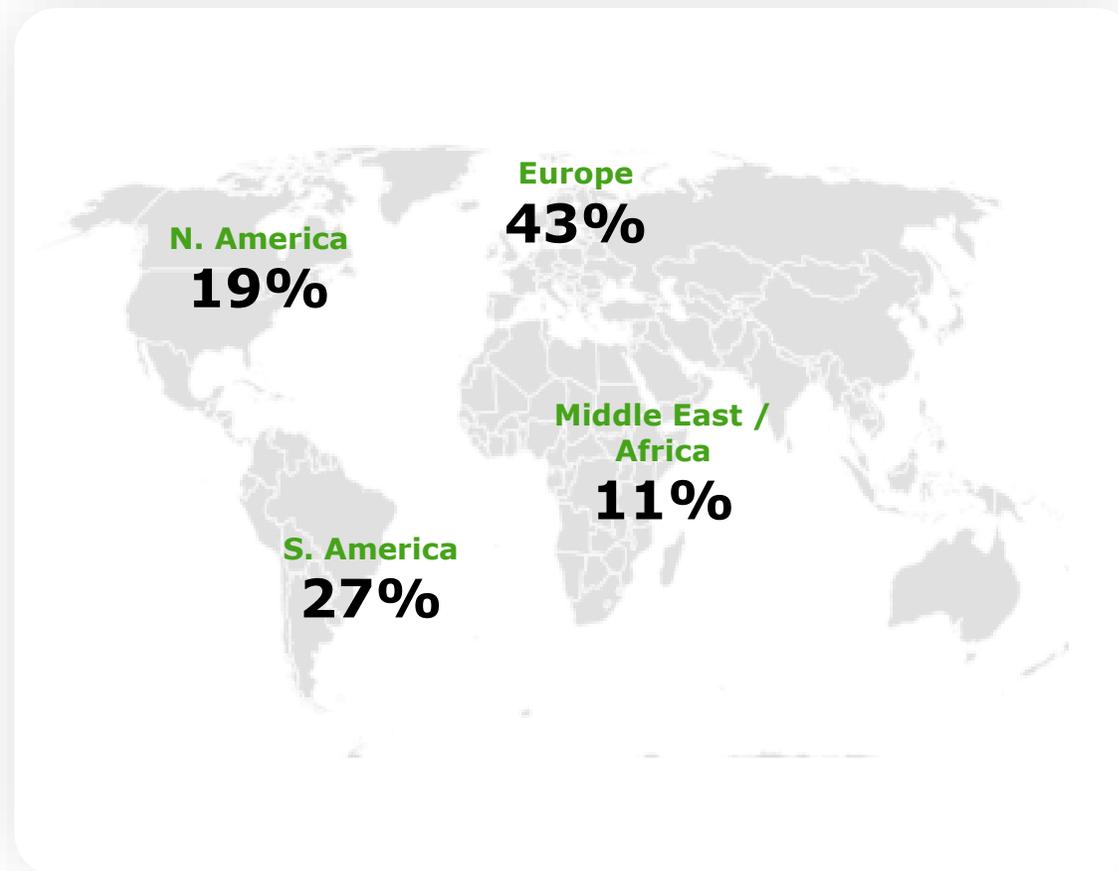
Passengers 2019 (pre-crisis)

# Focused on its core passenger business

Revenue by activity (1H 2022)



Passenger revenue<sup>1</sup> by point of sale (1H 2022)

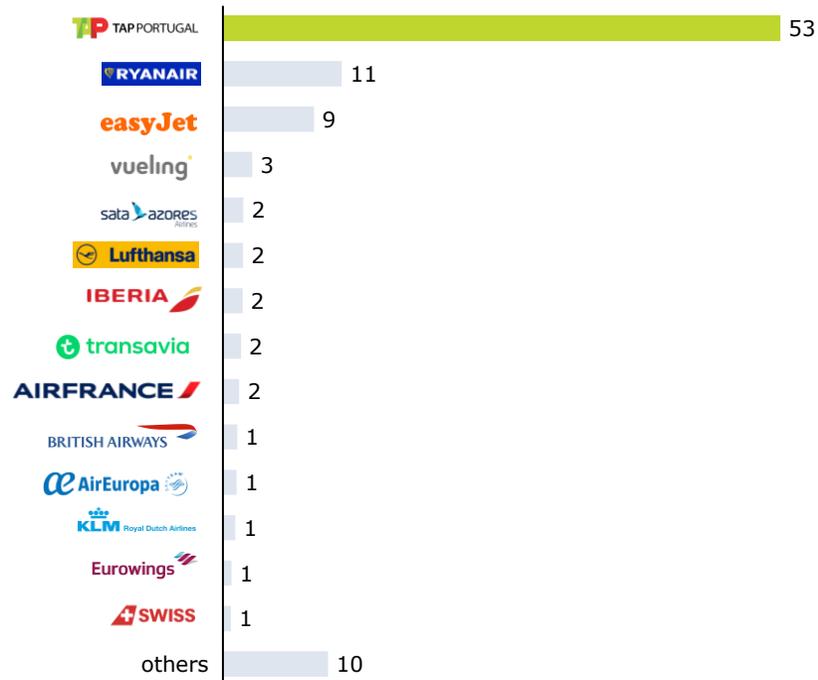


1. Allocatable passenger revenues (fare, fuel surcharge and flight related ancillaries)

# Market leading position in an attractive home market

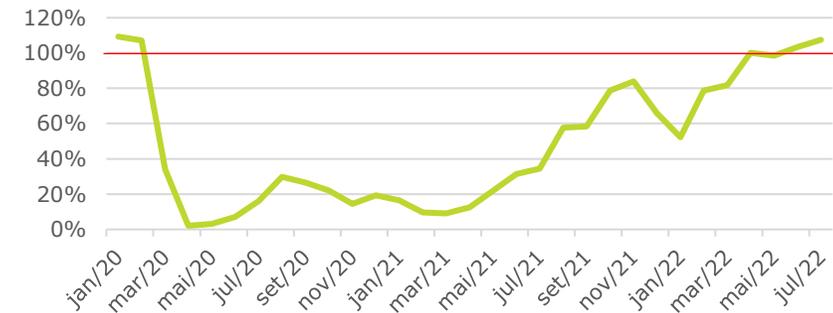
Leading position in LIS hub

Market shares in LIS (% of flights)

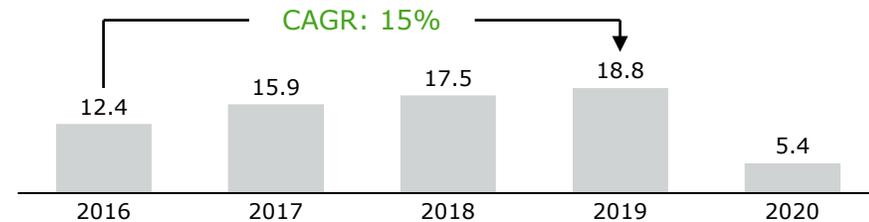


Strong local tourism and aviation market

Tourist nights in Lisbon hotels vs. 2019



Portugal: carried passengers (millions)

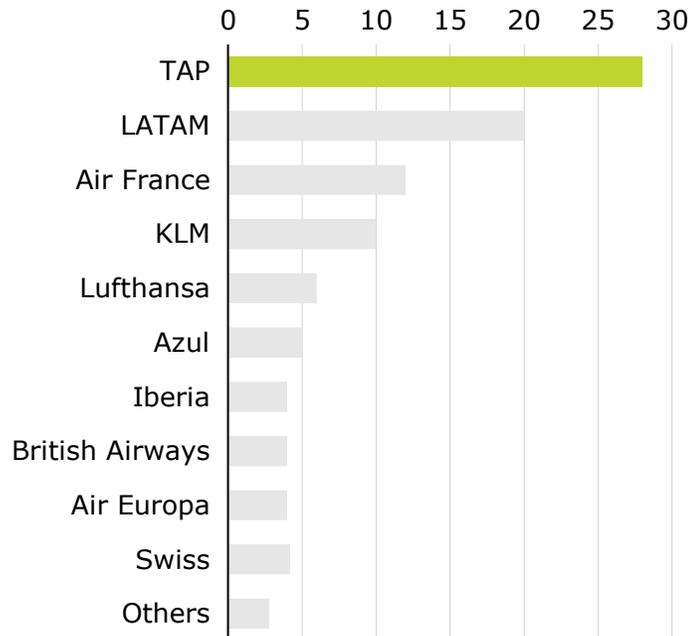


Source: INE - national statistics institute of Portugal

# Natural gateway to Brazil and North America

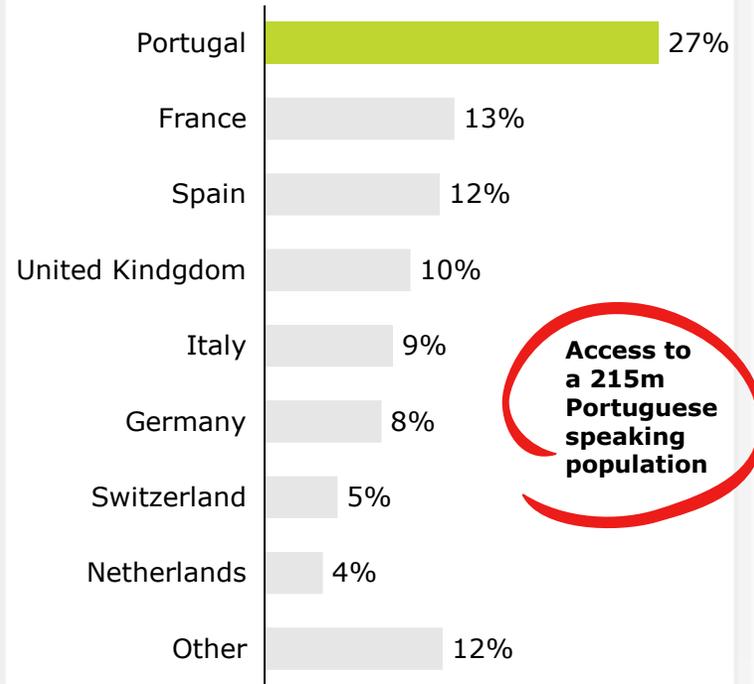
## Market leader in Europe – Brazil traffic

Europe – Brazil market share



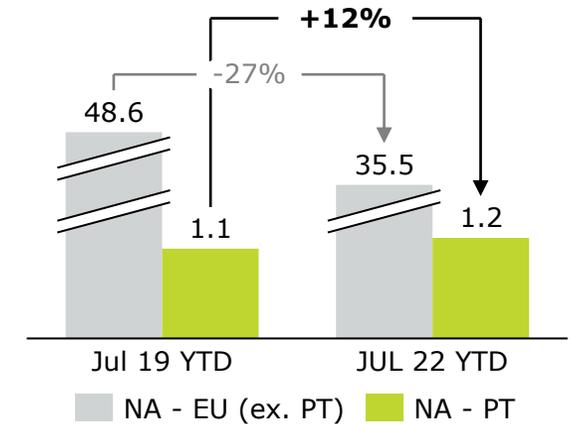
## Airline and destination of choice for Brazilian passengers

European market sizes from Brazil

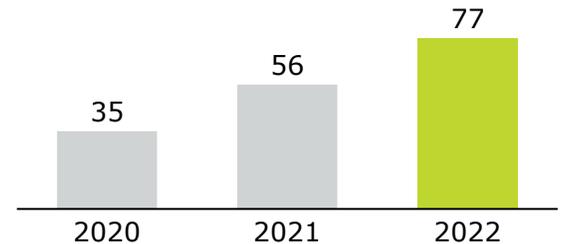


## Increasing exposure to North American market

Passenger flows N. America - Europe



Number of Frequencies to NA



# TAP's network builds upon its natural strengths

## Network strategy

- Focus on Lisbon hub and capturing key long-haul flows
  - ✓ Europe to Brazil
  - ✓ Central and Southern Europe to North America
  - ✓ Europe and North America to W/S Africa and the Islands
- Reduce cost gap to low-cost competitors in short-haul markets whilst leveraging hub advantages at Lisbon
- Deepen relationships with key strategic partners to secure economies of scale and improve access to non-Portuguese points of sale

## Unique competitive position



### Geographical position of Lisbon

Lisbon on the periphery of Europe, ideal for transatlantic hub connections – offering the **shortest and most cost-efficient transfers from Europe**



### Ability to operate cost-efficient Narrow-Body aircraft on transcontinental routes

In addition to hub-and-spoke system strength, TAP can strategically and tactically deploy **Narrow-Bodies on transatlantic routes**



### Cultural Ties

Well established **cultural, linguistic and historical ties in Brazil and Africa**, which are leveraged for sustainable passenger flows, as well as in North America and Venezuela with Portuguese communities

# Uniquely positioned to connect Europe, Africa and the Americas

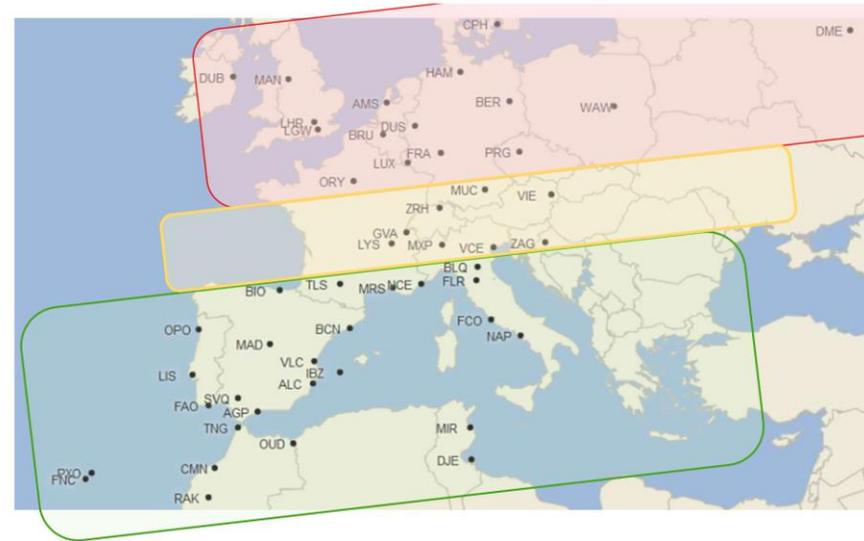
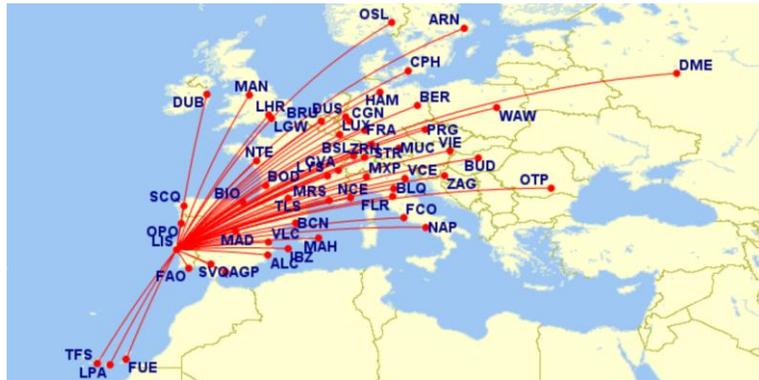
Over 80 destinations served

Connecting S. Europe to long-haul

Non-European Network



European Network



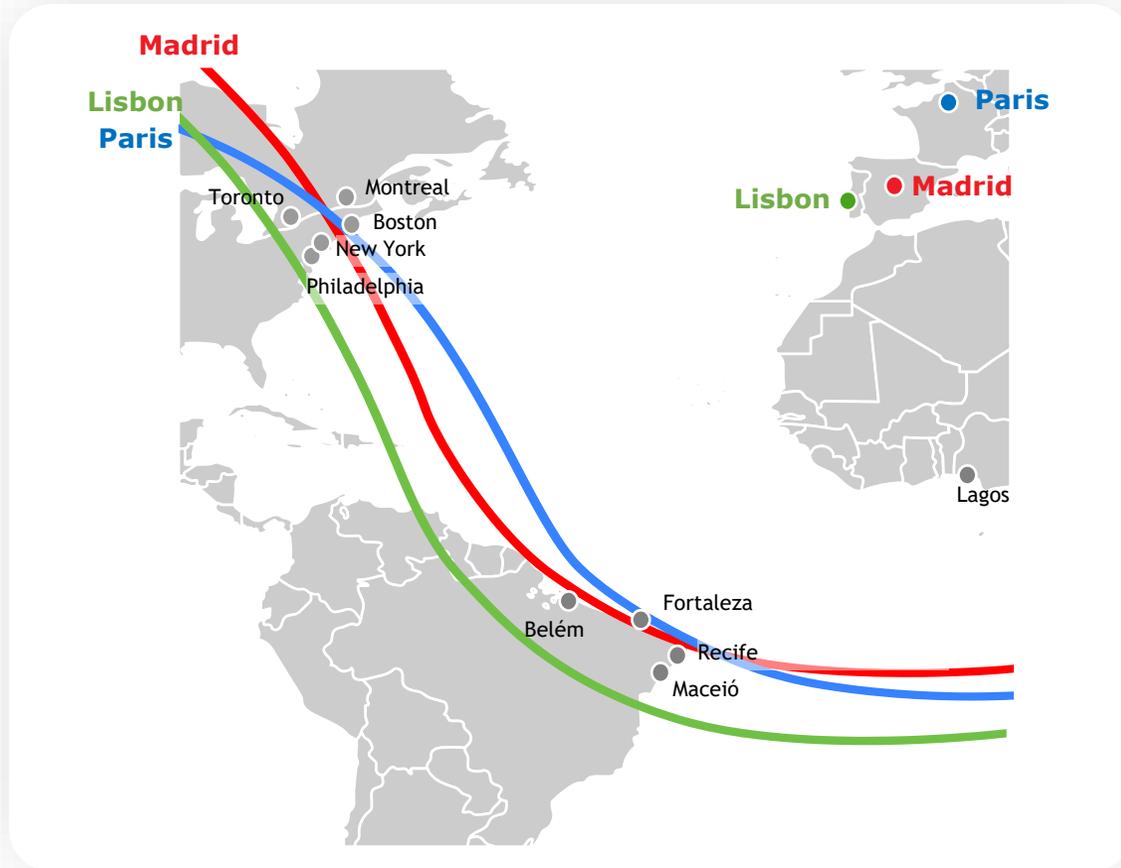
Lisbon not well located for Northern European flows to North America

Competitive for Central Europe (5-15% detour factor)

Lisbon is the **fastest routing** to North America for Southern Europe flows

# Able to deploy capacity at lower cost and risk with the A321 LR

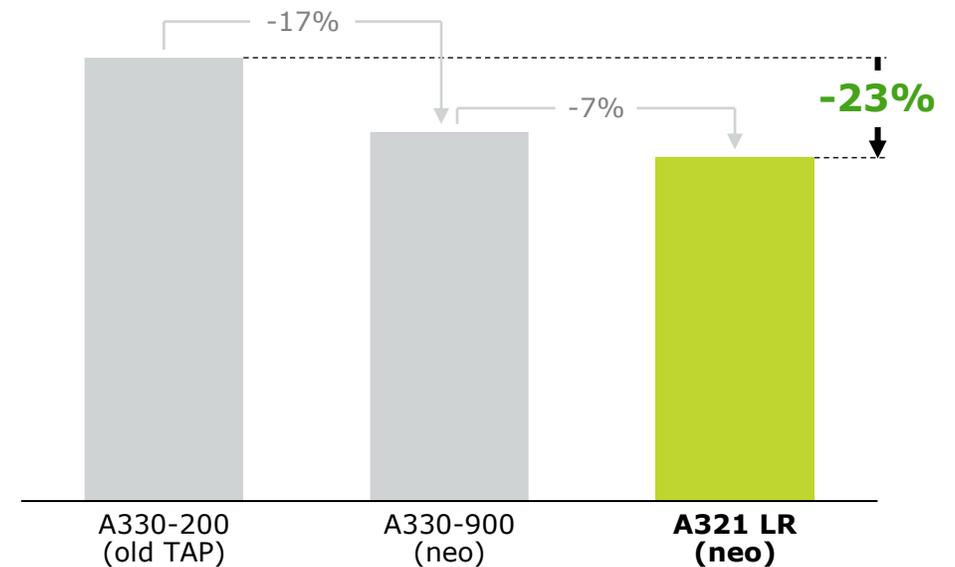
## Advantage in range



## Fuel burn cost advantage

(LIS-FOR example)

### Fuel burn per BH per seat



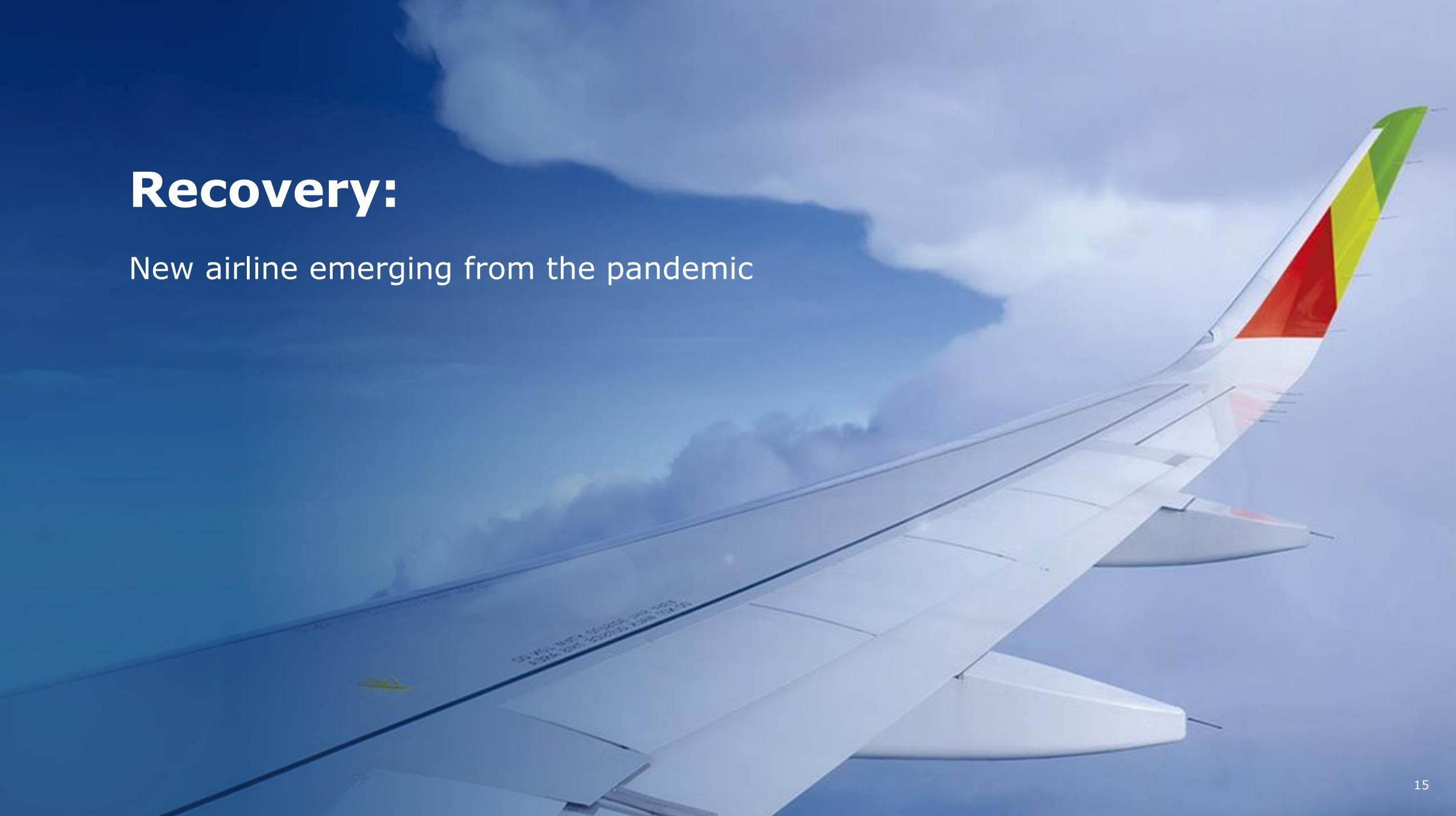
# TAP's own network reach is supplemented by partnerships



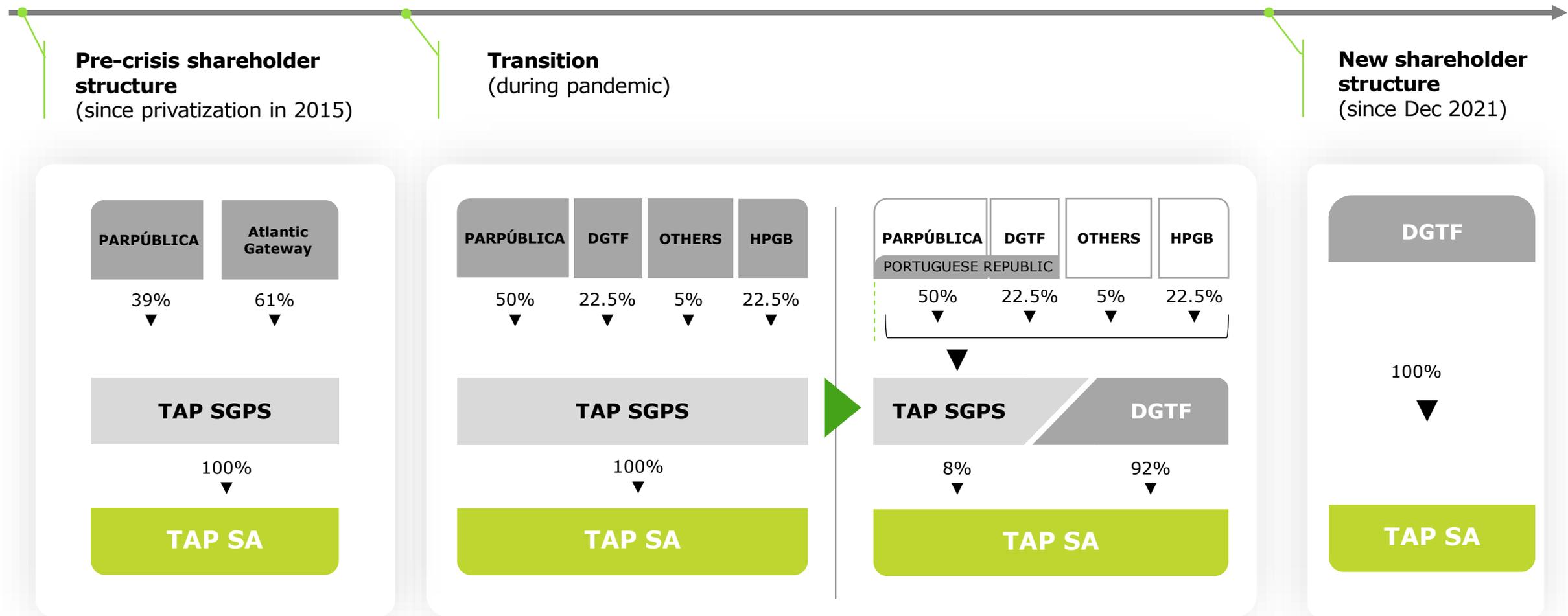
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# Recovery:

New airline emerging from the pandemic



# New and simplified shareholder structure



# New, highly motivated and experienced executive management



**CHRISTINE  
OURMIÈRES-WIDENER**  
Chief Executive Officer

- > 30 years of aviation experience
- > 10 years of C-level management experience

AIR FRANCE KLM

CITYJET

flybe.



**GONÇALO NEVES COSTA  
MONTEIRO PIRES**  
Chief Financial Officer

- > 20 years of financial markets experience
- > 5 years of financial restructuring experience

Santander

BANIF



**SILVIA MOSQUERA  
GONZÁLEZ**  
Chief Commercial Officer

- > 16 years of aviation experience
- > 7 years of C-level management experience

Avianca

vueling

IBERIA

clickair



**RAMIRO  
SEQUEIRA**  
Chief Operating Officer

- > 20 years of aviation experience
- > 4 years of C-level management experience

IBERIA

vueling

AIR LUXOR



**SOFIA  
LUFINHA**  
Chief Strategy Officer

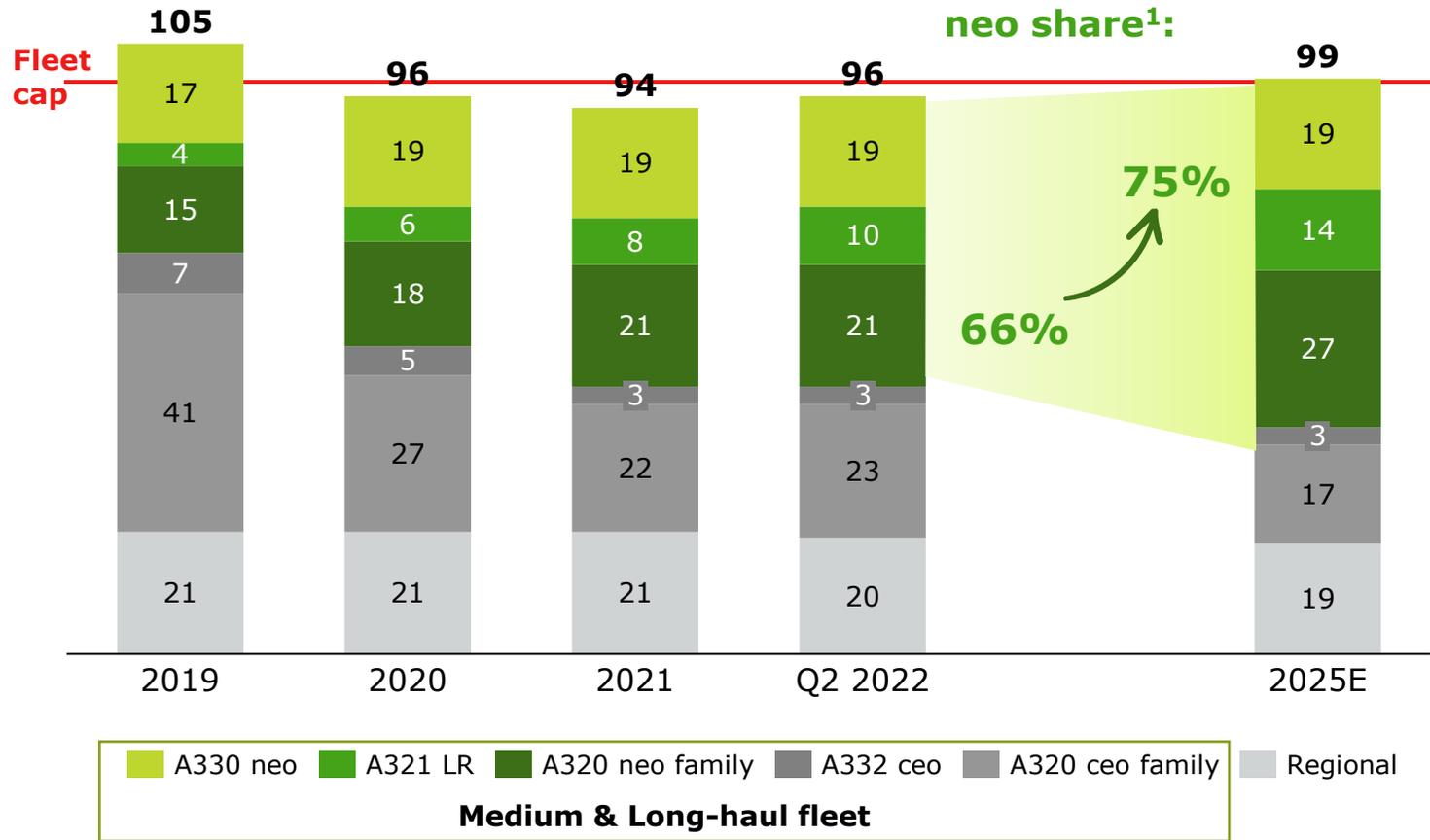
- > 4 years of C-level management experience
- > 12 years of strategy consulting experience

McKinsey&Company

pingo doce  
sabe bem pagar 100 pontos

Jerónimo  
Martins

# Modernized and more efficient operating fleet



A330 Family		<b>A330-900</b>
		<b>A330-200</b>
A320 Family		<b>A321-LR</b>
		<b>A319</b>
		<b>A320CEO</b>
		<b>A320NEO</b>
		<b>A321NEO</b>
eJets		<b>E195</b>
		<b>E190</b>
ATR		<b>ATR</b>

1. Share of neo aircraft of medium & long-haul fleet

# Benefits of new fleet structure



## Lower fuel consumption

Use of 321-LR and A339NEOs will decrease average fuel consumption



## More flexibility to optimize routes

321-LRs permit higher utilization and unique NB routes to be optimized from LIS location vs. other European hubs



## Lower emissions

NEO growth (A320fam & A330) will further reduce CO2 emissions per seat



## More flexibility to respond to demand

Regional jets with lower rent and cost per trip, will enhance high flexibility to grow with demand and could be shifted to new generation going forward



## Lower maintenance costs

Growth in new generation A/Cs A320fam NEO & A339 will reduce maintenance cost per BH by 12% in 2025 compared to 2019

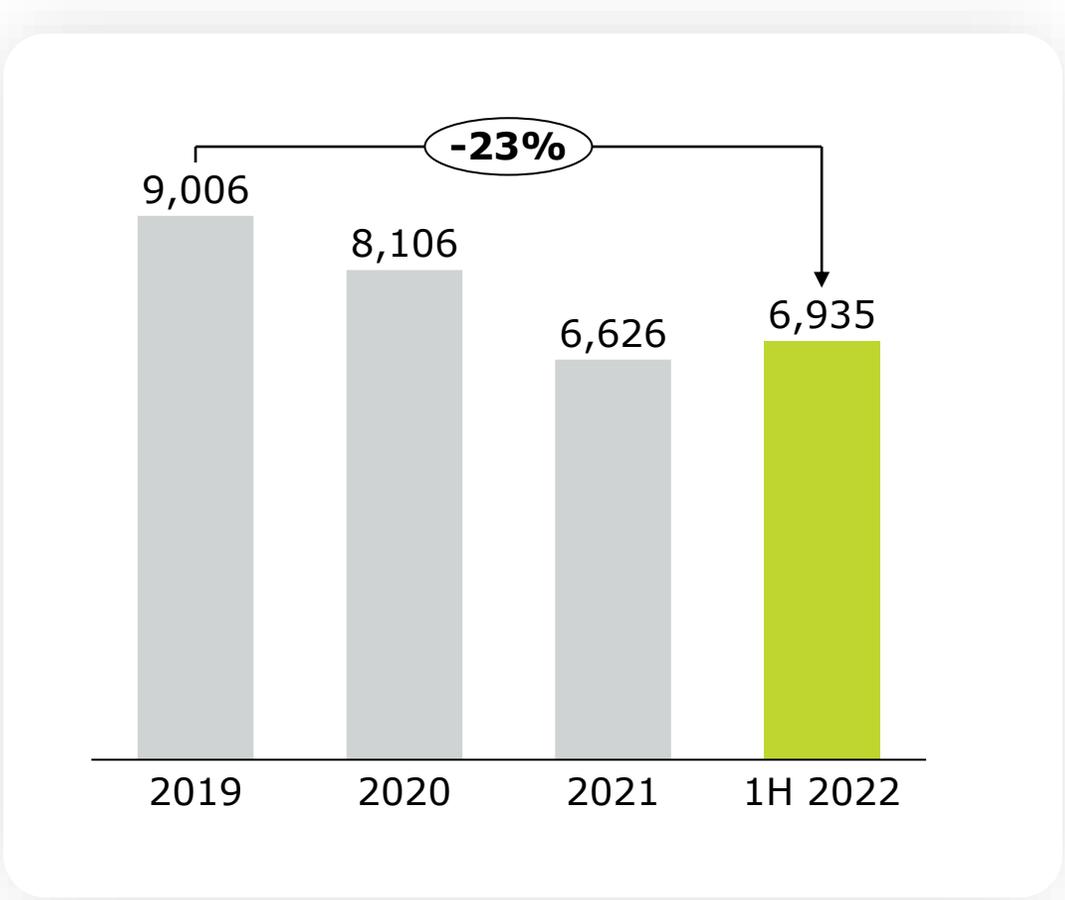


## Higher reliability

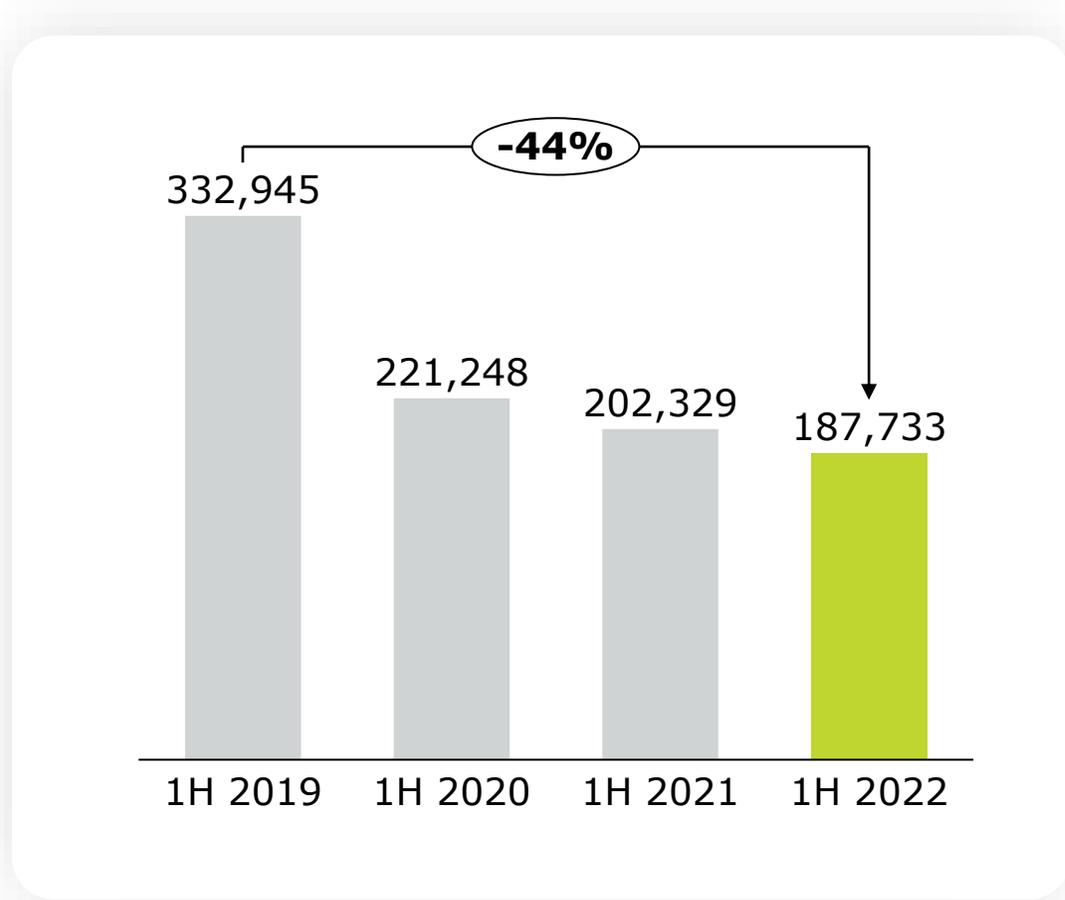
MH and LH renewal will assure reliable planes, and utilization will be reduced in order to improve operational stability

# Significant headcount and employee cost reduction achieved

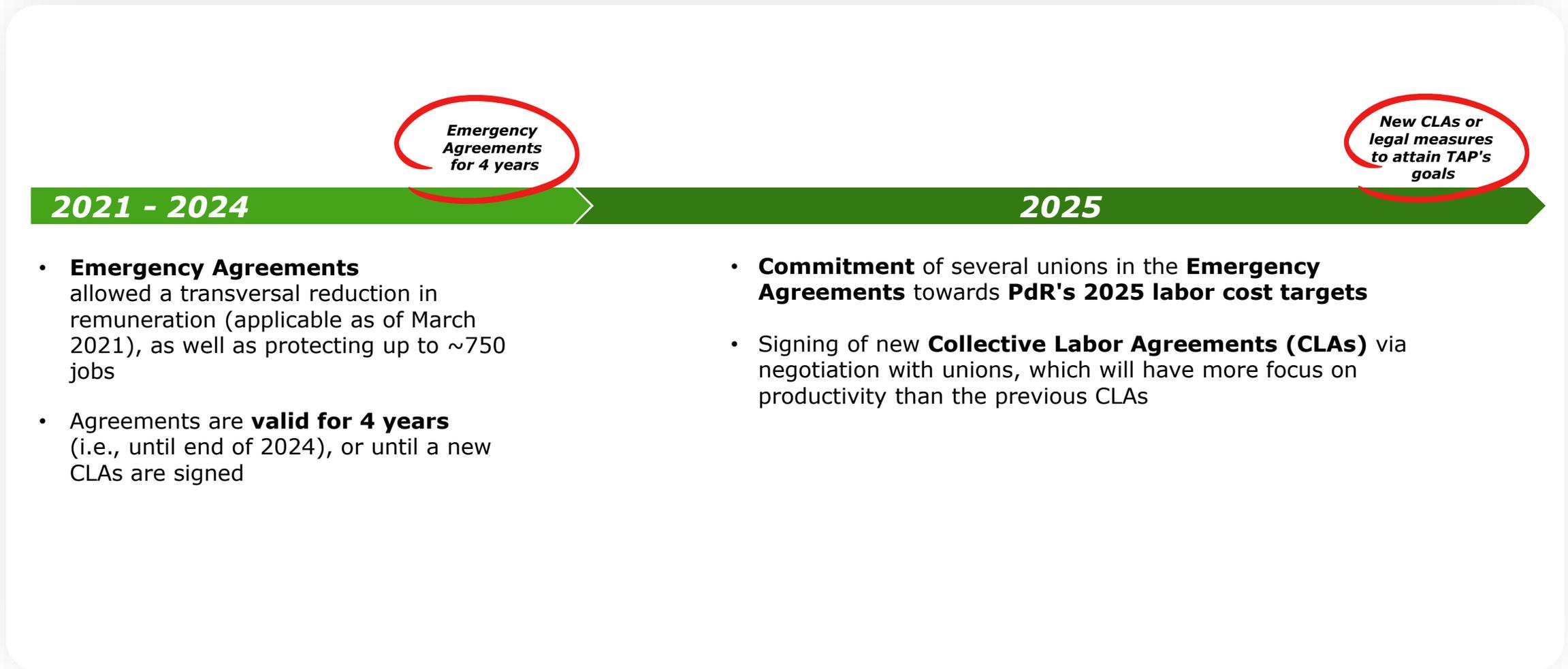
Headcount development (#)



Employee cost development ('000 EUR)



# Emergency agreements until 2024 to be replaced by new CLA



*Emergency Agreements for 4 years*

*New CLAs or legal measures to attain TAP's goals*

**2021 - 2024**

**2025**

- **Emergency Agreements** allowed a transversal reduction in remuneration (applicable as of March 2021), as well as protecting up to ~750 jobs
- Agreements are **valid for 4 years** (i.e., until end of 2024), or until a new CLAs are signed

- **Commitment** of several unions in the **Emergency Agreements** towards **PdR's 2025 labor cost targets**
- Signing of new **Collective Labor Agreements (CLAs)** via negotiation with unions, which will have more focus on productivity than the previous CLAs

Note: CLA – Collective Labor Agreements; PdR – Restructuring Plan

# TAP is strongly committed to sustainable growth

## Environmental

### Carbon emissions and efficient flying

- Subscribed to the IATA's Net-Zero Carbon Emissions by 2050 Resolution
- Voluntary carbon dioxide emissions offset program available on flytap
- Already complying with CORSIA's monitoring/reporting requirements (Voluntary Phase 2021-2026)
- Joined BIOREF in 2019, a project for the development of Sustainable Aviation Fuel (SAF)
- TAP performed the first flight (22 July) with SAF in Portugal in partnership with GALP and ANA

### Noise

- Fleet is increasingly silent, complying with the noise limits established by the ICAO<sup>1</sup>

### Waste & Circular Economy

- RECICLA+ waste recycling project on campus and on board

## Social

- Supporting humanitarian missions
- Program of volunteering and donations
- Own health care unit



## Governance



**ETHICS & CONDUCT**  
**+ INTEGRITY**  
**+ TRANSPARENCY**



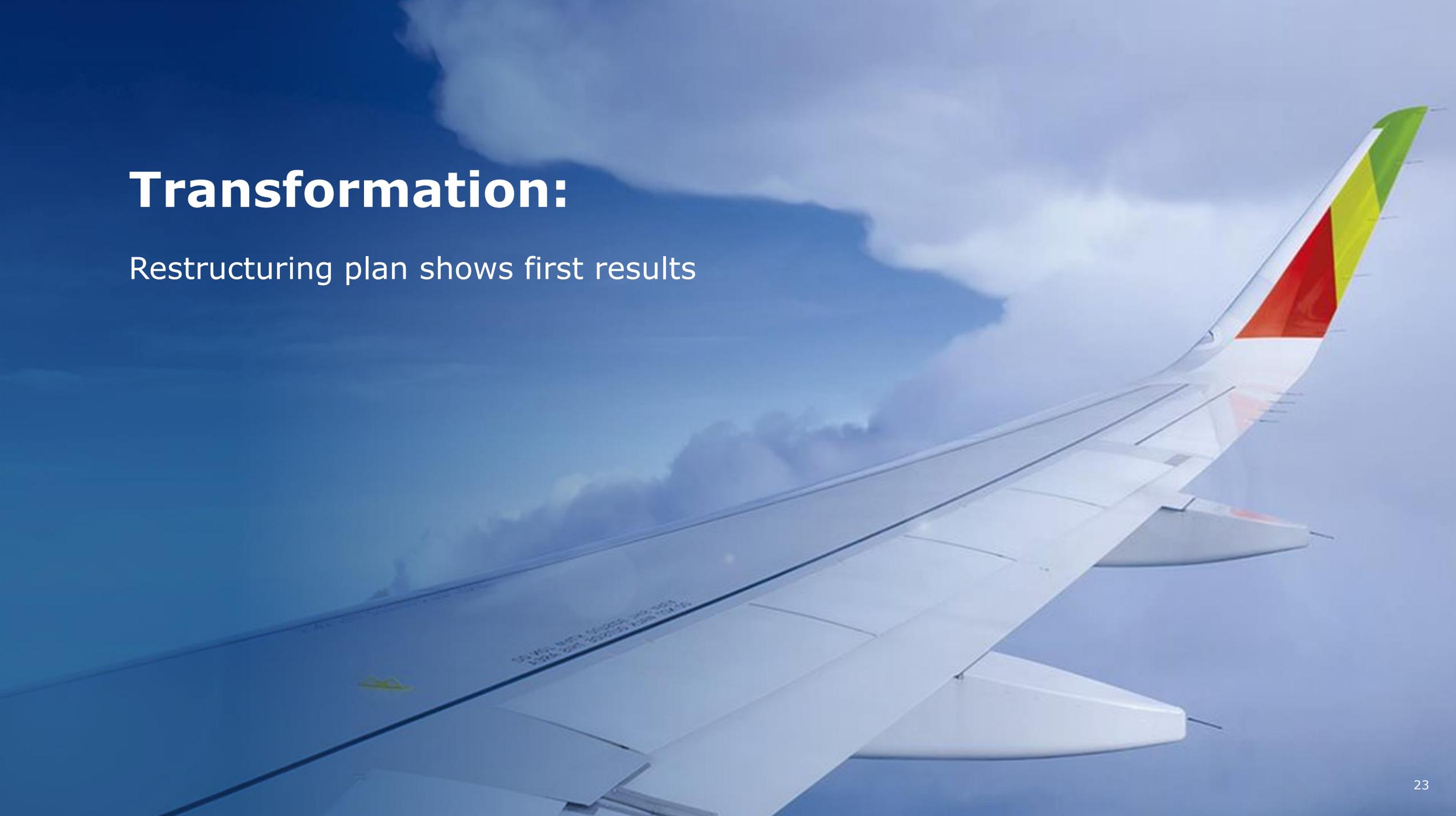
**BOARD CONSTITUTION**  
**9 MEMBERS (5 EDs + 4 NEDs)**  
**3 NATIONALITIES**



**GENDER DIVERSITY**  
**44% WOMEN in BoD**  
**60% WOMEN in Executive Committee**

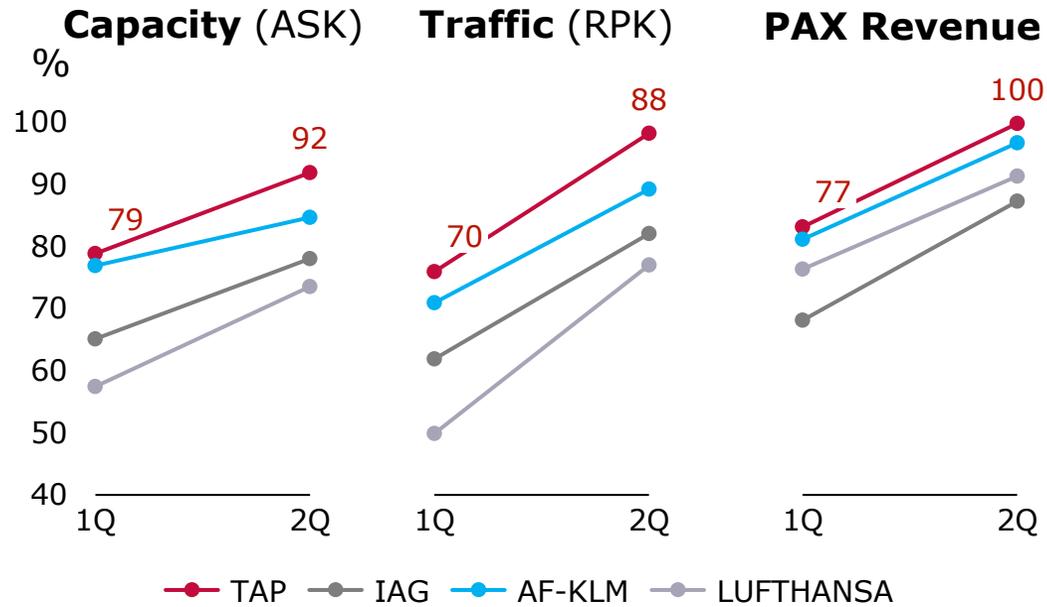
# Transformation:

Restructuring plan shows first results

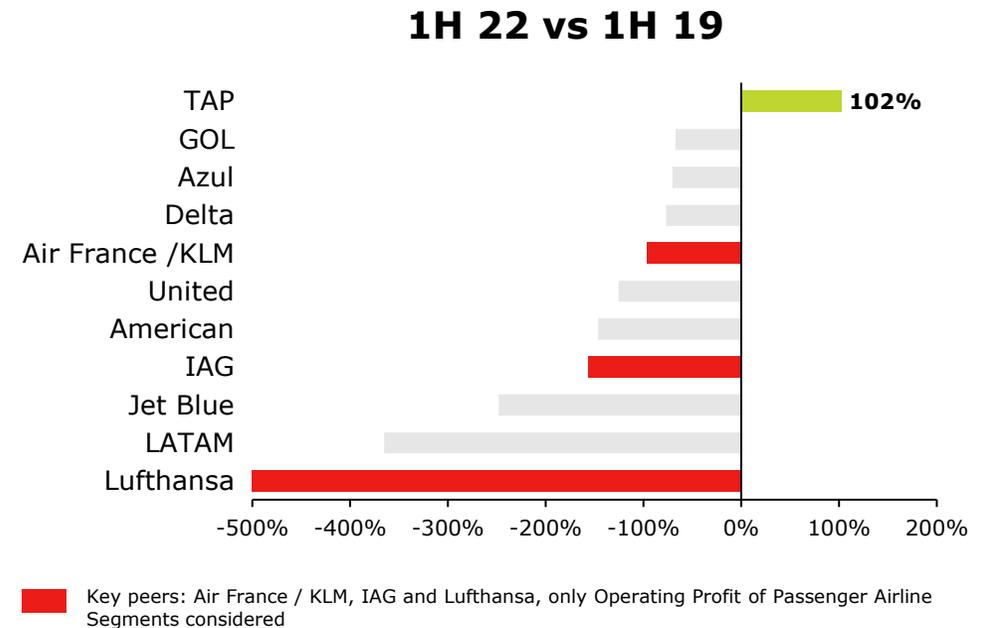


# TAP is recovering from the COVID pandemic faster than its peers

## Stronger recovery on key metrics in 2022 (vs. 19)

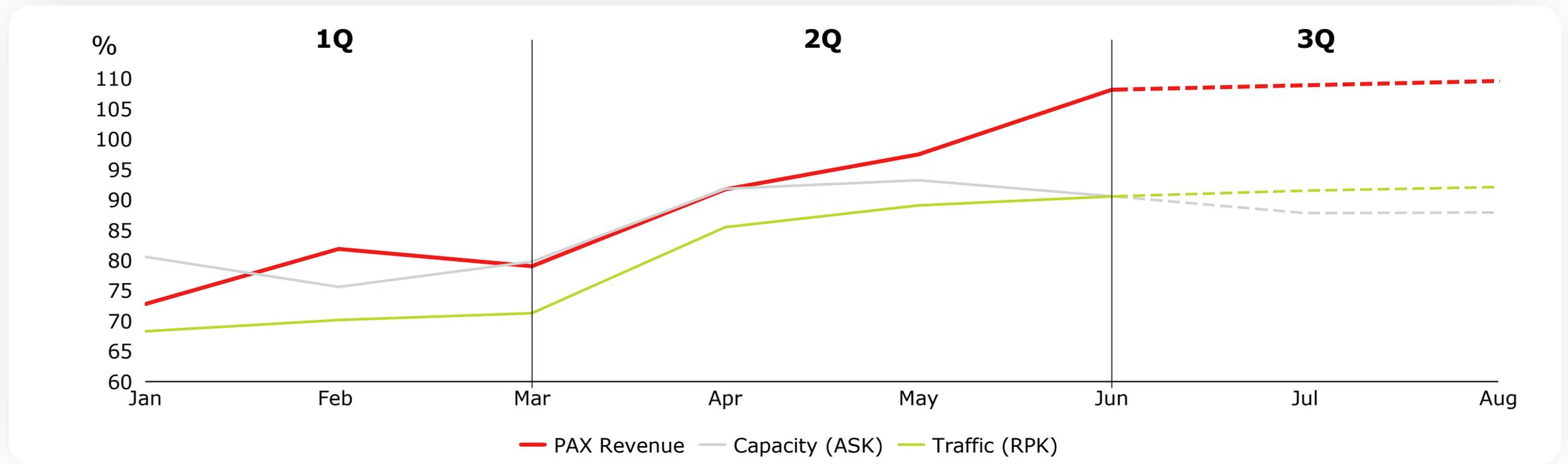


## Operating profit development



# Recovery trend continues into the peak season

Recovery in 2022 as % of 2019



# Major focus on restructuring plan addressing revenue and cost

Transformation plan based on 5 pillars

**CUSTOMER**

**REVENUE**

**COST**

**PEOPLE/  
ENABLERS**

**FOCUS ON AVIATION BUSINESS**

...with restrictions

**Fleet cap**



**Slot remedies**



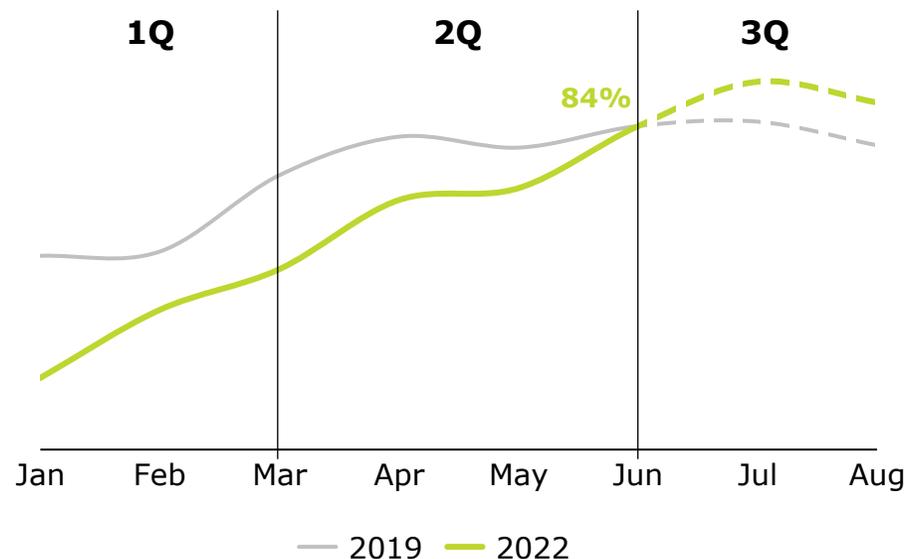
**Acquisitions /  
Advertising ban**



# Commercial measures drive load factor and yields

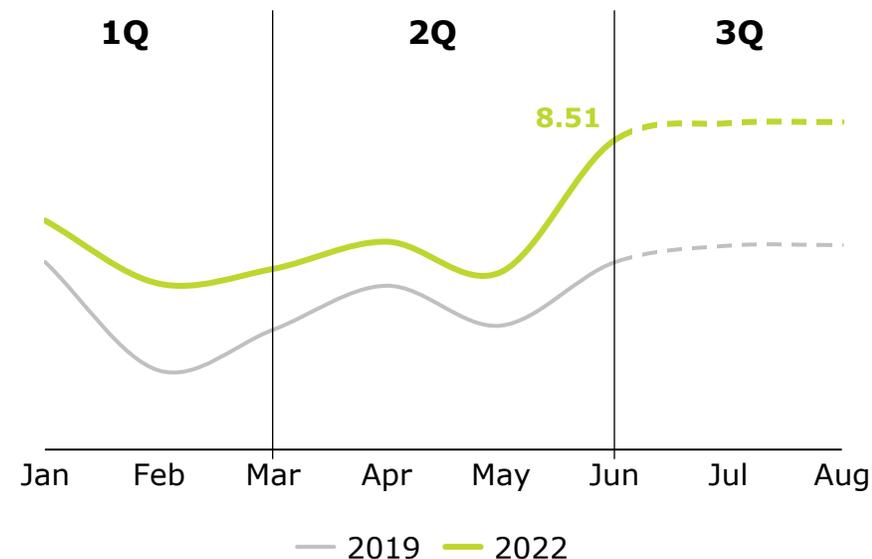
## Load factors

In %



## Yields

In EUR cents

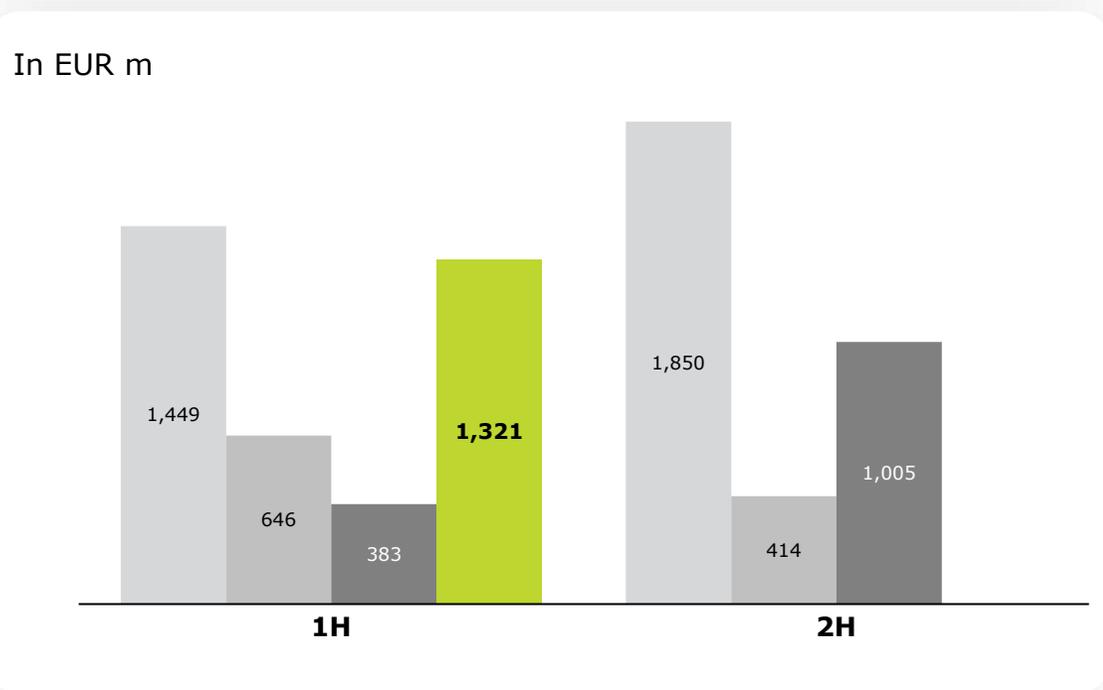


# Multiple cost reduction initiatives across entire cost base

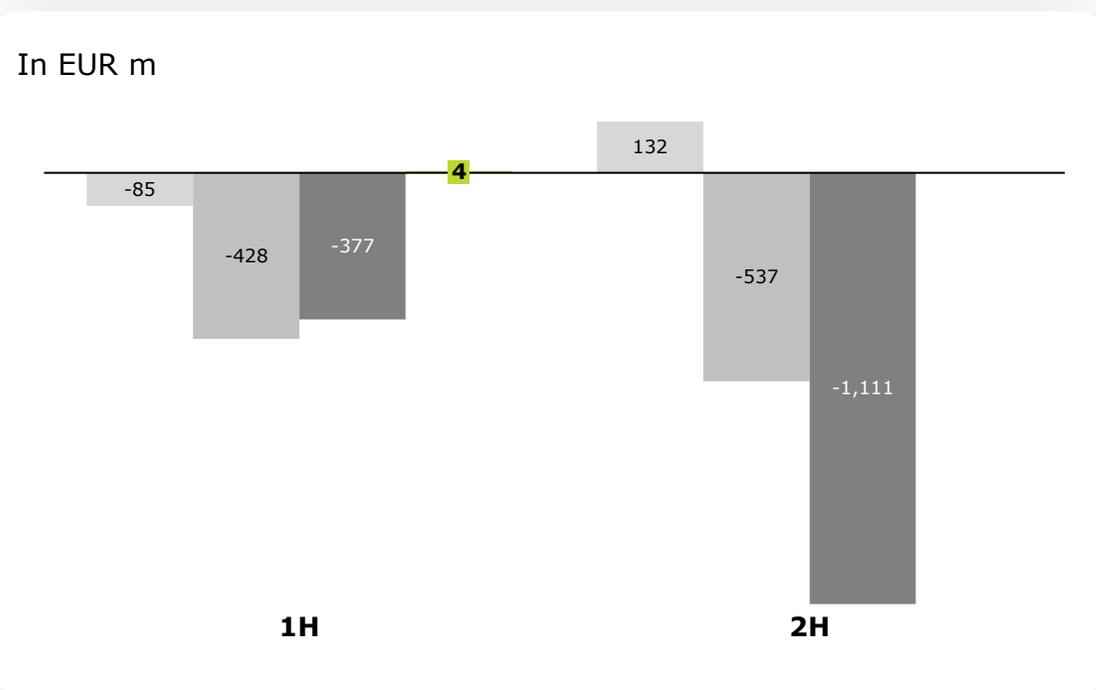
3 <sup>rd</sup> party costs	<ul style="list-style-type: none"> <li>• <b>EUR 137m achieved</b> YTD, with <b>more than 800 contracts renegotiated</b> in the first half of the year</li> </ul>
P2P	<ul style="list-style-type: none"> <li>• Implementation of an <b>SAP tool (P2P) to automatically check invoices</b> against contractual and operational data allowing to identify differences in invoice amounts. More than <b>EUR 1.2m in savings achieved</b> in all outstations where P2P was implemented (c. 70%)</li> </ul>
Weight reduction	<ul style="list-style-type: none"> <li>• Implementation of <b>weight as a criteria in all procurement processes</b></li> <li>• <b>Analysis of a year´s waste output</b> from catering and inflight sales to redefine the on-board offer while reducing waste and weight</li> </ul>
Aircraft lessors / OEMs	<ul style="list-style-type: none"> <li>• <b>Renegotiation of past fleet contracts</b></li> </ul>
New aircraft	<ul style="list-style-type: none"> <li>• Phase-in of <b>newer and more efficient aircraft</b> (2x new A321 neo LR)</li> <li>• <b>Increasing share of NEOs</b> with fuel consumption savings of c. -20% and increased dispatch reliability</li> </ul>
Sales & Distribution	<ul style="list-style-type: none"> <li>• <b>Push share of direct distribution and private channel</b> to reduce distribution costs</li> <li>• <b>Salesforce</b> (optimized structure, new country managers for Brazil and US&amp;CA) <b>and optimization of GSA agreements</b></li> </ul>
Outstations	<ul style="list-style-type: none"> <li>• <b>Review sales office rent contracts worldwide</b> with co-location of cargo and passenger teams where financially beneficial</li> </ul>

# Restructuring plan yields visible result improvements

## Revenue almost back on pre-crisis levels



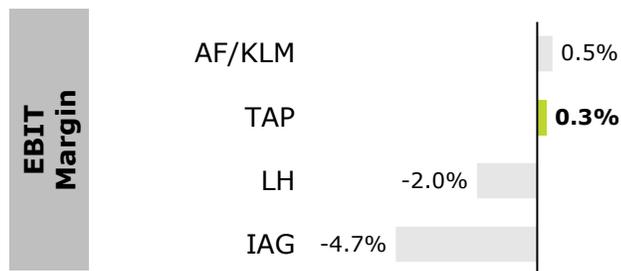
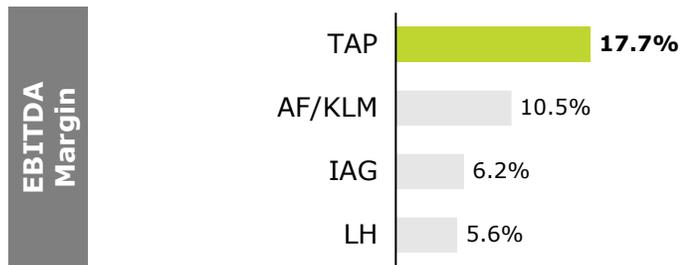
## Positive EBIT in 1H; better than pre-crisis



2019 2020 2021 2022

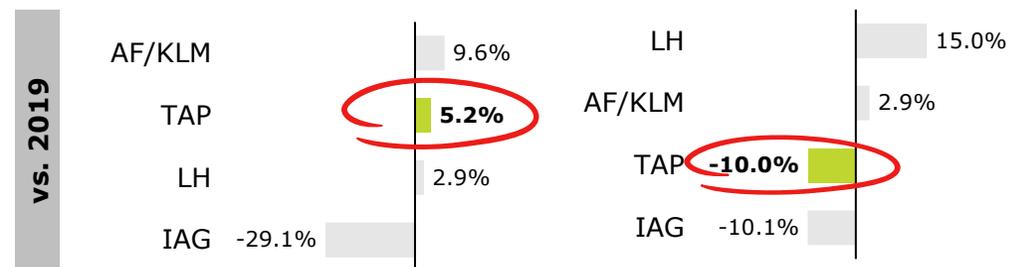
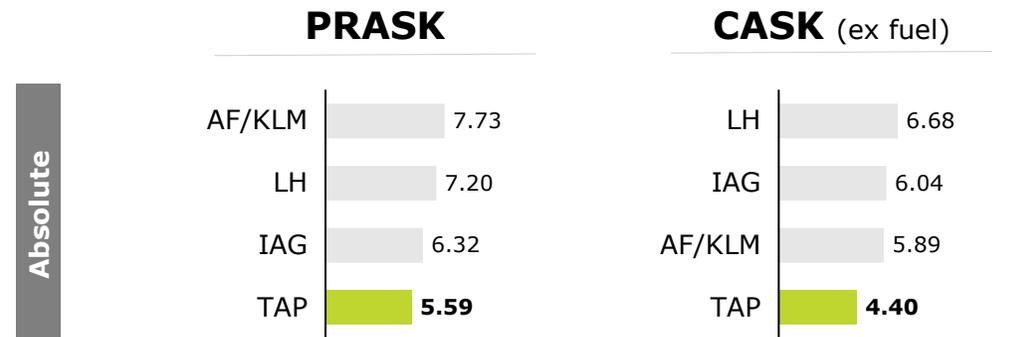
# TAP operating results in 1H 22 compare well with its key peers

## 1H 22 financial benchmark<sup>1</sup>



1. Margins refer to Group margins for AF/KLM, IAG and LH. For better comparability TAP's EBIT definition was applied to peers

## 1H 22 Unit revenues / cost benchmark<sup>2</sup>



2. Air France / KLM, IAG and Lufthansa: Only Passenger Airlines; TAP PRASK and CASK definition applied to peers

# Balance Sheet:

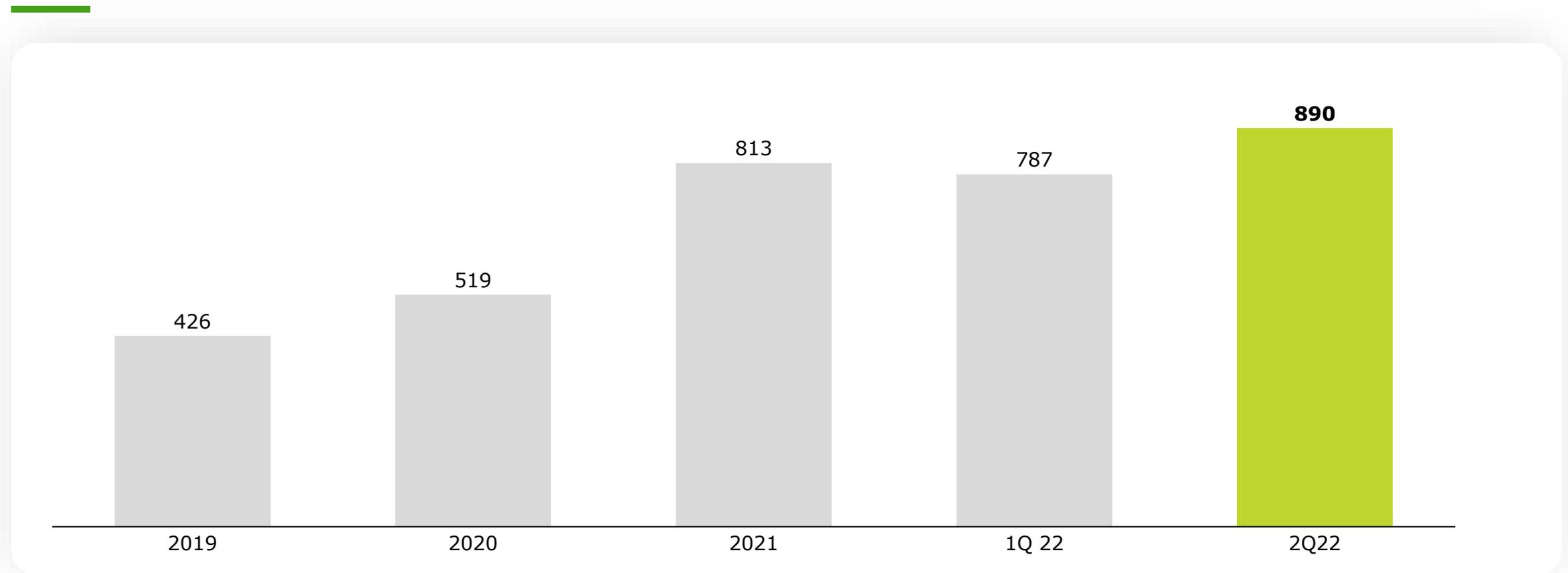
Strengthened financial profile



# Strong 2Q performance has further strengthened TAP's liquidity

## Liquidity<sup>1</sup>

Cash & Equivalents, EUR million

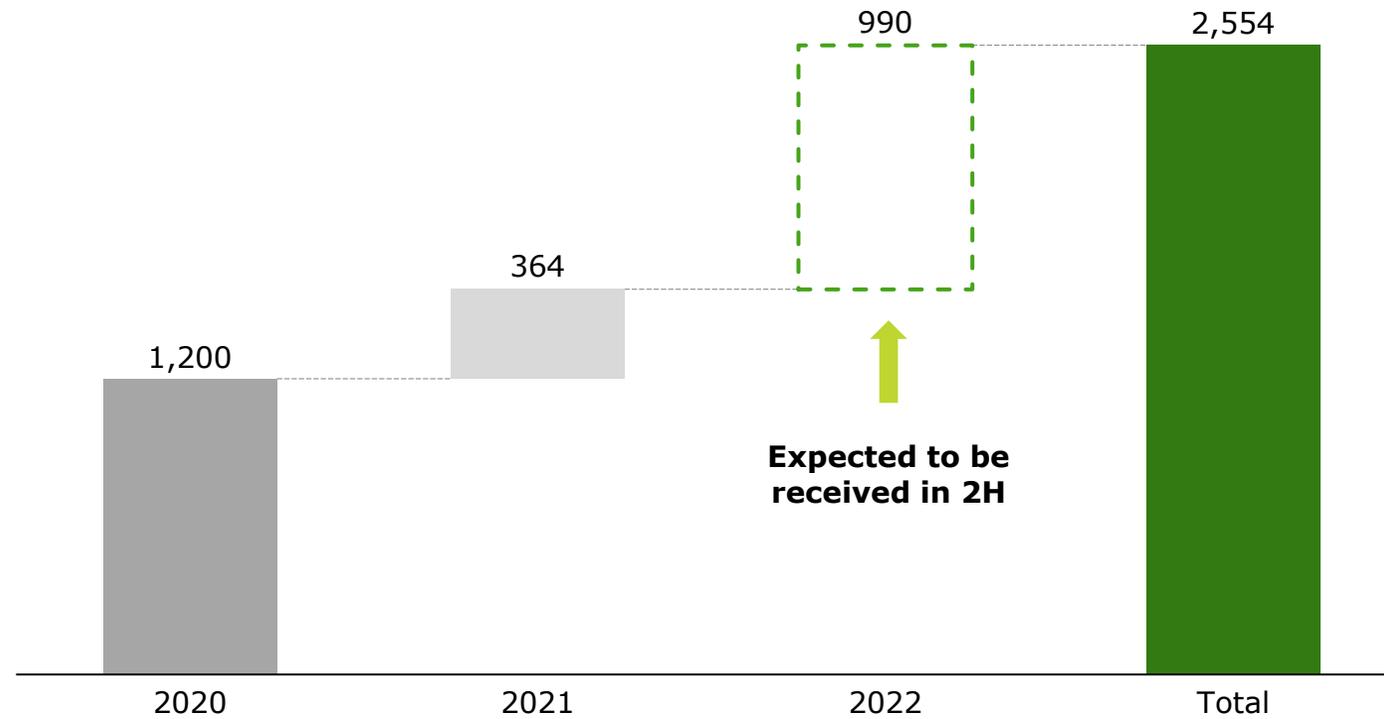


1. Any discrepancy between change in liquidity and cash flow due to currency effects

# Last portion of restructuring aid still outstanding

## Restructuring Aid

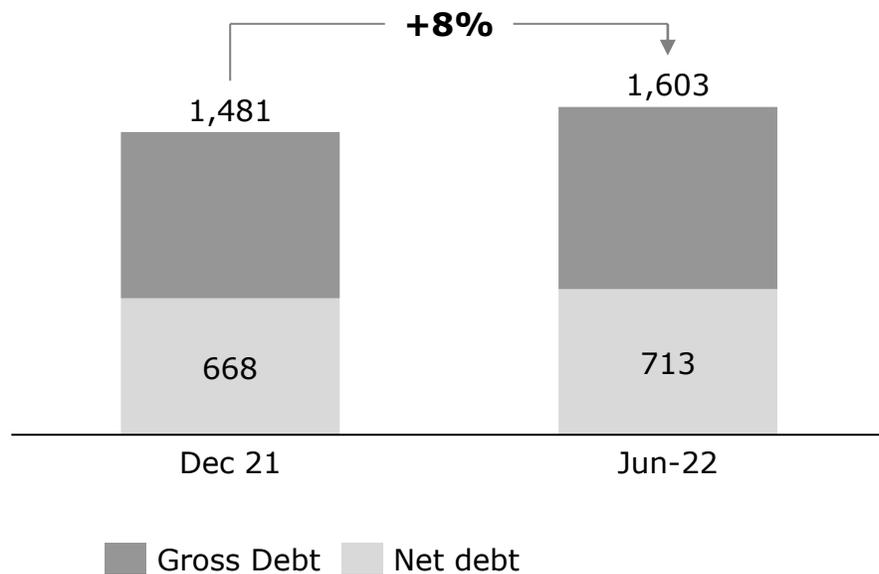
EUR million



# Increasing debt on the back of new aircraft leases

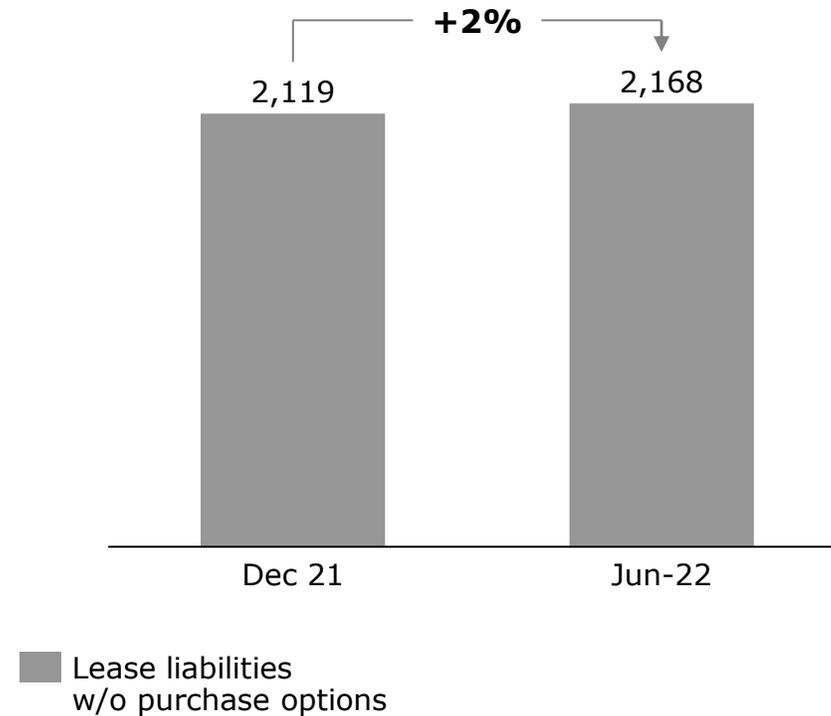
## Financial debt position

EUR million



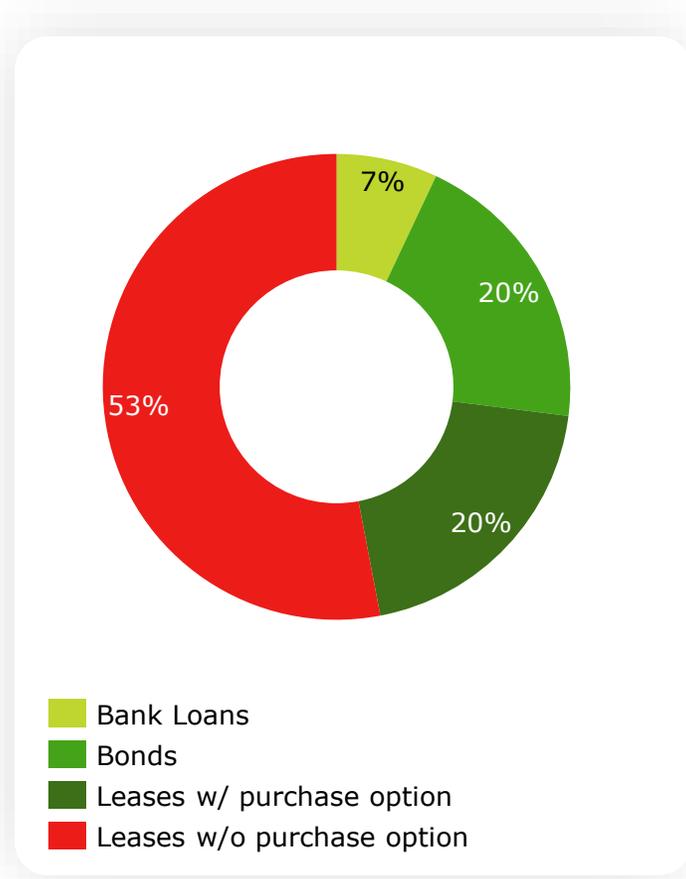
## Operating leases

EUR million

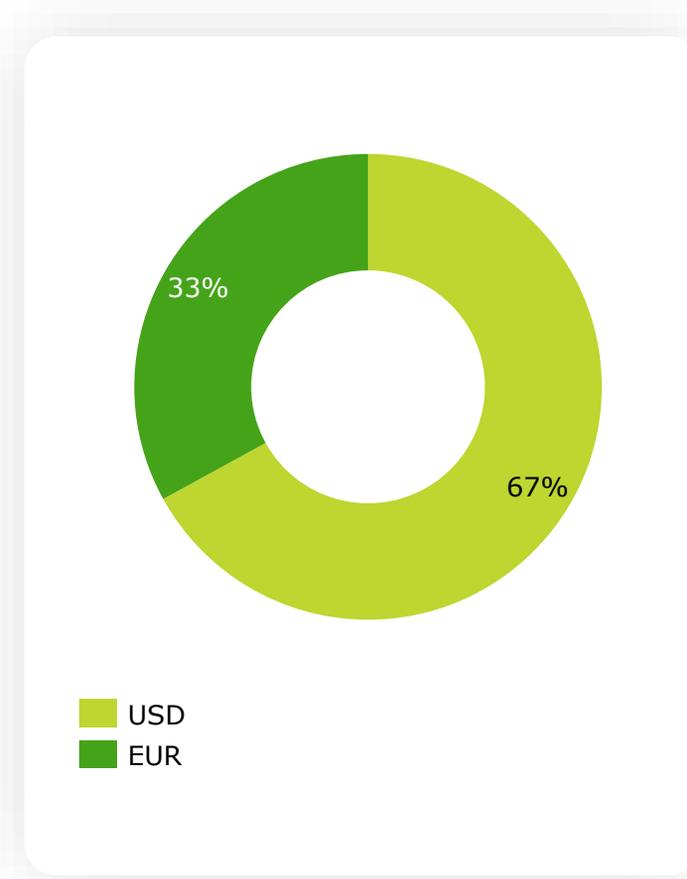


# Protected from interest rate movements with 91% fixed rate debt

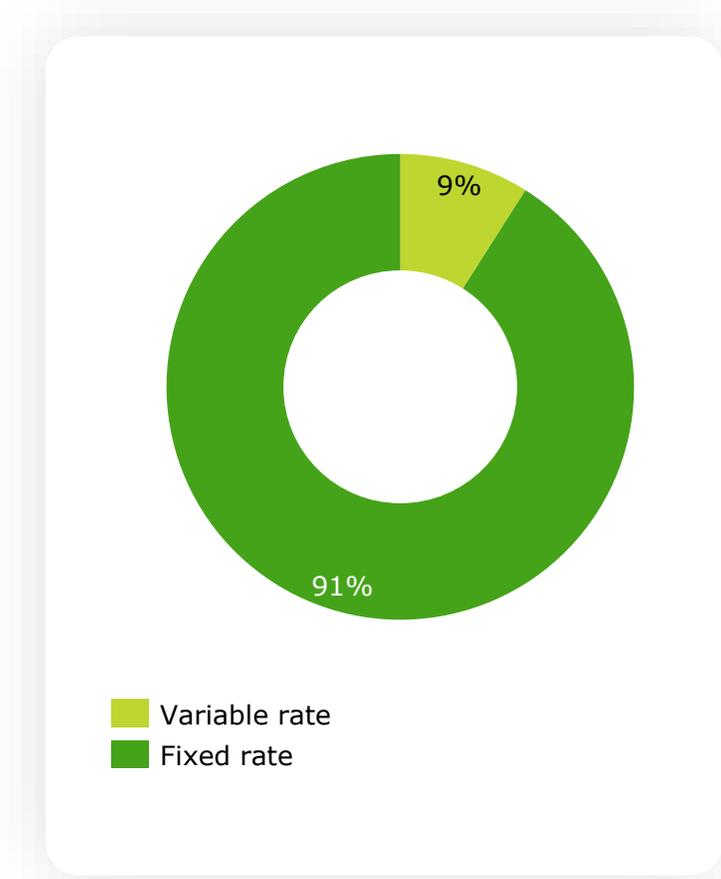
## Financing Instruments



## Currency

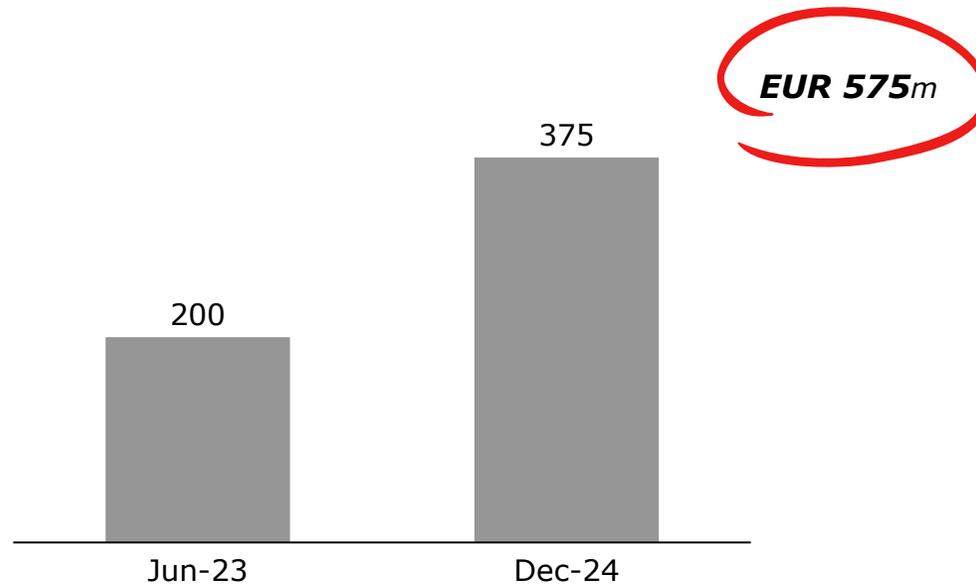


## Interest rate



# With upcoming maturities of its bonds, TAP aims to deleverage

Bonds maturing in 2023 and 2024  
(in EUR millions)

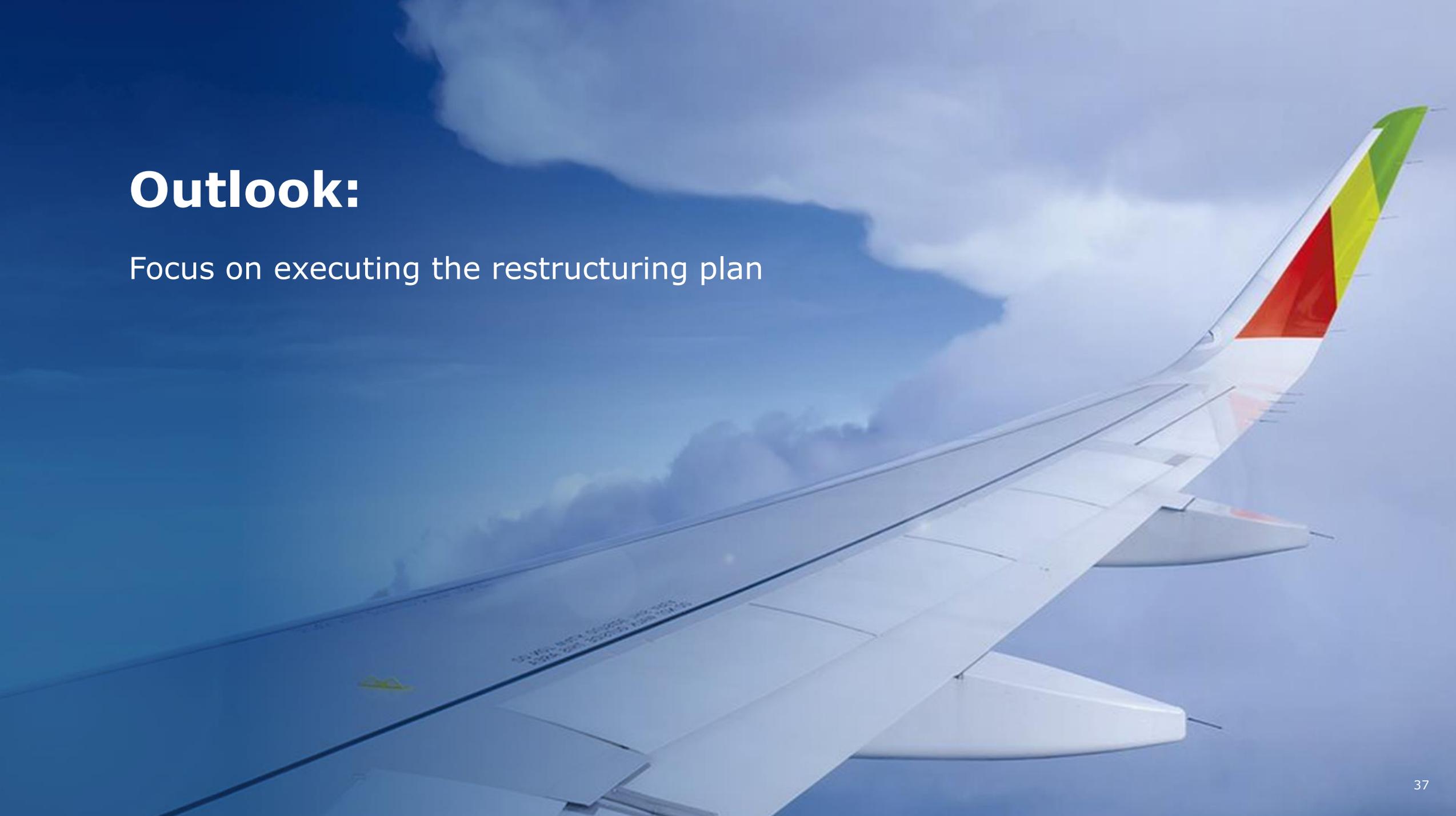


## TAP intends to deleverage

- Good liquidity level following 1H 2022 results
- Further equity injection of EUR 990m expected by end of 2022
- Committed to arrange financing without state support
- No specific deadline for debt transaction
- Currently monitoring the debt market and evaluating options

# Outlook:

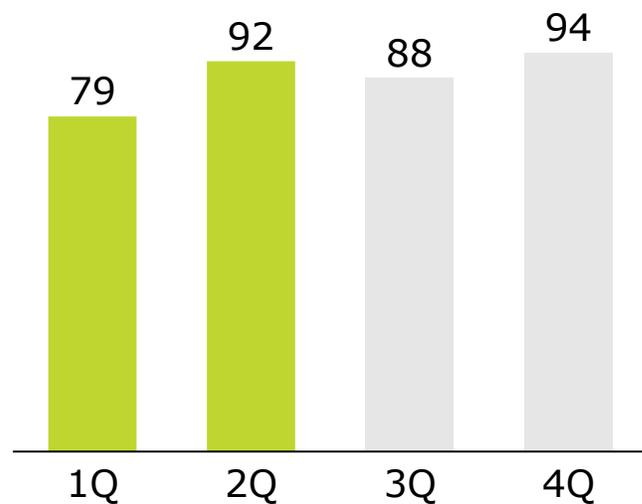
Focus on executing the restructuring plan



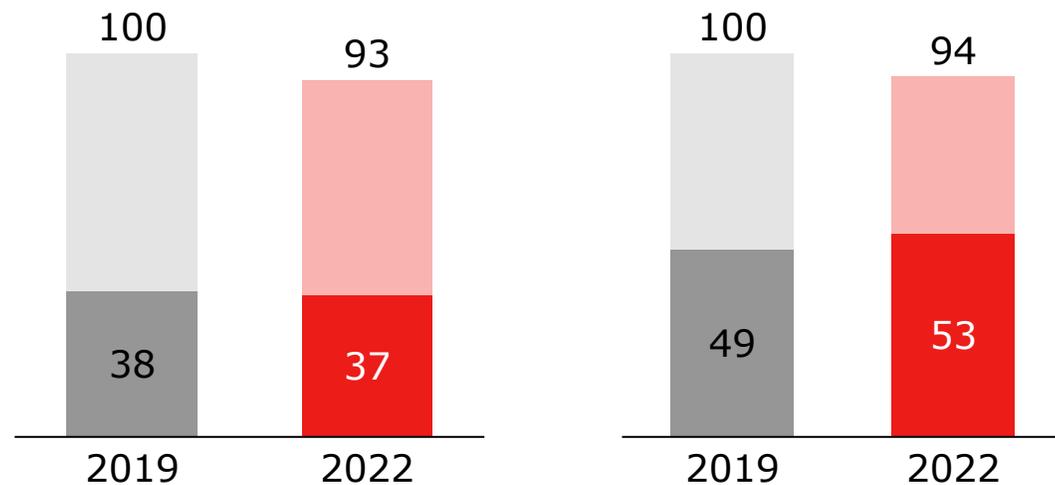
# Forward bookings for 4Q have further improved

Recovery to continue

2022 capacity vs. 2019 (in%)



Forward bookings on / above pre-crisis level



4Q (as of 1H results)

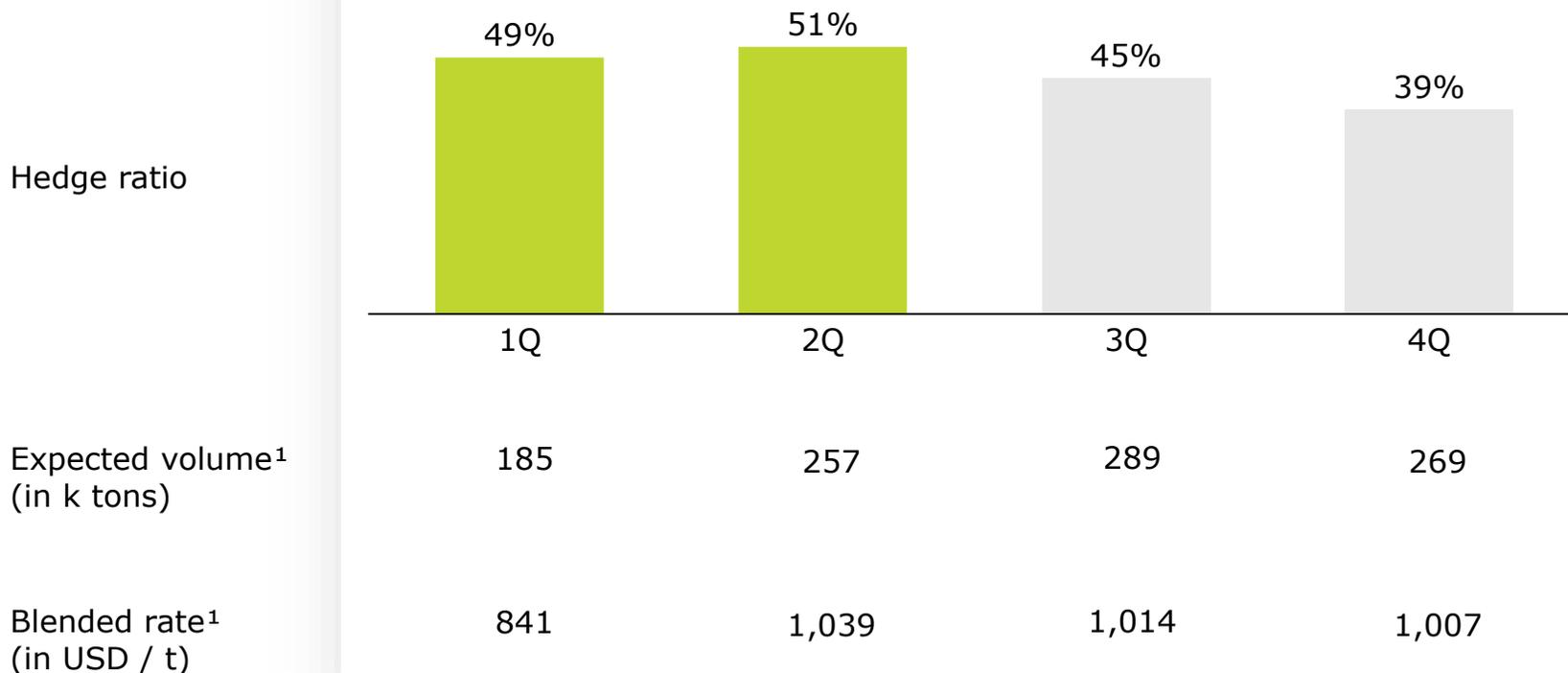
4Q (as of Sep 21<sup>st</sup>)

■ 2019 Capacity in ASK base 100%  
■ Forward booking load factor 2019

■ 2022 Capacity in ASK vs. 2019  
■ Forward booking load factor 2022

# TAP currently expects close to EUR 1bn fuel cost for FY 2022

## Fuel Hedging



## Comments

TAP pursues a flexible hedging strategy based on a combination of statistical market model and fundamental analysis

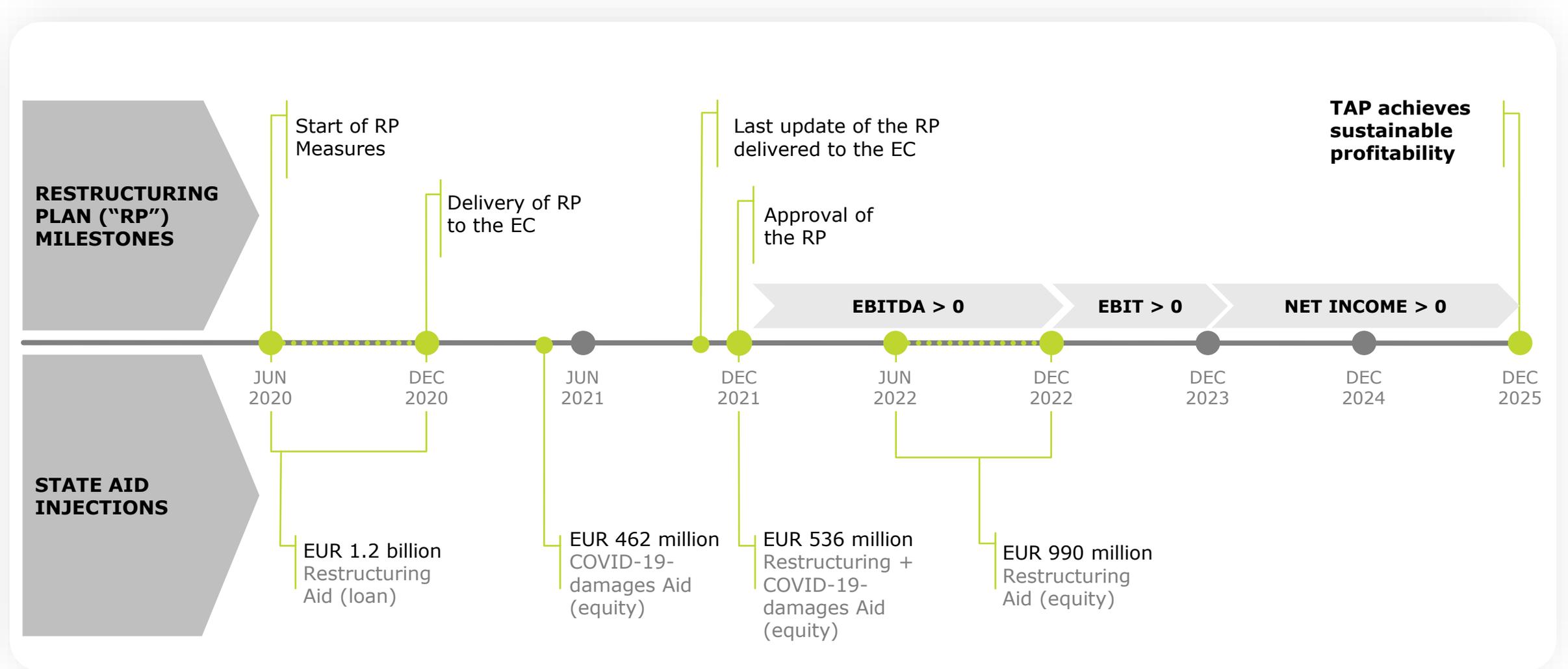
Aiming to hedge between 40% and 50% of next quarter's estimated fuel consumption

c. 45% of expected full year jet fuel consumption hedged

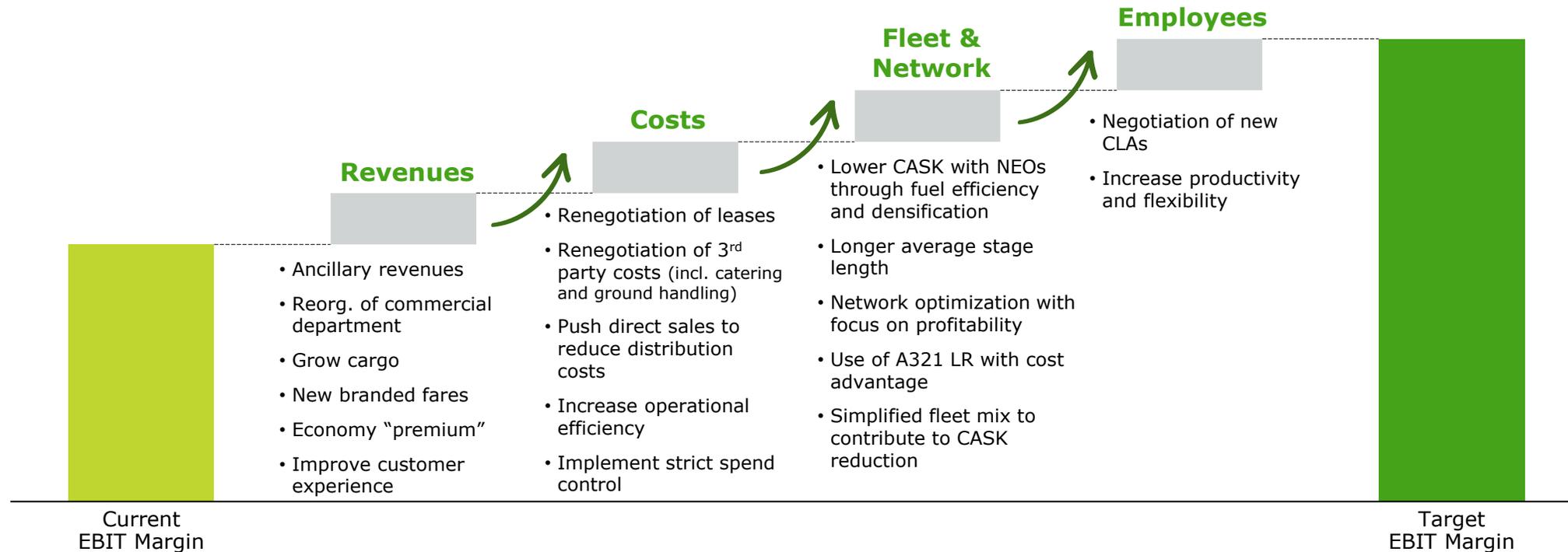
Further positive effect from hedging is expected in the second half

1. As of September 22, 2022.

# Continued focus on execution of the restructuring plan



# Focus on profitability improvement rather than growth



# Set of initiatives for the restructuring plan in the second half of 2022

- **Negotiate all CLAs**
- Launch **employee engagement survey** in 3Q
- Implement newly developed **leadership training programs**
- Select **new partner for Groundforce** by 4Q
- Implement new and **improved onboard service** and open new lounges
- **Adjust branded fares** for short and medium haul
- Relaunch **new Stopover program** with more benefits for our pax
- Implement **quick wins for flytap and app** to improve customer experience
- Intensify focus on **sustainability**
- **Reviewing all governance processes** to improve transparency
- Continue constant **optimization of Network**



# Management´s key takeaways

- 1 Market leader** in Portugal and in Brazil - Europe traffic with strong brand
  - dynamically growing home market with strong historical ties to Brazil and Africa
  - airline of choice for Portuguese speakers, key gateway between Europe, Africa and Brazil
- 2 Unique geographic location**
  - operation of the highly efficient long range narrowbodies on the Atlantic
  - one of a kind connecting cycles with Brazil maximizing widebody utilization
- 3 Modern and cost-efficient fleet**
  - average age of 10ys, among the youngest in Europe; Airbus fleet < 5 years
  - 66% of long and medium haul fleet are NEO; increasing to 88% by 2025
- 4 Competitive personnel costs**
  - medium term personnel cost stability through signed agreements until 2025
  - negotiations for modernized CLAs ongoing, focus on flexibility and productivity
- 5 Recovery** from COVID pandemic
  - faster recovery than peers
  - already at 92% of capacity and 99% of revenues compared to 2019
- 6 Restructuring plan** yields visible result improvements paving the way to deleveraging
  - positive EBIT in 2Q and 1H 2022, higher than pre-crisis
  - Strengthened balance sheet with increased liquidity level



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# Appendix

# First Half 2022 results



# Operating profit achieved despite significant headwinds

## Strong financial results...

- **Revenues** of EUR 1.3bn, **99% of pre-crisis level**
- Recurring **EBITDA margin in excess of 17%**
- Both **recurring EBIT and EBIT positive**
- **Ex fuel unit cost reduced by 9%** compared to 2019

## ...despite macro and industry headwinds

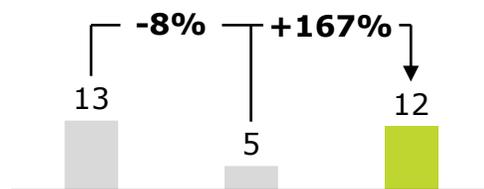
- Strong increase in **jet fuel** prices
- Appreciation of **USD** negatively impacting costs
- Cost **inflation**
- Industry wide **disruptions** starting from the end of 2Q

# Volume metrics recovering but still below pre-crisis levels

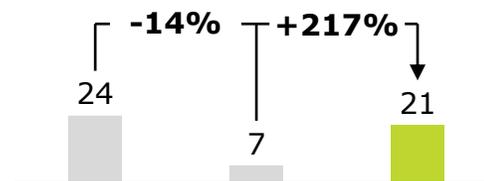
## ASKs

Billions

### 2<sup>nd</sup> Quarter

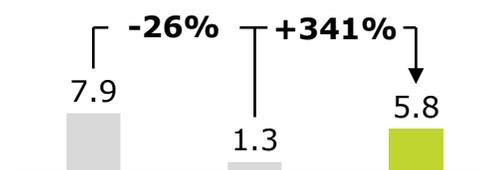
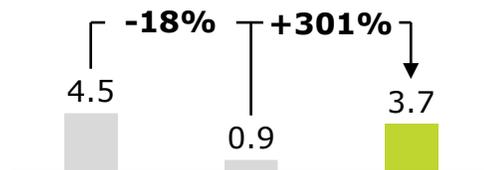


### 1<sup>st</sup> Half



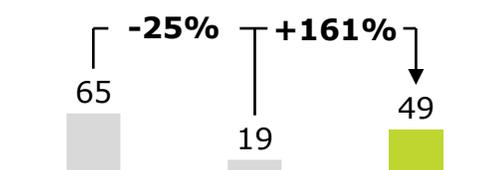
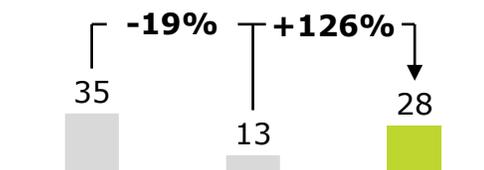
## Passengers

Millions



## Departures

Thousands



## Comments

ASKs closing the gap to 2019 in 2Q, reaching 92% of pre-crisis levels. 1H impacted by COVID travel restrictions in 1Q.

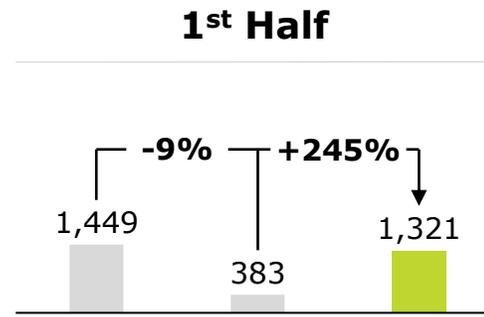
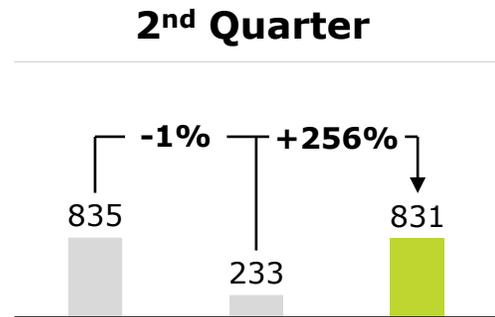
Number of passengers quadrupled versus 2021, reaching 82% of 2019 levels in 2Q

81% of 2019 departures achieved in 2Q

# Strong revenue growth with unit revenues above pre-crisis level

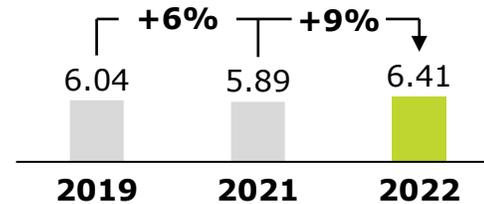
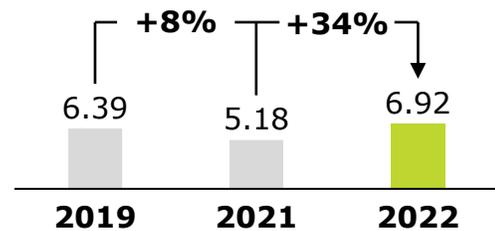
## Total operating revenue

EUR Millions



## RASK

EUR cents



## Comments

Revenues grew strongly and were less than 1% below pre-crisis level in 2Q

Passenger business represents close to 90% of total revenues

Unit revenues above 2019 level (+8% in 2Q) driven by higher fares and improving load factors

# Positive operating result achieved

## Recurring EBITDA<sup>1</sup>

EUR million

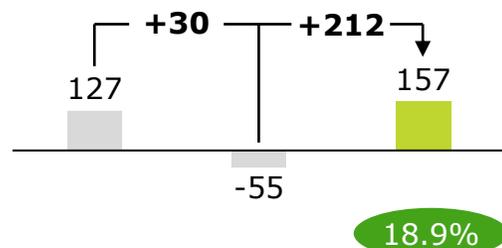
### Margin

## Recurring Operating Result<sup>2</sup> (EBIT)

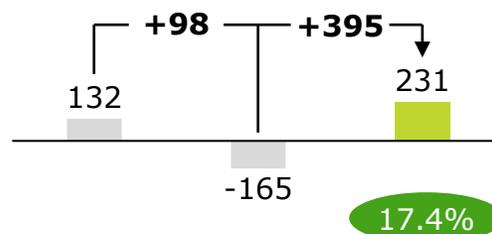
EUR million

### Margin

### 2<sup>nd</sup> Quarter



### 1<sup>st</sup> Half



### Comments

Operating profitability better than pre-crisis, despite higher fuel costs

1. Recurring EBITDA = Operating Result + Depreciation, Amortization and impairment losses + Restructuring + Other Non-Recurring items

2. Recurring EBIT = Operating Result + Restructuring + Other Non-Recurring items.

# Restructuring plan measures deliver lower unit costs than in 2019

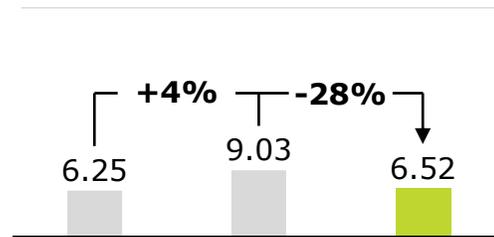
## Recurring CASK

EUR cents

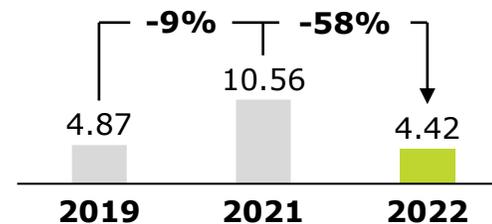
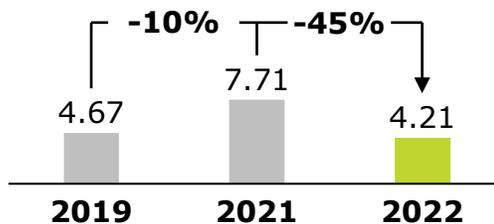
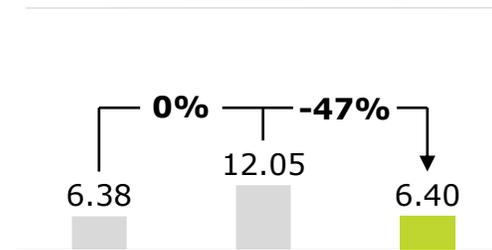
## Recurring CASK ex-fuel

EUR cents

### 2<sup>nd</sup> Quarter



### 1<sup>st</sup> Half



## Comments

Year-on-year CASK improvement supported by ASK growth.

Comparison to 2019 with similar level of activity reflects effect of higher jet fuel cost

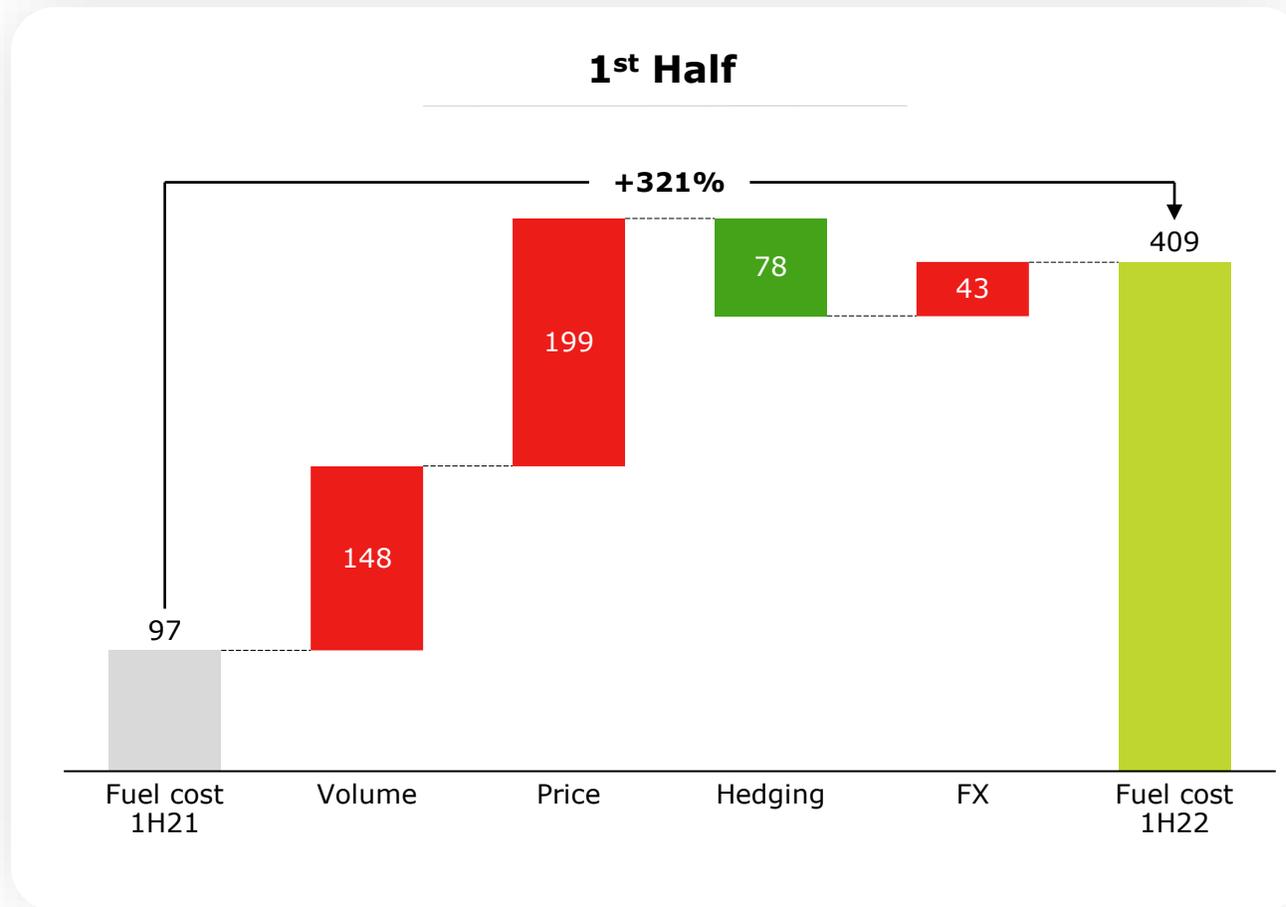
Restructuring plan measures delivered ex-fuel recurring CASK down 9% on 2019

1. Recurring EBITDA = Operating Result + Depreciation, Amortization and impairment losses + Restructuring + Other Non-Recurring items
2. Recurring EBIT = Operating Result + Restructuring + Other Non-Recurring items.

# Steep fuel price increases slightly offset by hedging result

## Fuel cost<sup>1</sup>

EUR million



## Comments

Higher fuel costs reflects the higher level of activity compared to the previous year

Jet fuel prices have increased 106% in 1H compared to the prior year (124% in 2Q)

Appreciation of the USD vs. EUR is negative for costs. 14% of 1H hedges closed in EUR (12% of 2Q)

Positive effect from fuel hedging

1. Fuel cost including cost for CO2 emission certificates. In the bridges, these are included in the volume effect.

# Restructuring Plan



# Progress on enhancing customer experience

- ✓ **Call center response up to 80%** with reduced waiting times
- ✓ **Simplified claims handling** procedure and backlog reduction.  
**Pending refunds < 5%**
- ✓ **Enhanced frequent and executive flyer benefits** for top tier members
- ✓ **Accelerated digital initiatives** (e.g., new site for vouchers management)
- ✓ **Improved procedures** at Lisbon airport

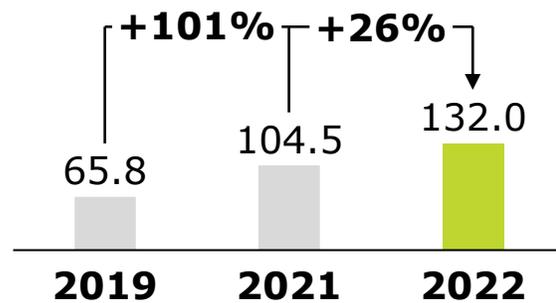


# Maintaining strong Cargo performance

- ✓ Strengthened and developed **partnerships with key customers**, such as Inditex and Amazon

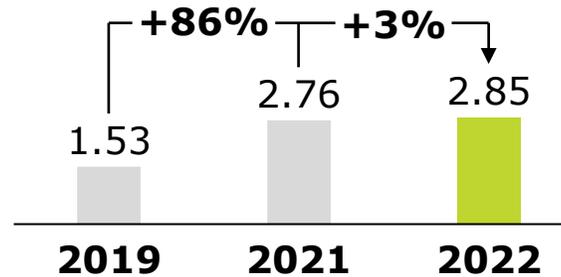
## Operating Revenue

EUR million



## Cargo Yield

EUR cents



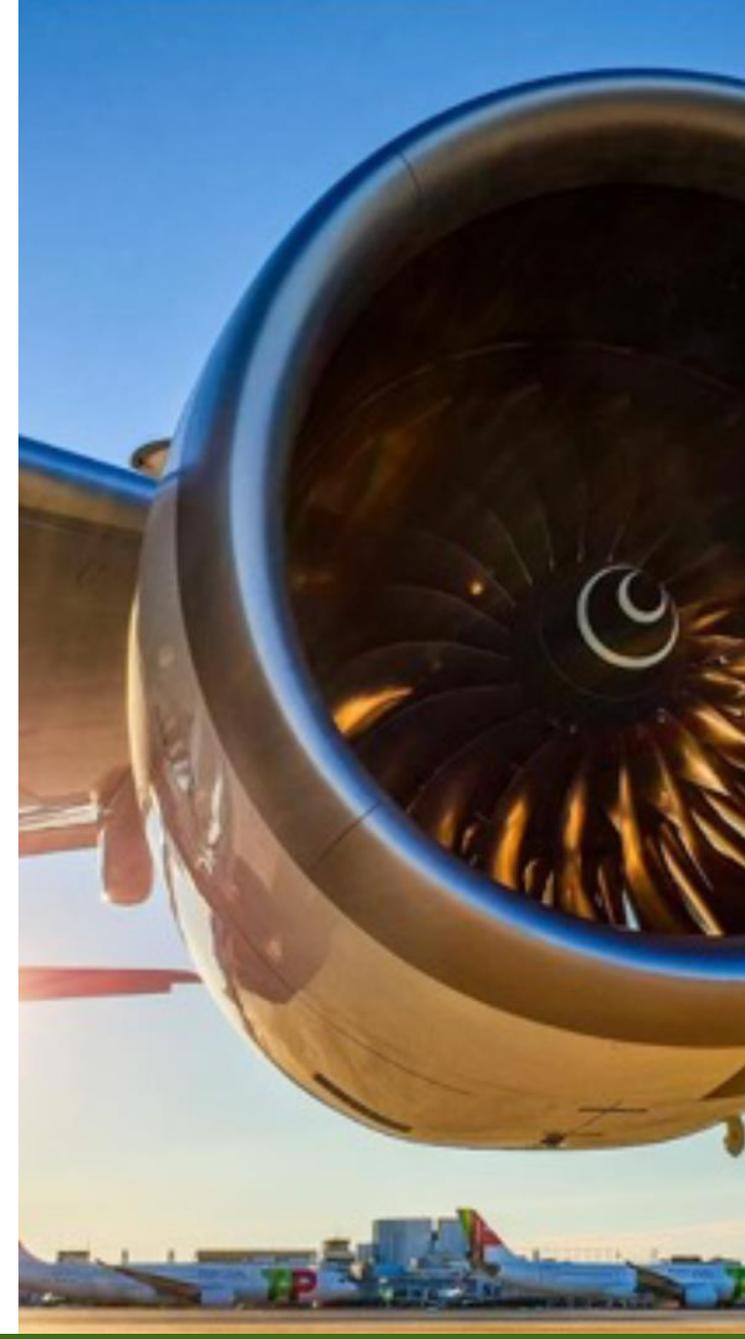
# Strong focus on people agenda

- ✓ **New CLA negotiations**
- ✓ **430 cabin crews** hired given capacity recovery and high levels of absenteeism
- ✓ **Emergency part time** for cabin crew and maintenance staff ended
- ✓ **Development of a “Navigation Set”** to align the organization on Purpose, Vision, Values and Mission
- ✓ **Implemented a whistleblowing channel** to reinforce TAPs ethics & governance
- ✓ Developed new **employee engagement survey**



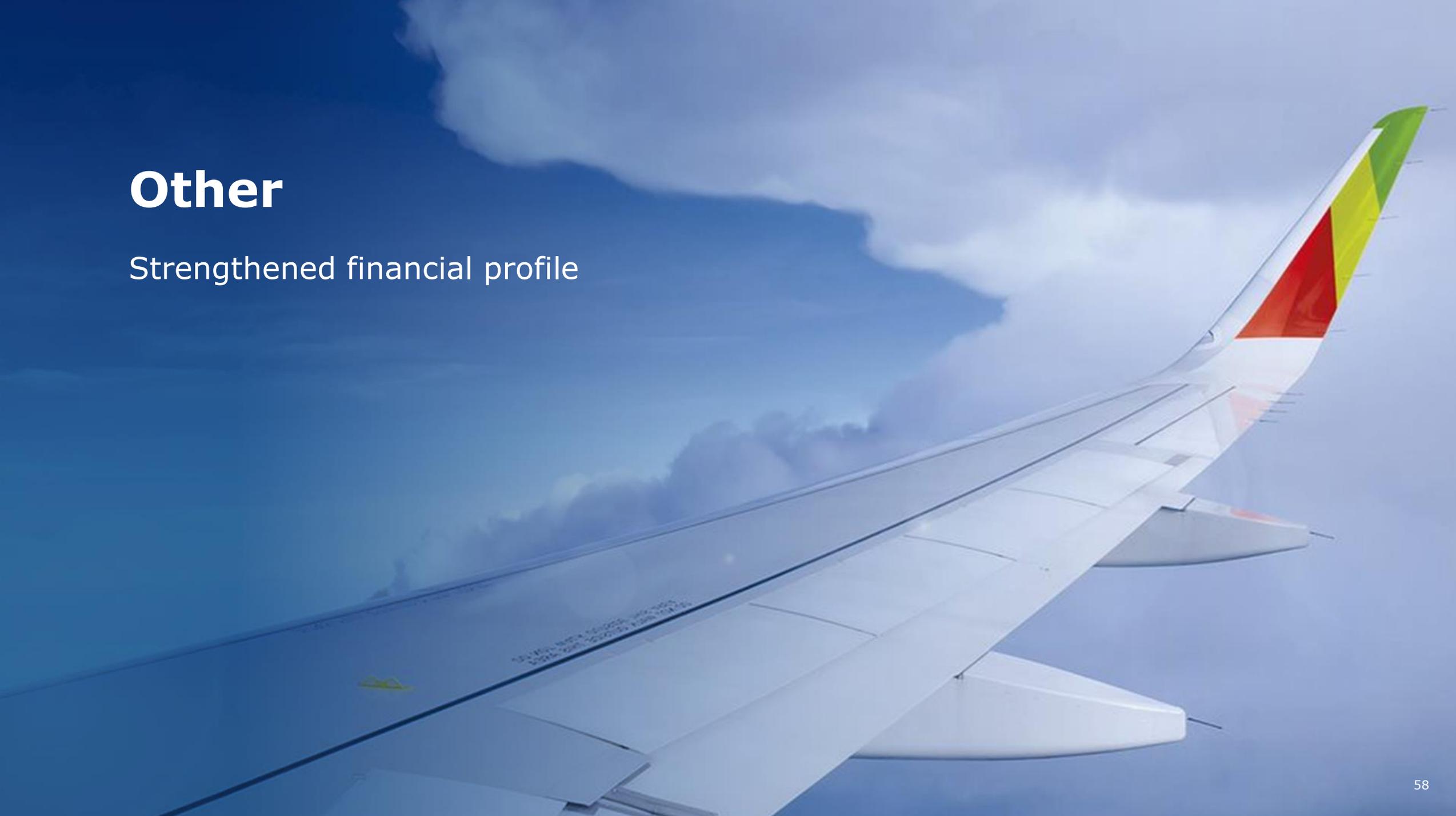
# Progress addressing non-core businesses

- ✓ **Groundforce restructuring** process continues to make progress
- ✓ **M&E Brasil closed** – No longer operational, last aircraft left hangar in May



# Other

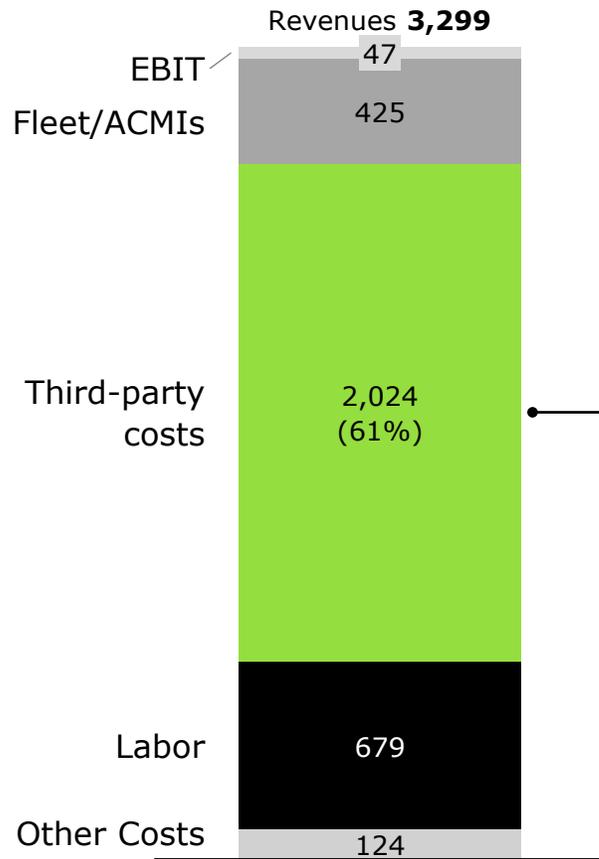
Strengthened financial profile



# 3rd party are mostly variable and represent 60-65% of revenues

## Costs to EBIT TAP 2019

Million €



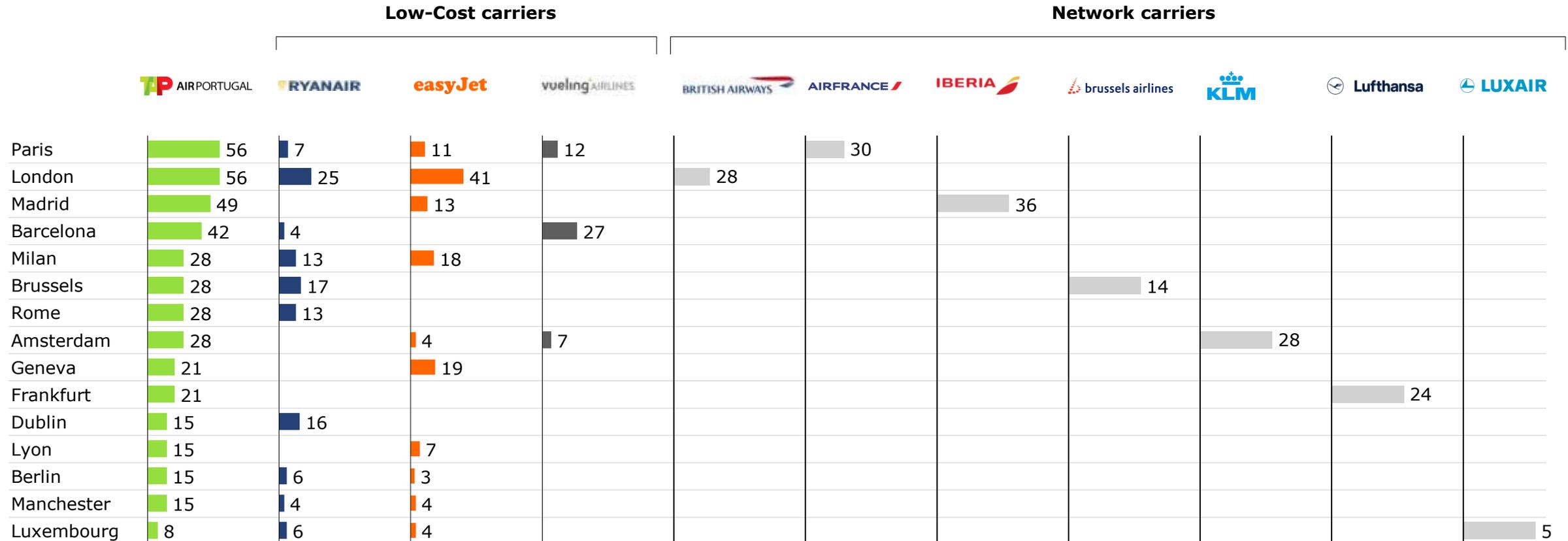
Categories	Cost base -M€, 2019 (% of total)	Mostly variable?	Actionable?
<b>Fuel</b>	<b>790</b> (39%)	✓	Only 2-3% is addressable for negotiations (~20M€)
<b>Handling</b>	<b>204</b> (10%)	✓	Prices payed in Portugal are high and should be subject to renegotiation
<b>M&amp;E</b>	<b>197</b> (10%)	✓	Semi-fixed component from aircraft maintenance
<b>Traffic and navigation</b>	<b>194</b> (10%)	✓	Mostly regulated and not negotiable fees
<b>Airports</b>	<b>156</b> (8%)	✓	Hardly negotiable fees, apart from executive passenger expenses
<b>Distribution</b>	<b>126</b> (6%)	✓	Includes minimum levels for certain providers
<b>Catering</b>	<b>95</b> (5%)	✓	Includes fixed costs from contract with CateringPor
<b>IROPs</b>	<b>84</b> (4%)	✓	Mostly related to context but depending also on quality of the operation
<b>IT</b>	<b>62</b> (3%)	✗	Managed contracts and licenses (~47M€) fixed
<b>Crew Logistics</b>	<b>40</b> (2%)	✓	Prices can be negotiated, taking advantage of current context
<b>Others<sup>2</sup></b>	<b>75</b> (4%)	✗	Differs among the different categories of costs included

How much can TAP reduce in terms of unit costs?

1. Includes PGA (118M€) and ~5M€ in non-allocated/categorized costs/expenses and depreciations & amortizations; 2. Including marketing (35M€), contact center (13M€), in-flight (13M€), building/utilities (10M€)

# TAP ensures high connectivity and competitiveness in Lisbon

## Weekly frequencies offered per carrier



Note: Considering destination city areas (e.g., PAR includes ORY and CDG)  
 Source: SRS Analyser schedule data for standard week in September 2022