



# TAP Credit Story

Transportes Aéreos Portugueses, S.A.

December 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 most of its peers** and its **restructuring plan is delivering record results**, resulting in a **strong 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)

**13.6%**

Recurring EBIT Margin  
in 3Q 2022

**<5** years

Average Airbus fleet age



**53%**

Market Share @ LIS airporthy



**66%**

Share of neo aircraft in  
long/medium-haul fleet



**94**

Passenger Aircraft  
at Q3 2022



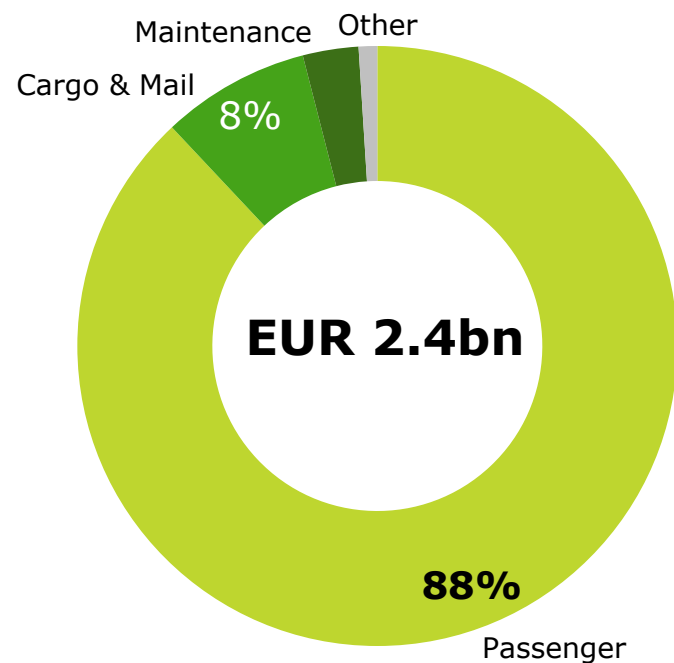
**17**m

Passengers 2019 (pre-crisis)

# Focused on its core passenger business

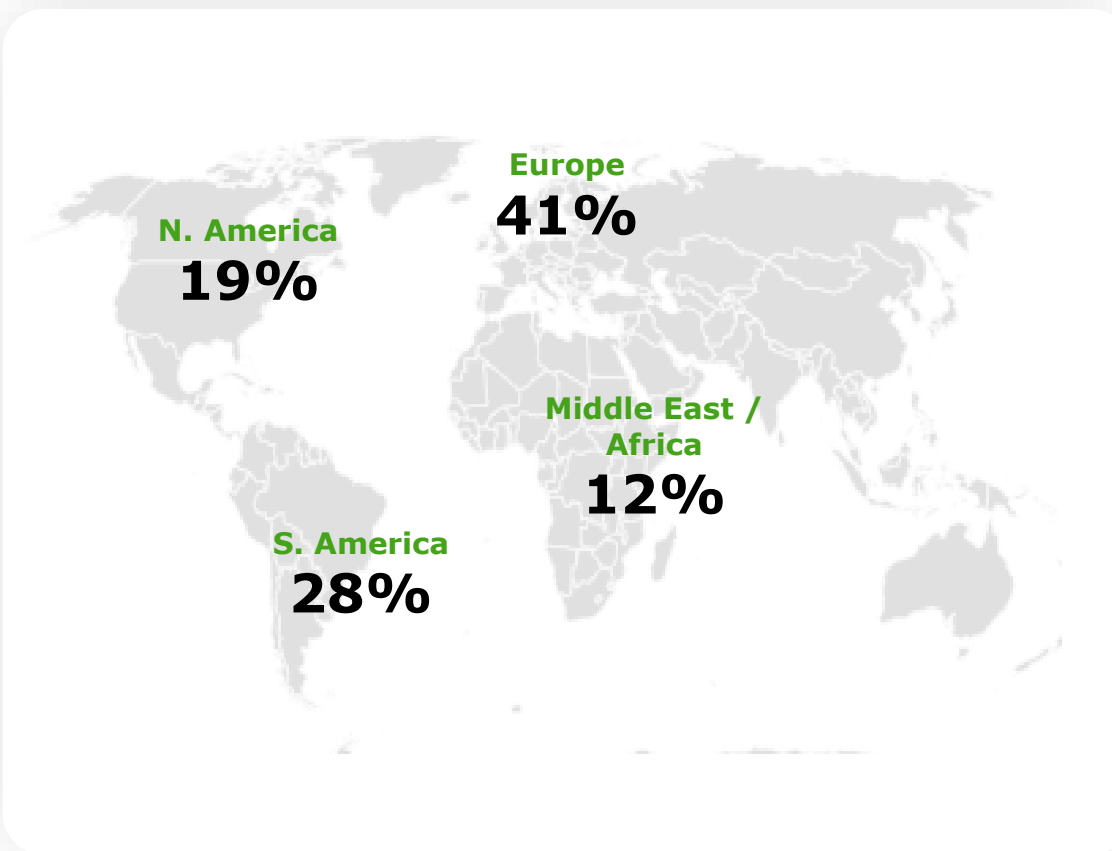
## Revenue by activity

9M 2022



## Passenger Revenue<sup>1</sup>

9M 2022

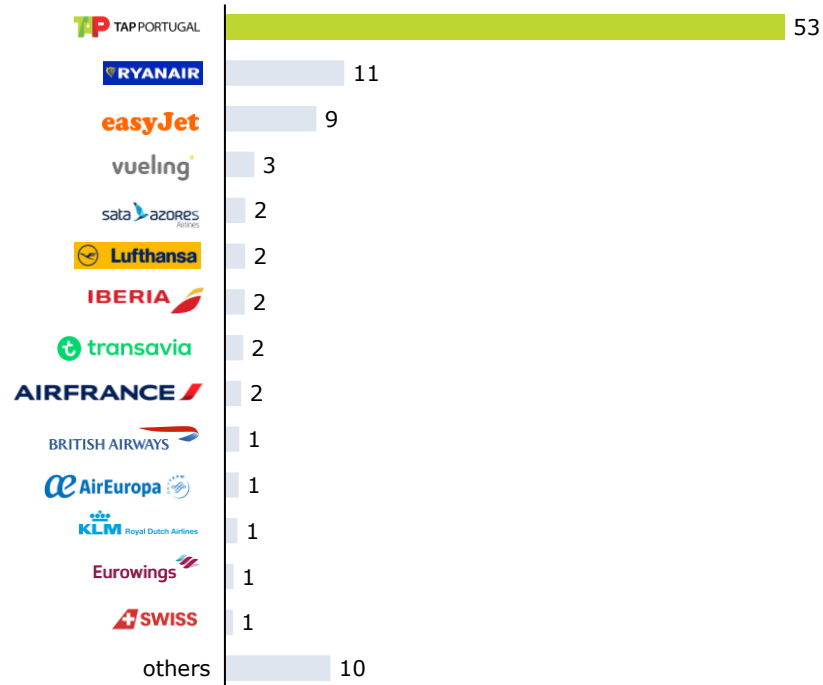


1. Allocatable passenger revenues (fare, fuel surcharge and flight related ancillaries)

# Market leading position in an attractive home market

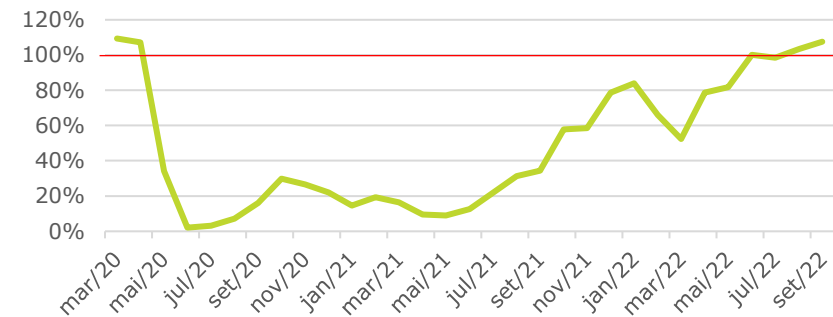
## Leading position in LIS hub

Market shares in LIS (% of flights)

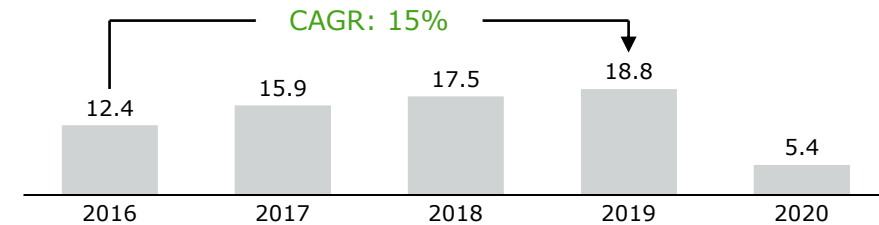


## Strong local tourism and aviation market

Tourist nights in Lisbon hotels vs. 2019



Portugal: carried passengers (millions)



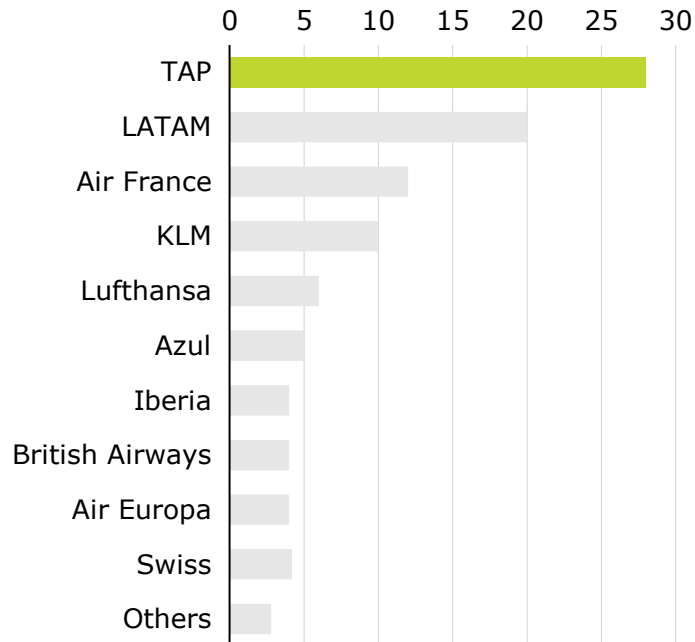
Source: INE - national statistics institute of Portugal



# Natural gateway to Brazil and North America

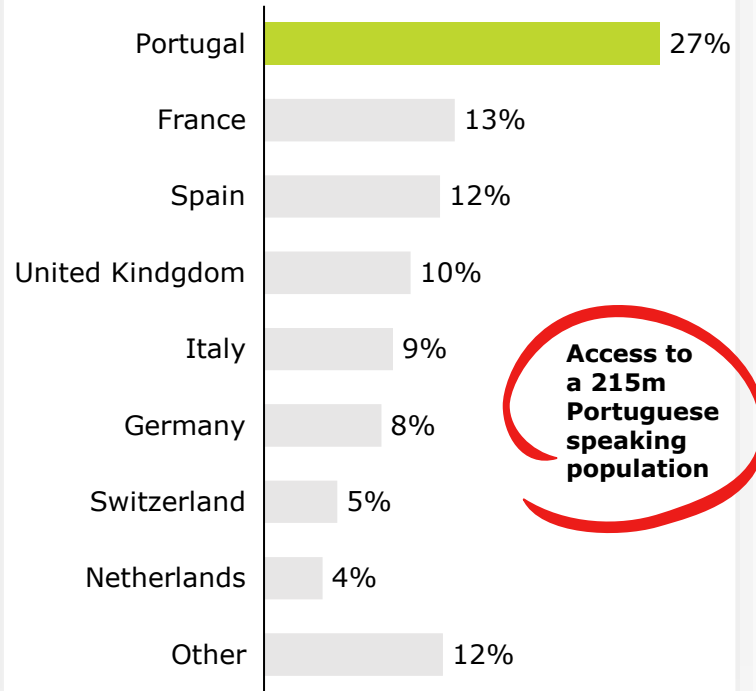
## Market leader in Europe – Brazil traffic

Europe – Brazil market share



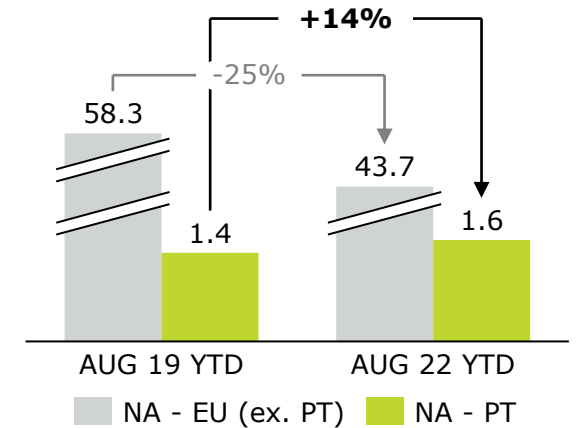
## Airline and destination of choice for Brazilian passengers

European market sizes from Brazil

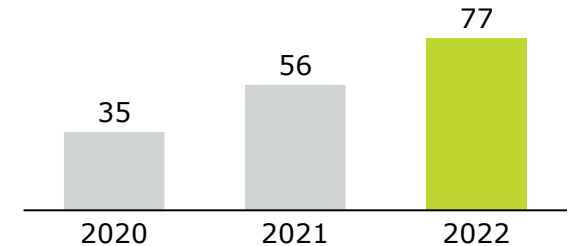


## Increasing exposure to North American market

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**



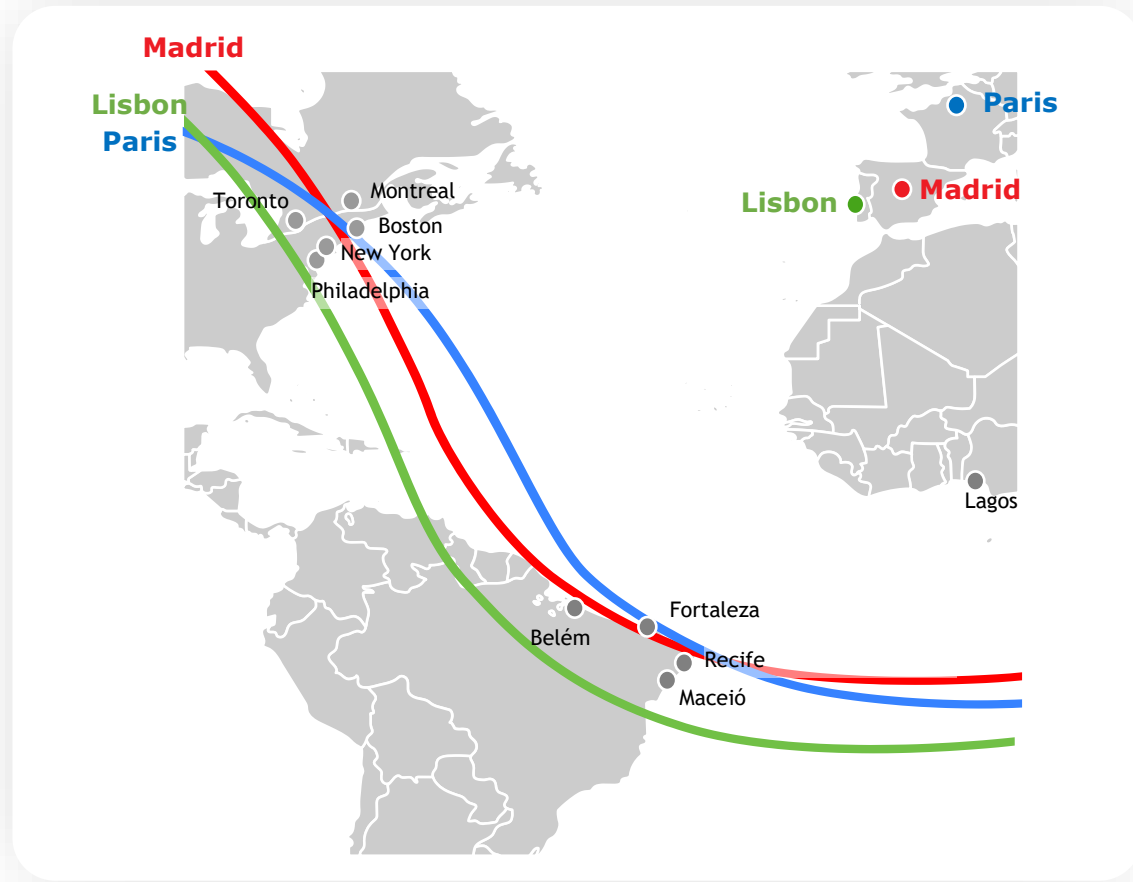
### Cultural Ties

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



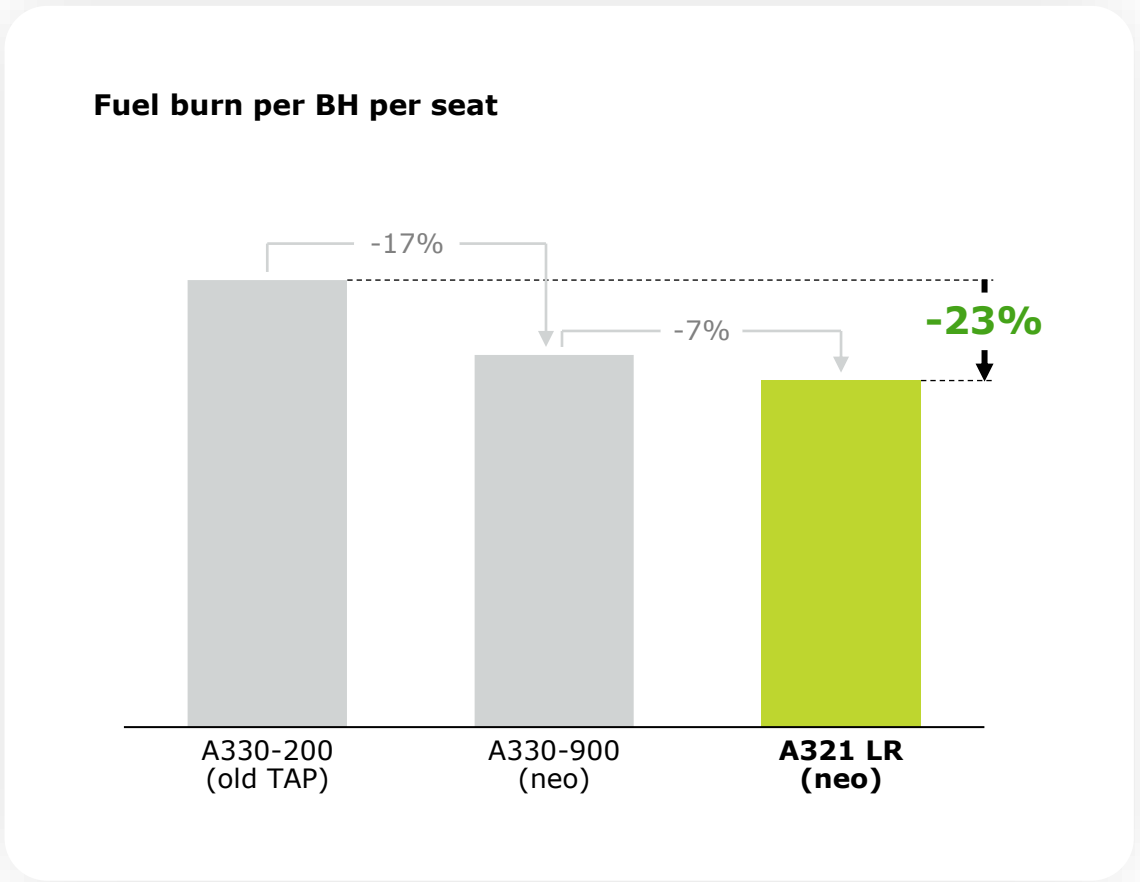
# Able to deploy capacity at lower cost and risk with the A321 LR

## Advantage in range



## Fuel burn cost advantage

LIS – FOR example

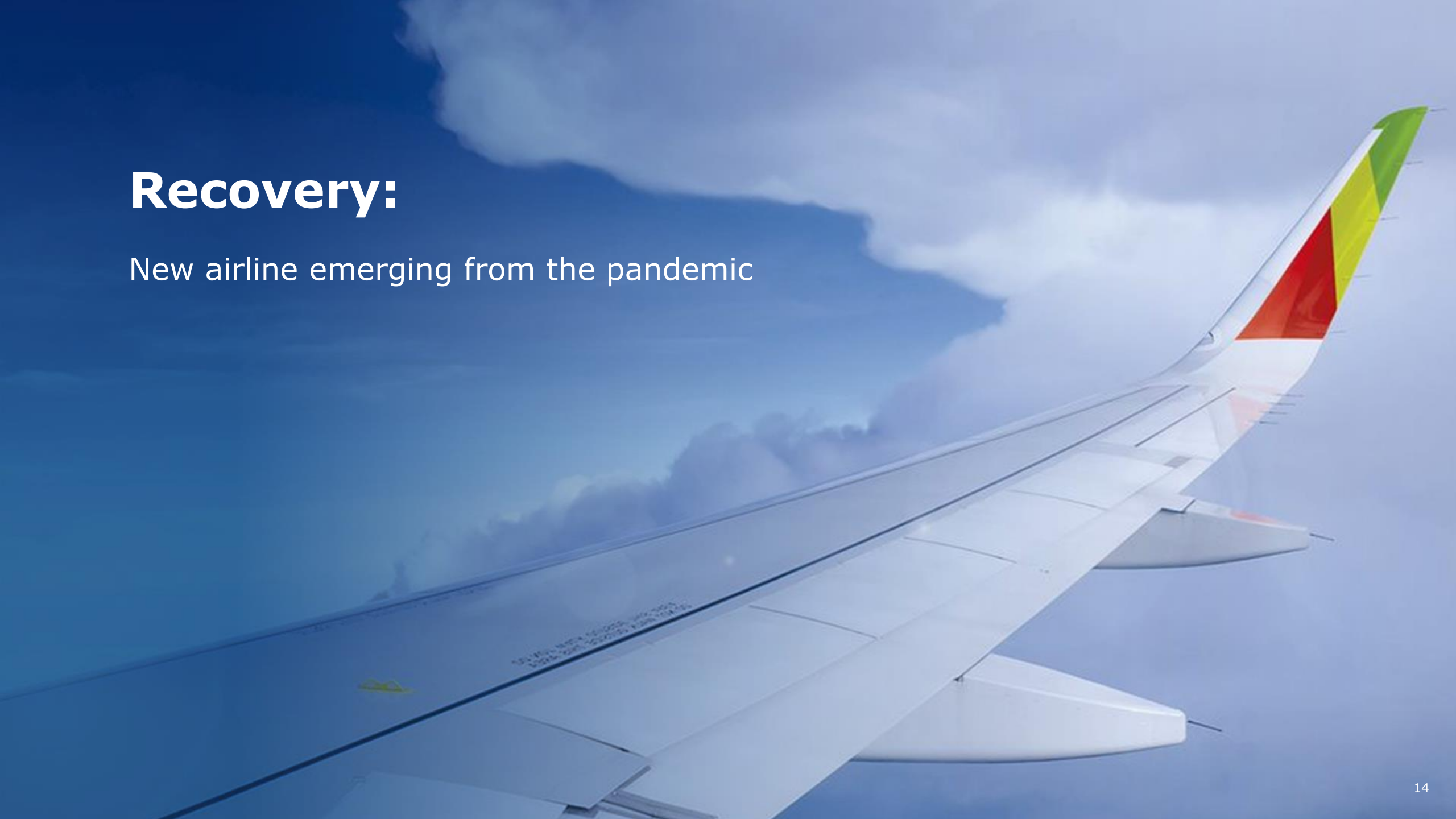


# TAP's own network reach is supplemented by partnerships



# Recovery:

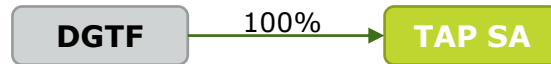
New airline emerging from the pandemic




# A major restructuring in an unprecedented crisis

## New TAP after restructuring

- New Shareholder



- New structure

 Max 99 until 2025

 Less ~2,000

- Capital injections approved by EU Commission

**EUR 3.2bn**

- New Strategic Plan

## Strategic Plan designed by Management and approved by EU Commission

Achieving a sustainable and profitable aviation business by 2025

**CUSTOMER**

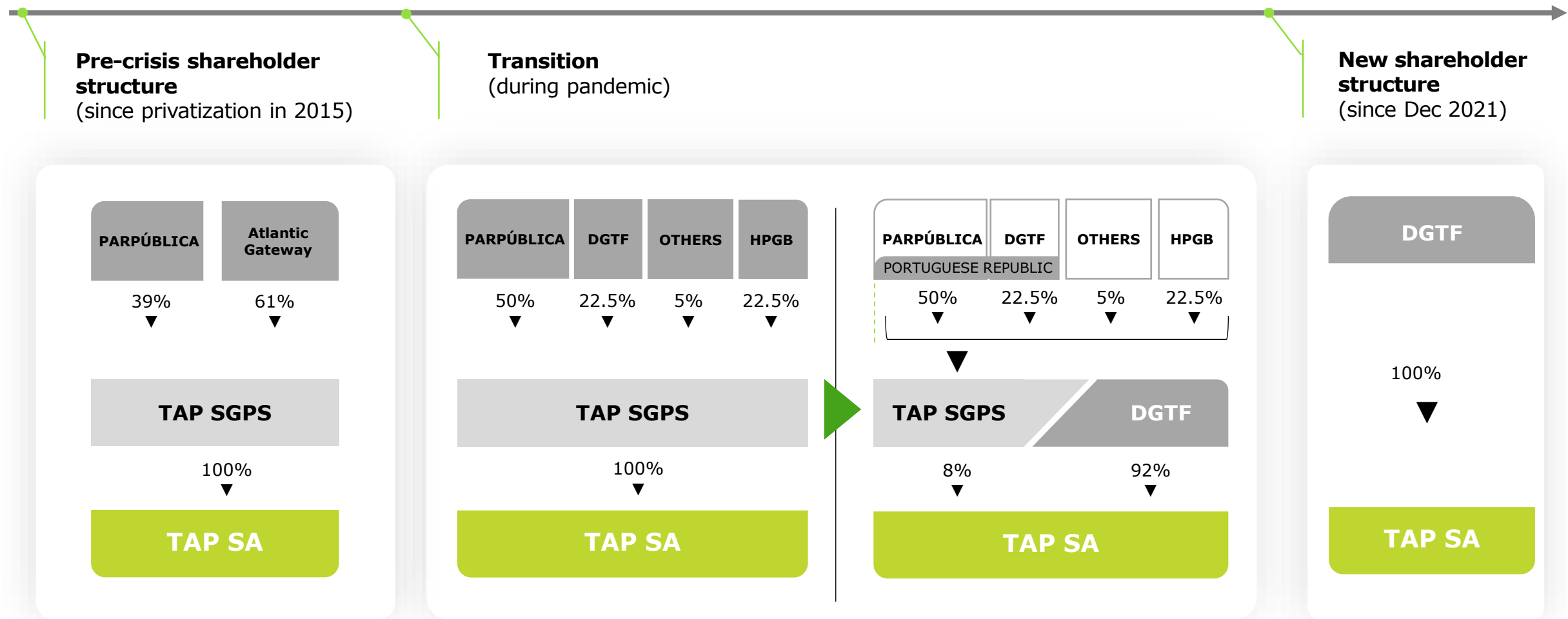
**REVENUE**

**COST**

**PEOPLE/  
ENABLERS**

**FOCUS ON AVIATION BUSINESS**

# 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

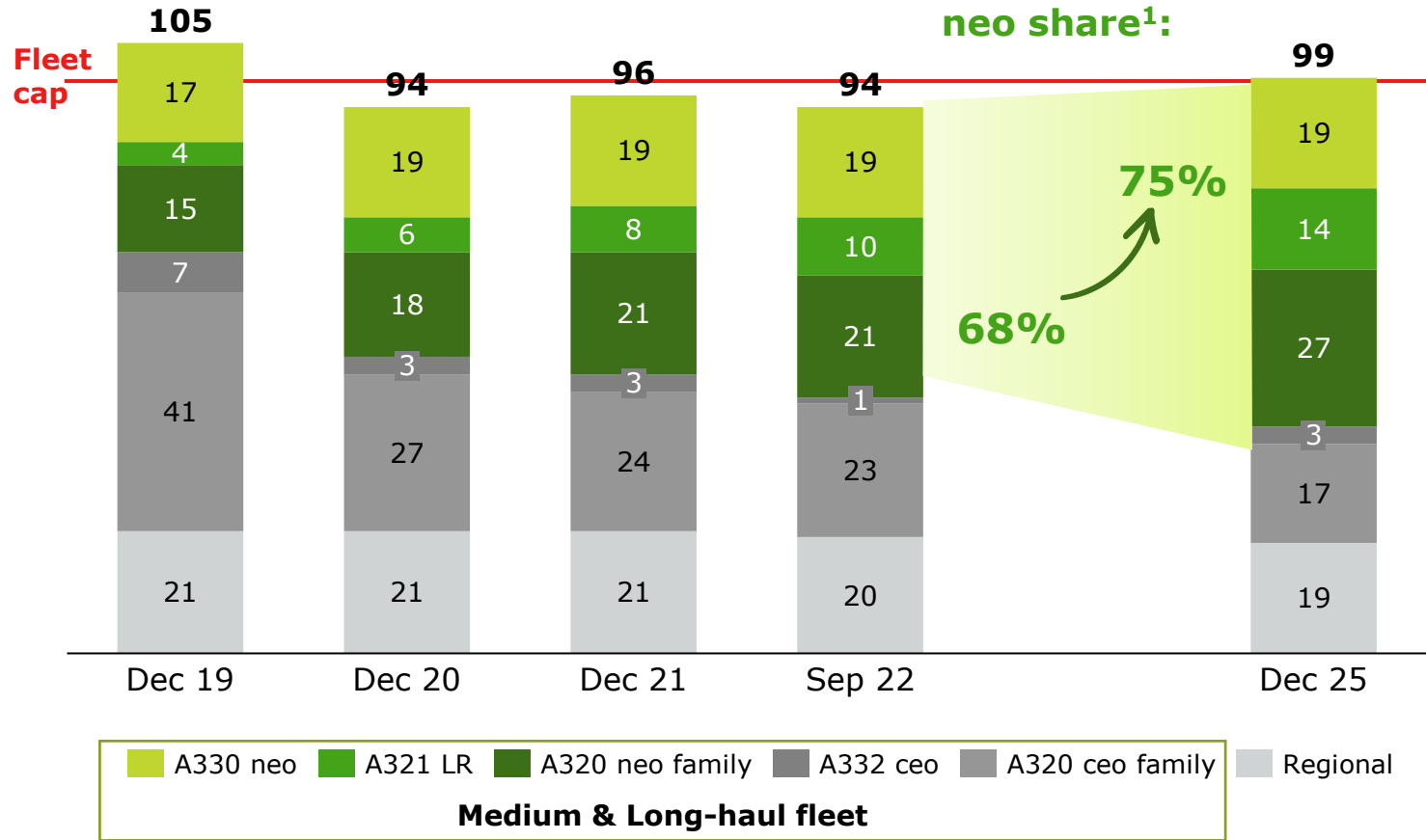
- > 4 years of C-level management experience
- > 12 years of strategy consulting experience

McKinsey&Company

pingo doce  
sabe bem pagar 100 pontos

Jerónimo  
Martins

# Modernized and more efficient operating passenger 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



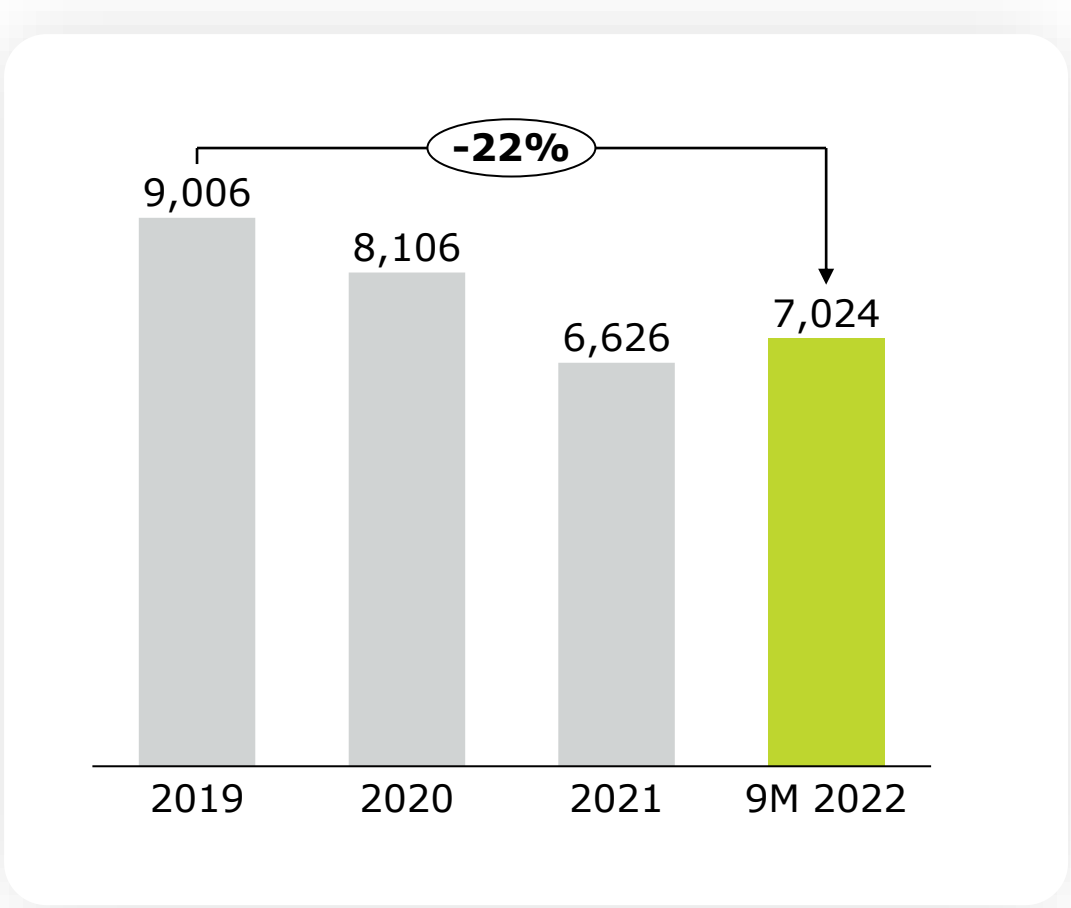
## Higher reliability

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

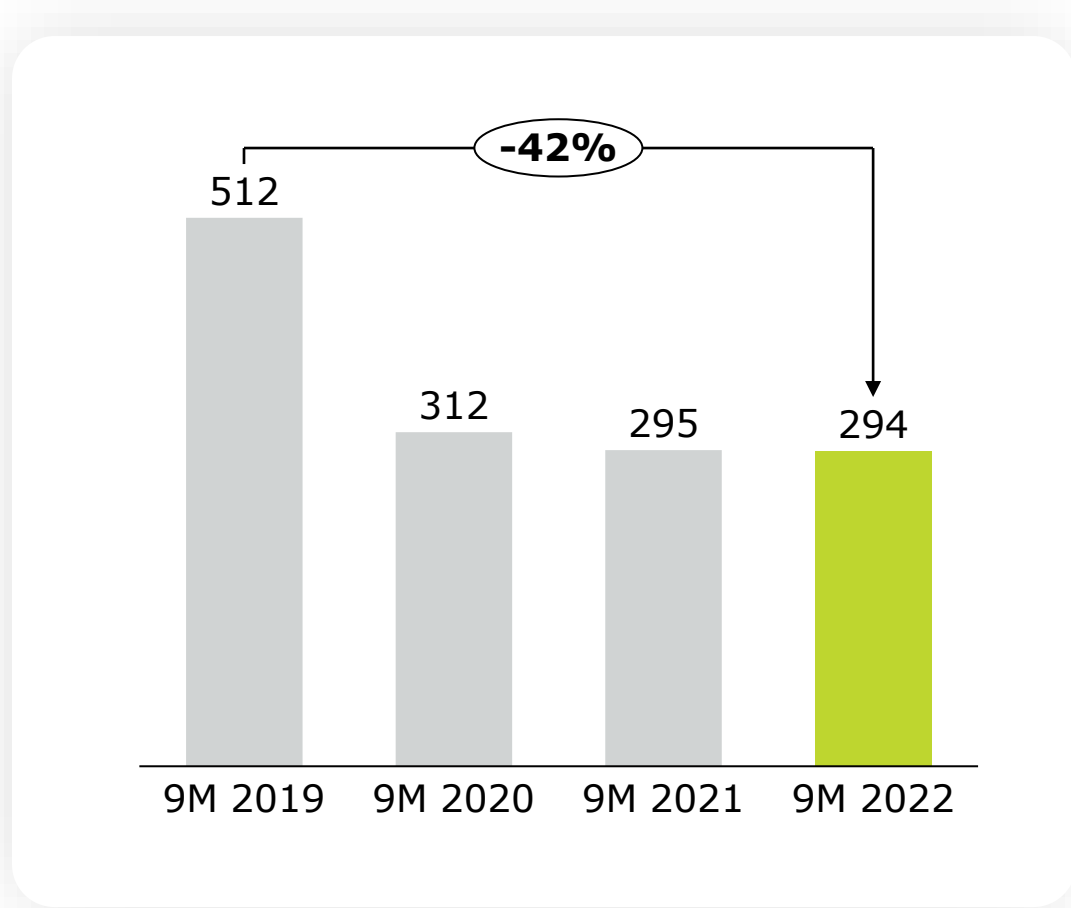
## Headcount development

#



## Employee cost development

EUR million



# New CLA's are a critical step to TAP's future

## Background

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**"Complex and outdated labor agreements"**

## Current situation

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**"Emergency Agreements enabled TAP survival but not sustainable"**

## Guiding Principles

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**"A fairer, more productive and more rewarding labor framework for the future"**

***New CLA to promote growth and development by unlocking productivity***

# 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**



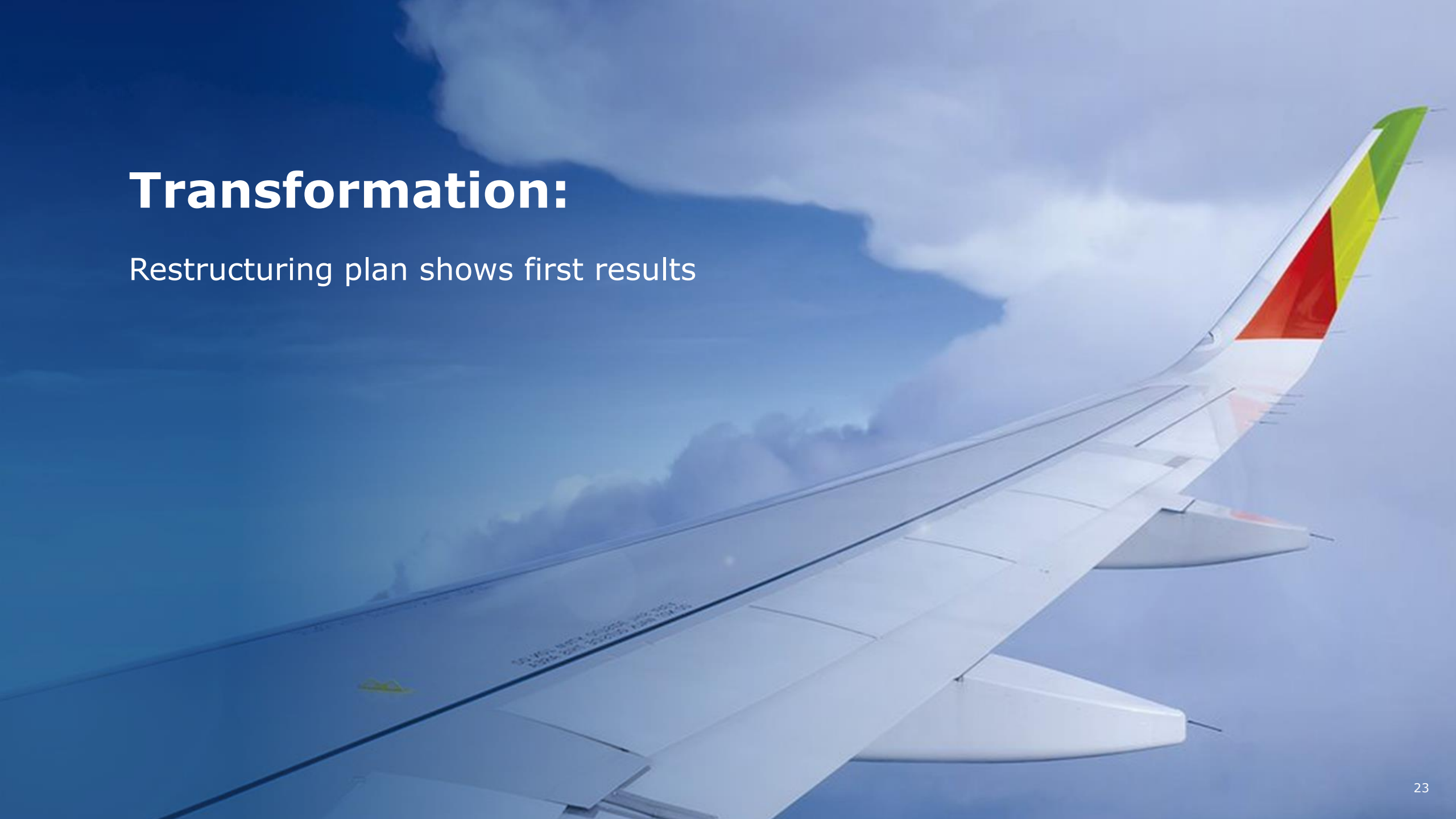
**BOARD CONSTITUTION**  
**9 MEMBERS (5 EDs + 4 NEDs)**  
**3 NATIONALITIES**



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

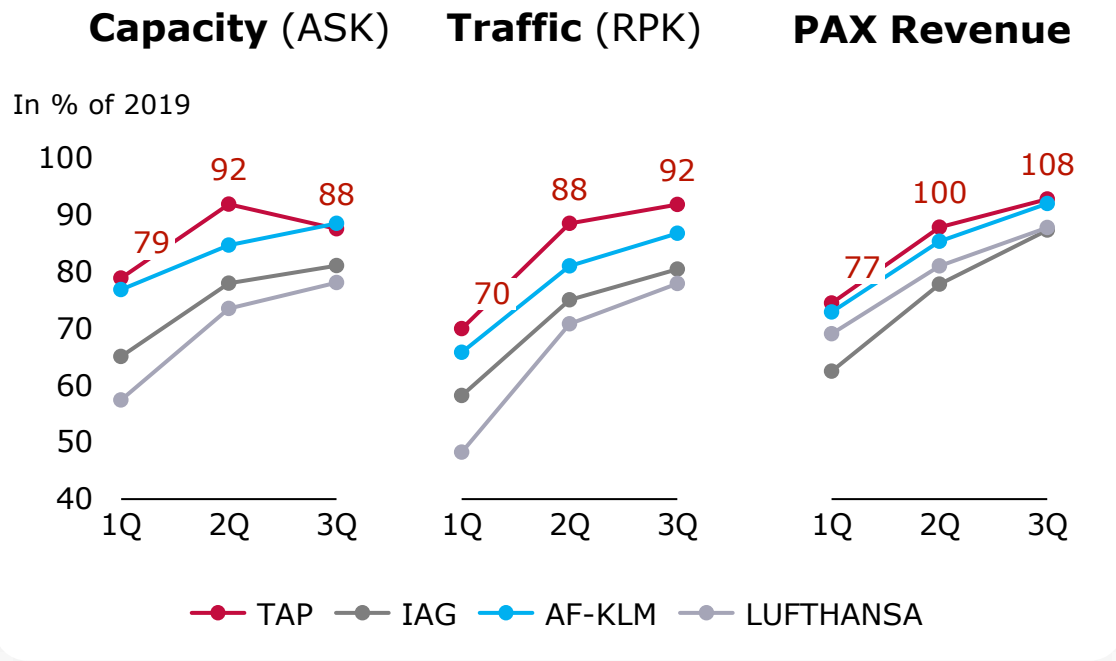
# Transformation:

Restructuring plan shows first results

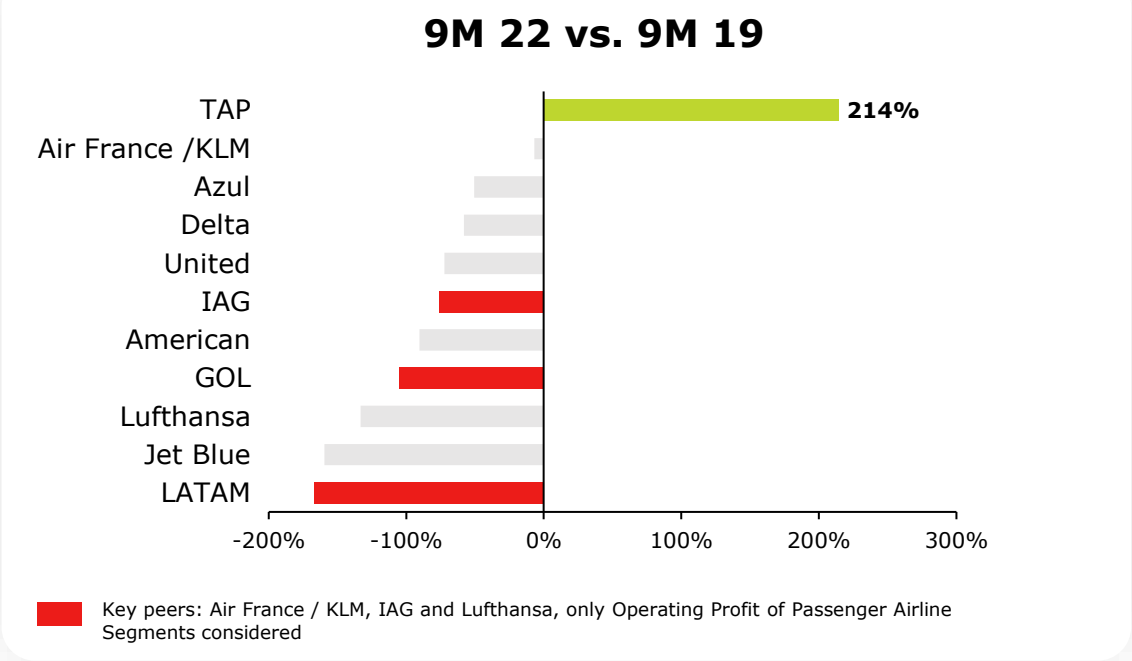


# TAP is recovering from the COVID pandemic faster than its peers

## Stronger recovery on key metrics



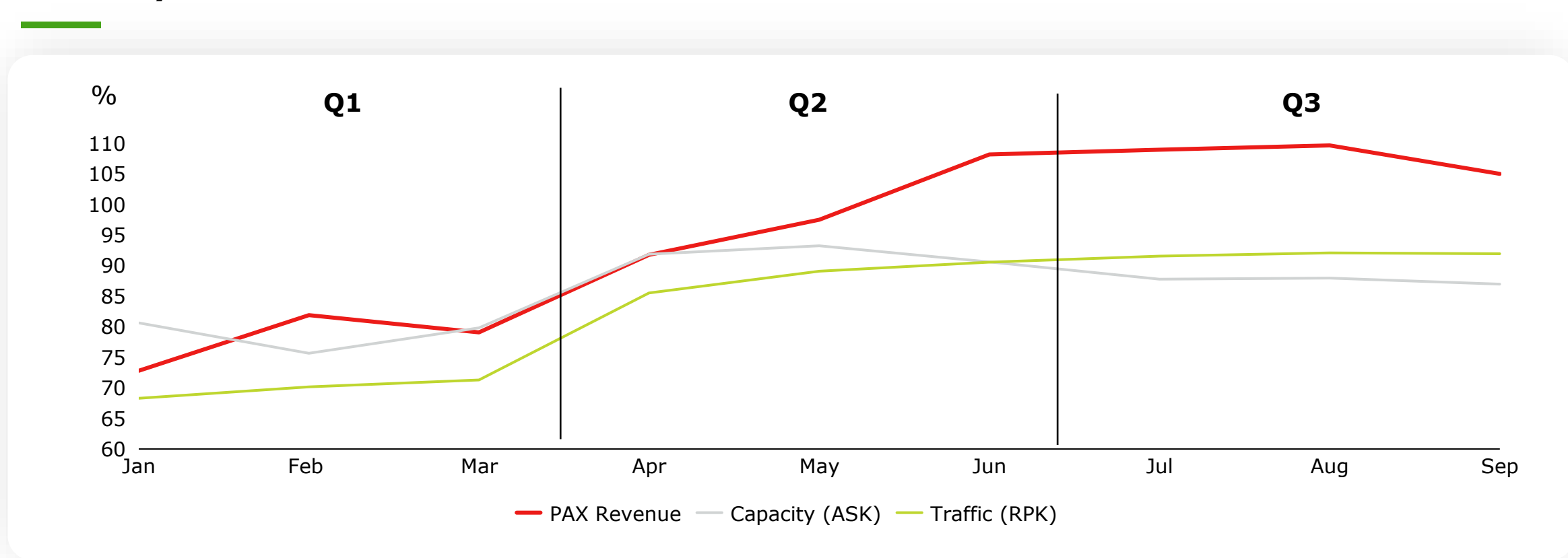
## Operating result development





# Recovery trend stabilizes on high level in the peak season

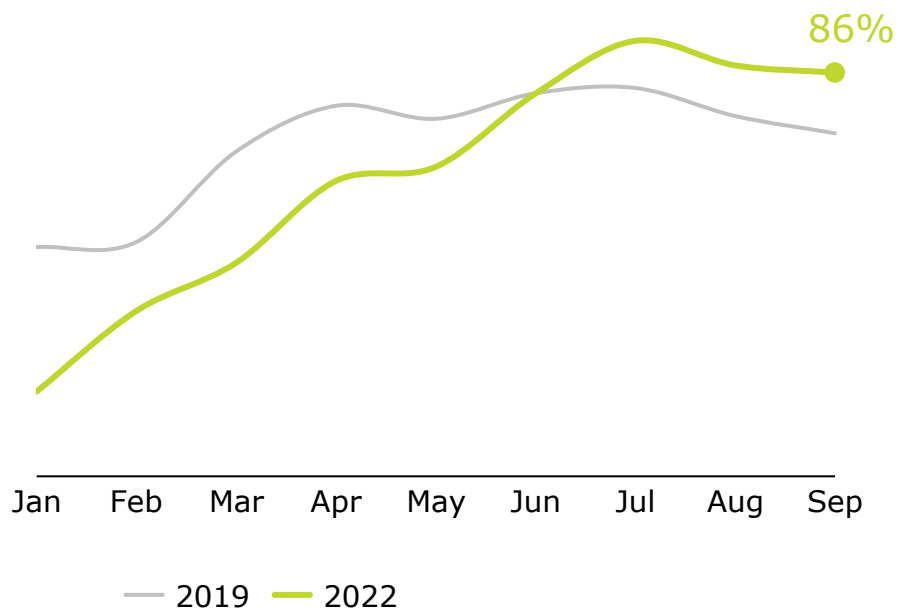
## Recovery in 2022 as % of 2019



# Commercial measures drive load factor and yields

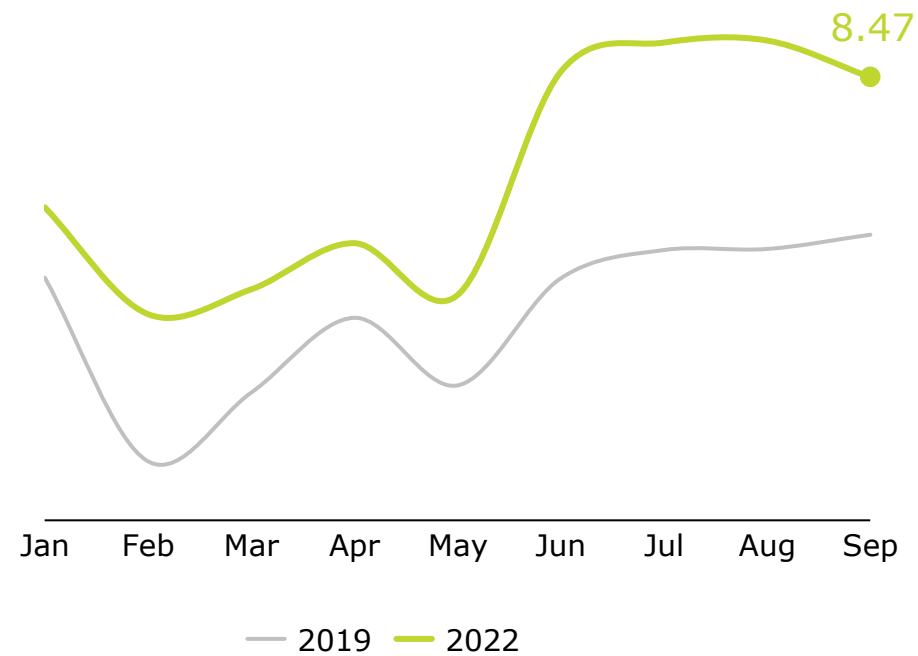
## Load factors

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>

# 2022 set to exceed 2019 in all financial metrics

## Revenues

In % of 2019



## Recurring EBIT

In % of 2019



## Recurring EBIT Margin

Vs.2019



## Net Income

Vs.2019



### 3Q 2022

EUR 1,119m

107%

EUR 153m

118%

13.6%

+1.1 pps.

+EUR 111m

+EUR 110m

### 9M 2022

EUR 2,440m

98%

EUR 154m

312%

6.3%

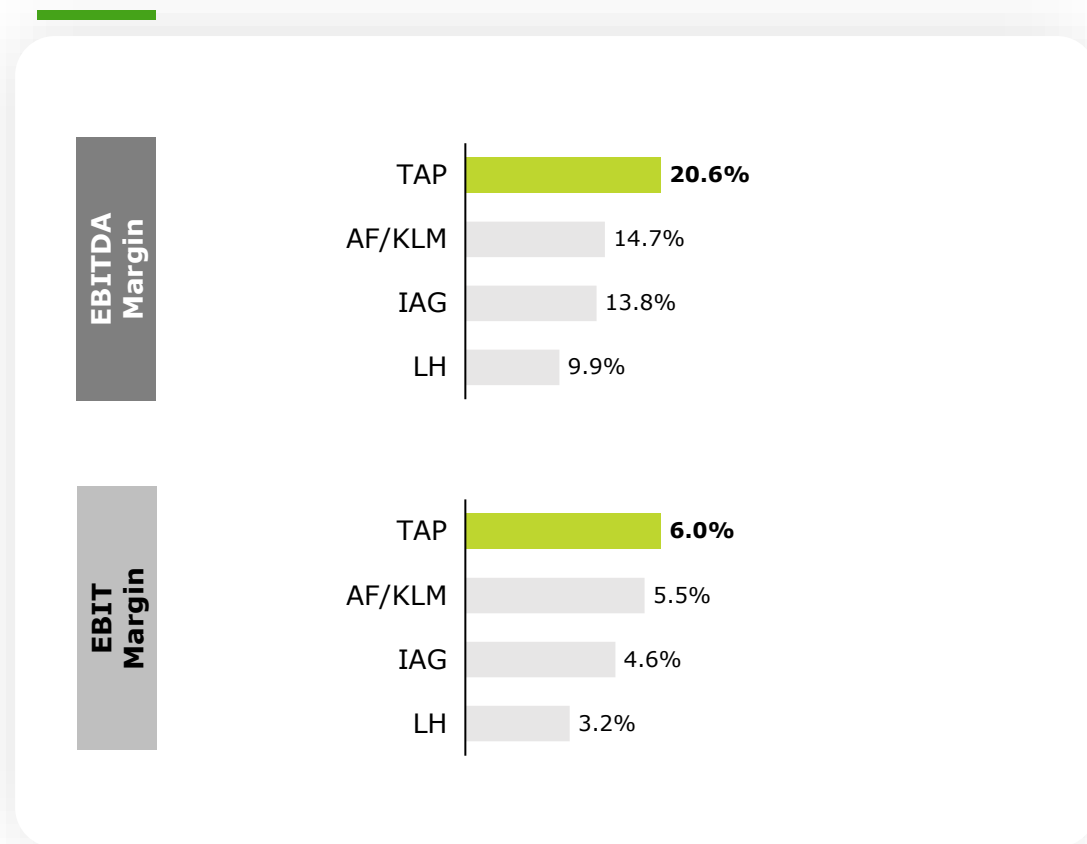
+4.3 pps.

-EUR 91m

+EUR 20m

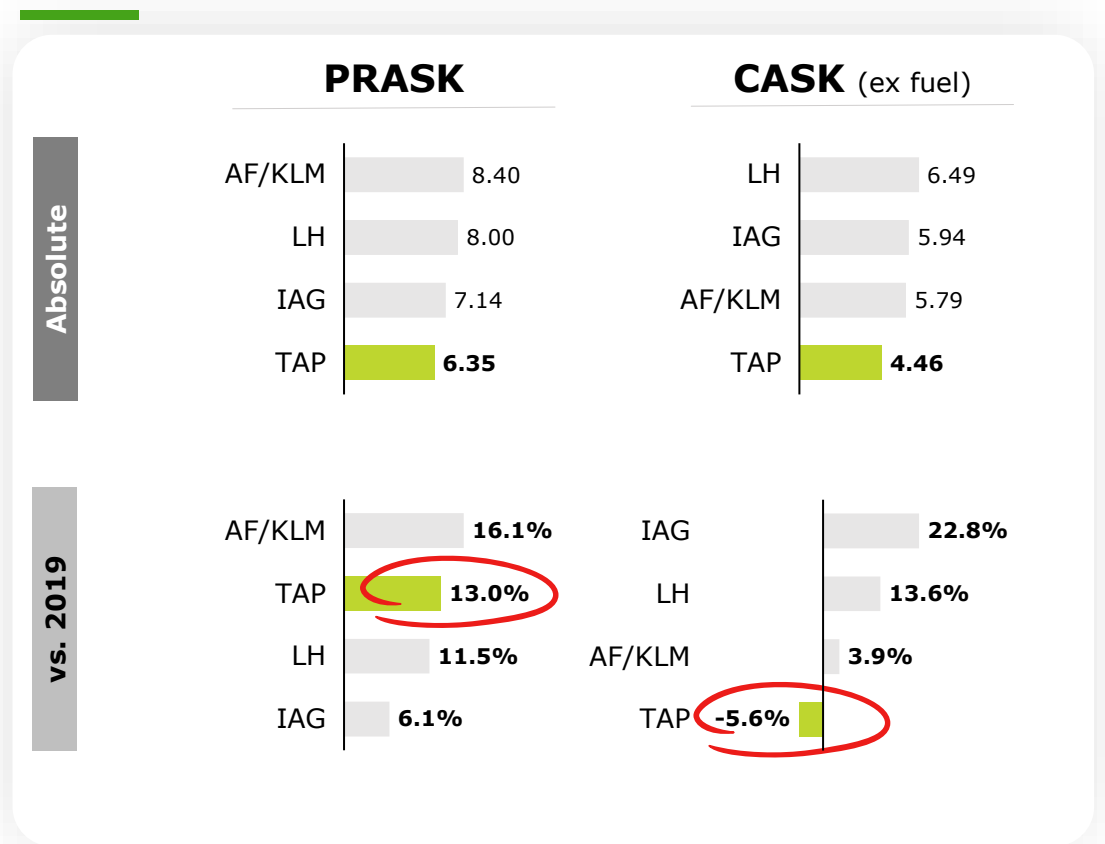
# TAP operating results in 9M 22 compare well with its key peers

## 9M 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

## 9M 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:

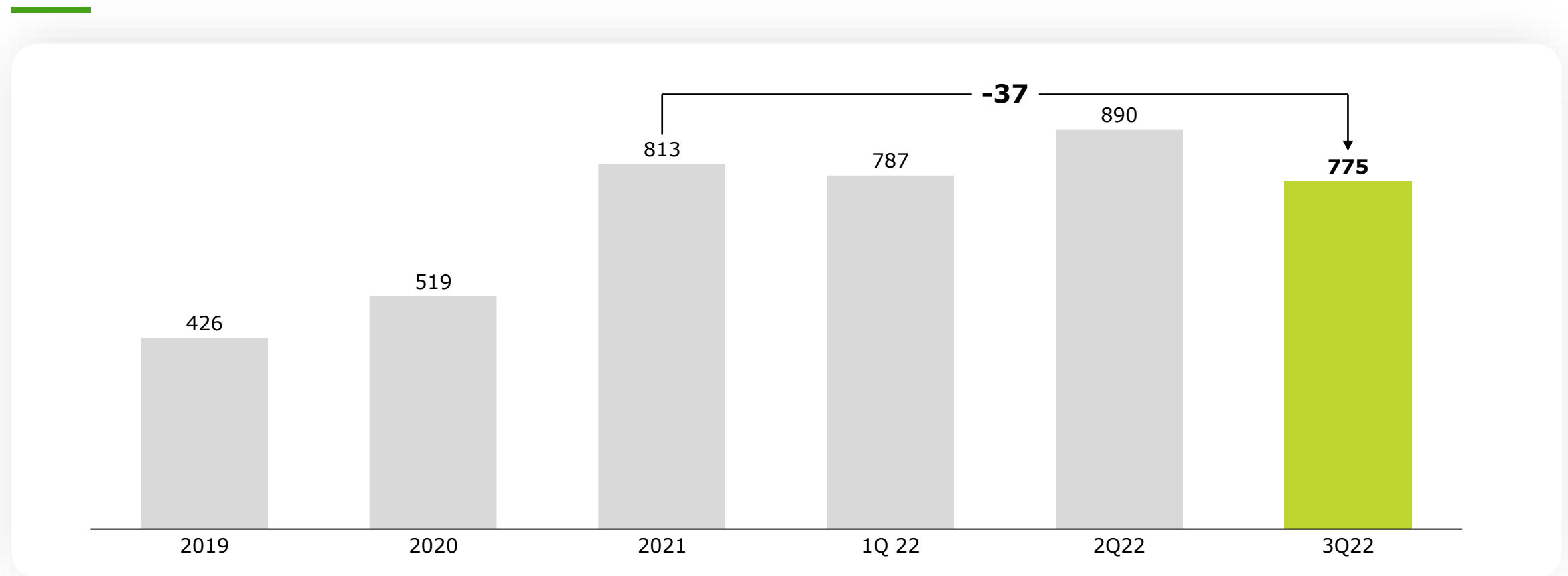
Strengthened financial profile



# Still solid liquidity after peak season – almost cash neutral YTD

## Liquidity<sup>1</sup>

Cash & Equivalents, EUR million

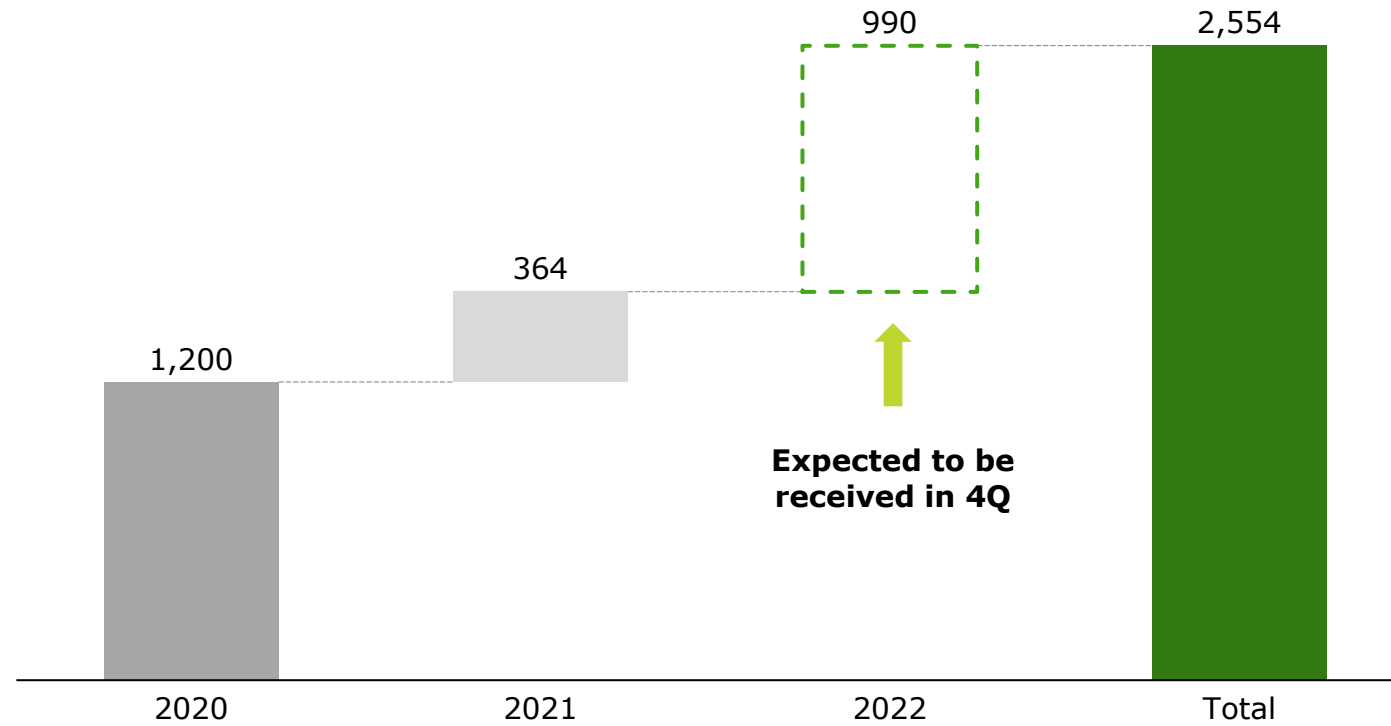


1. Any discrepancy between change in liquidity and cash flow due to currency effects

# Last portion of restructuring aid still outstanding

## Restructuring Aid

EUR million

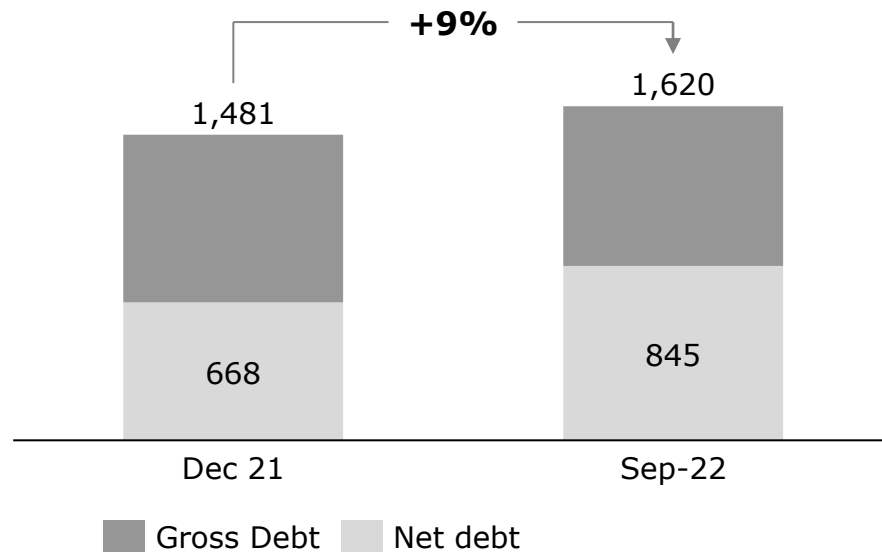




# Increasing debt on the back of new aircraft and USD movements

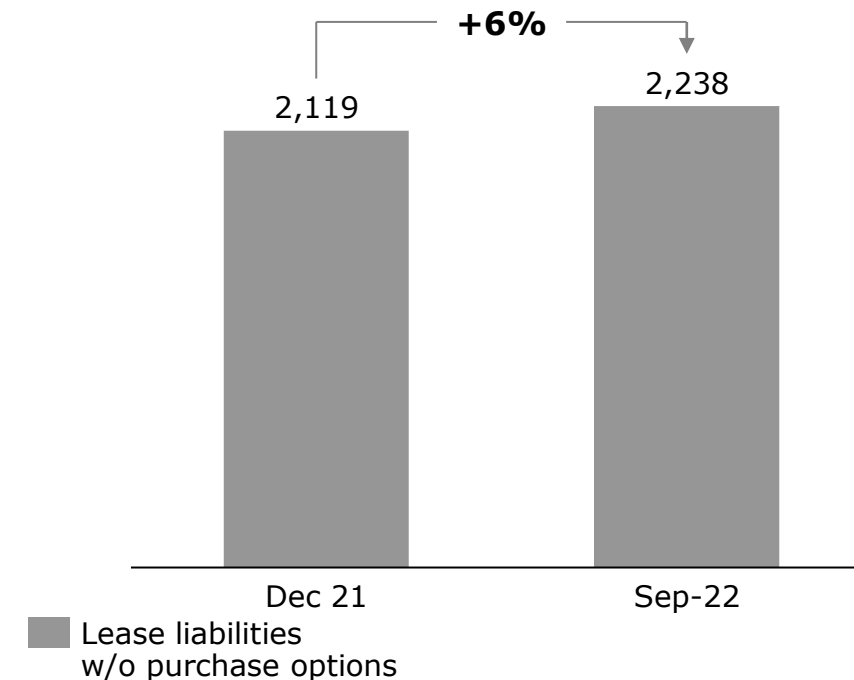
## Financial debt position

EUR million



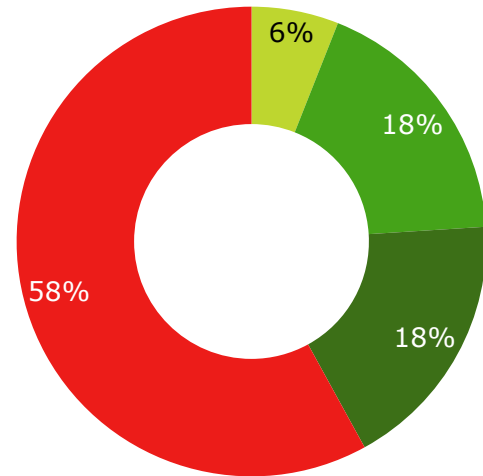
## Operating leases

EUR million



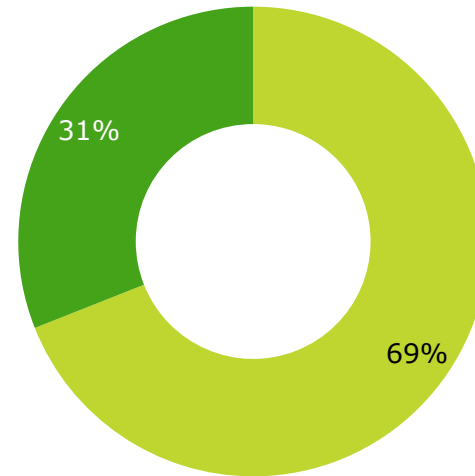
# Protected from interest rate movements with 92% fixed rate debt

## Financing Instruments



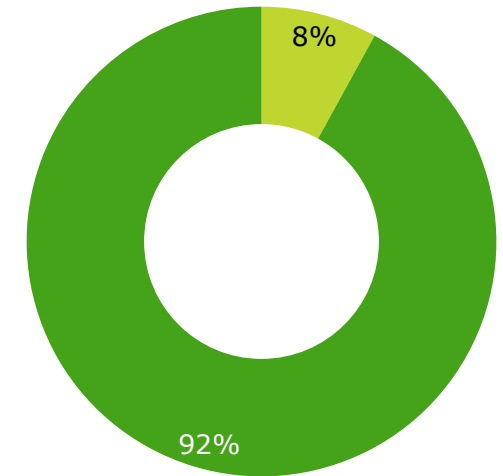
- Bank Loans
- Bonds
- Leases w/ purchase option
- Leases w/o purchase option

## Currency



- USD
- EUR

## Interest rate

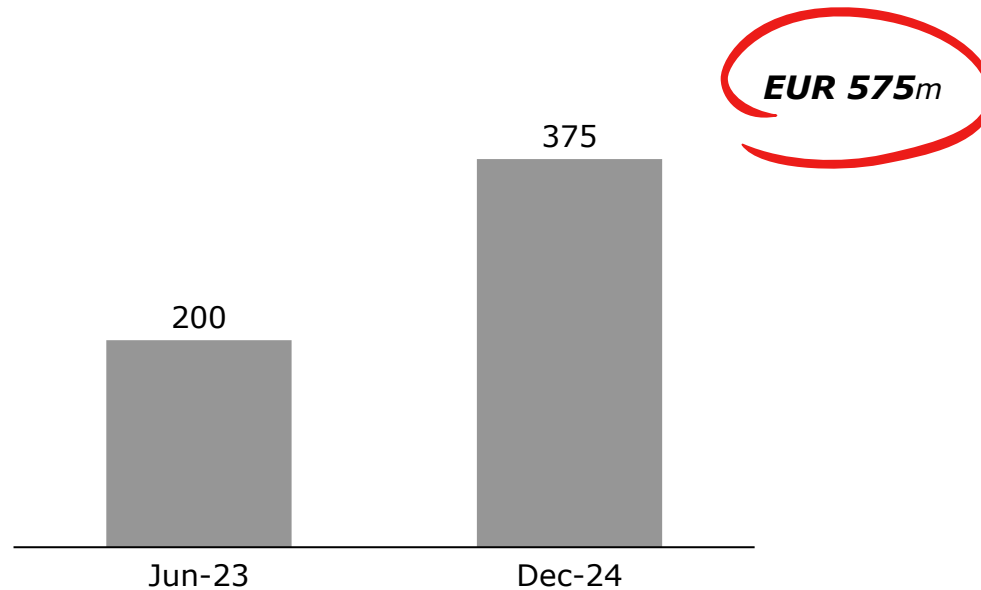


- Variable rate
- Fixed rate

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

## Bonds maturing in 2023 and 2024

EUR million

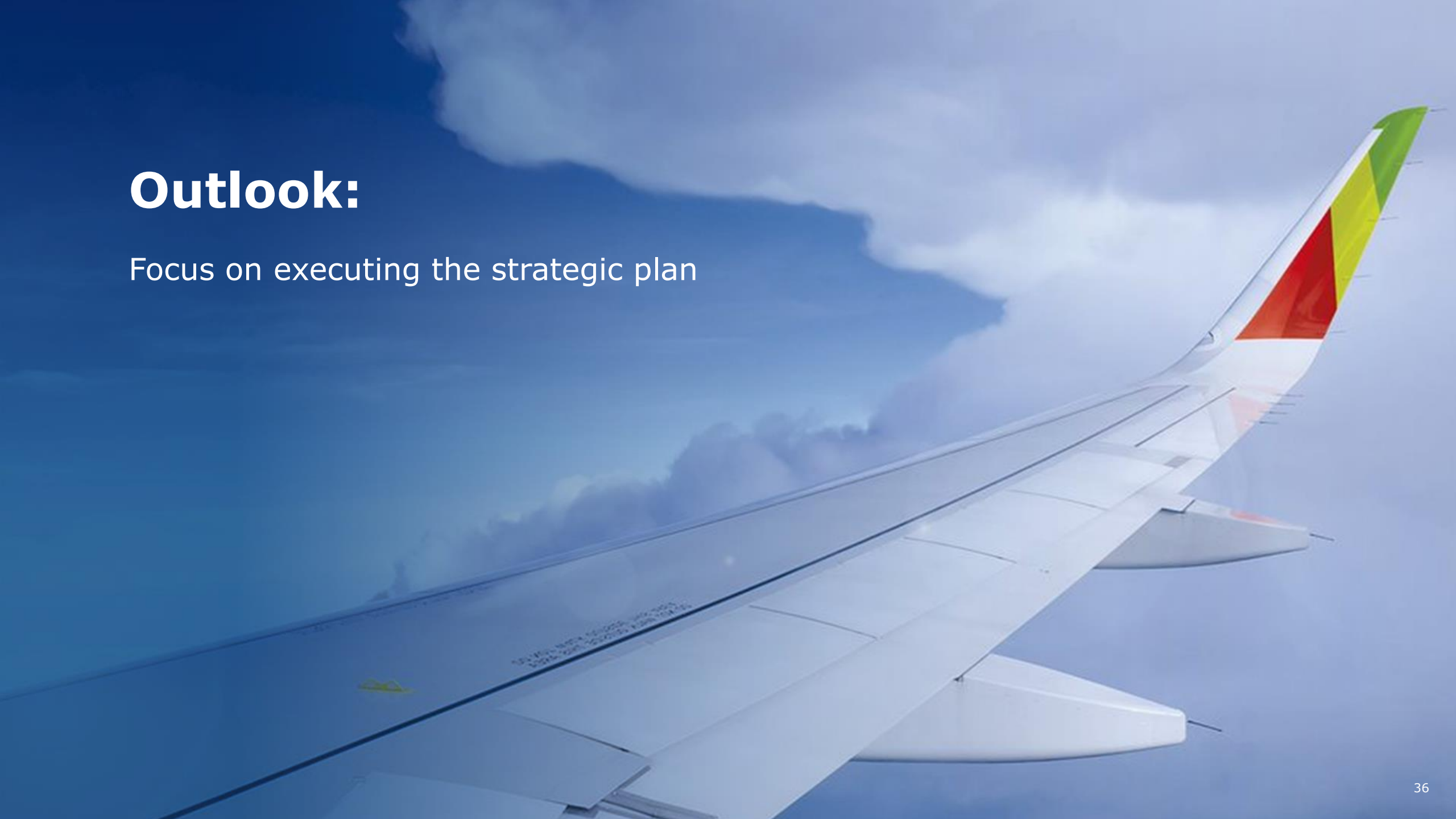


### TAP intends to deleverage

- Good liquidity level following 9M 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

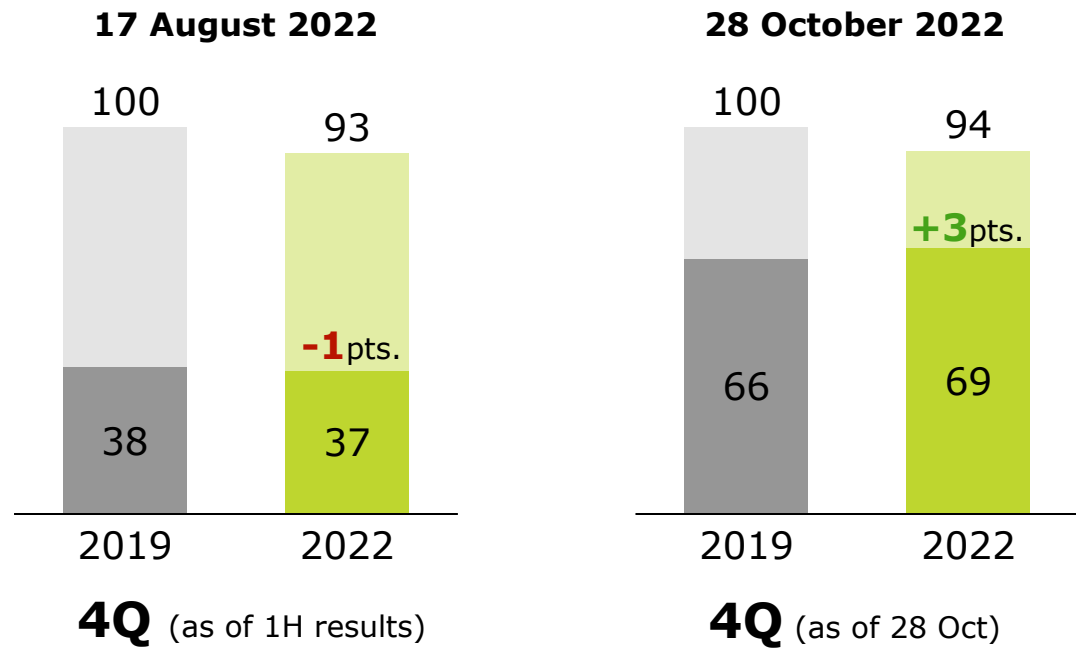
# Outlook:

Focus on executing the strategic plan



# Strong end of the year expected but 2023 with challenges

## Outlook for the end of the year has improved since 1H results



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

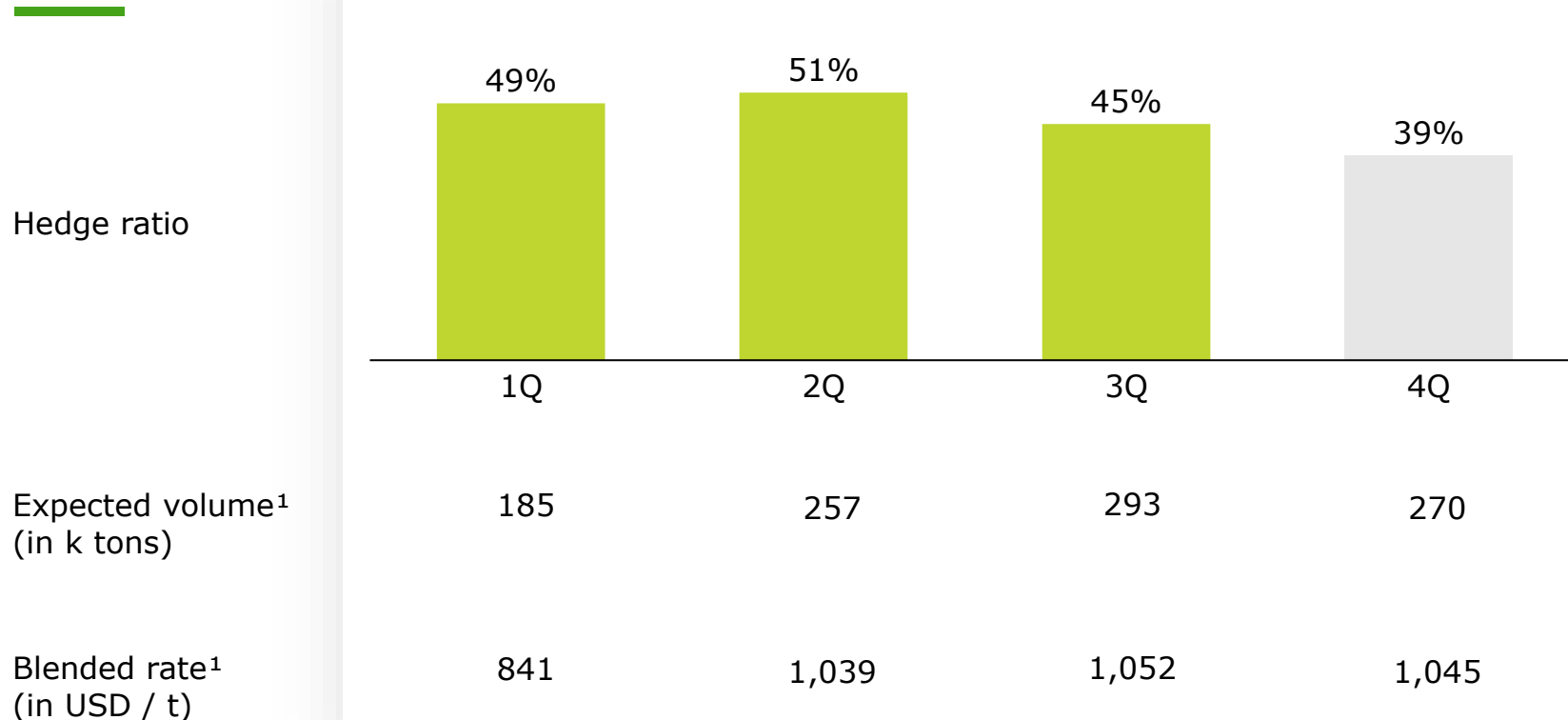
■ 2022 Capacity in ASK vs. 2019  
■ Forward booking load factor 2022

## TAP will be facing further challenges in 2023

- Safeguarding revenues in **recessionary environment**
- Cost reduction amid **inflation**
- Improving customer satisfaction despite a **capacity constrained infrastructure**
- Negotiating **new labor agreements**

# 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

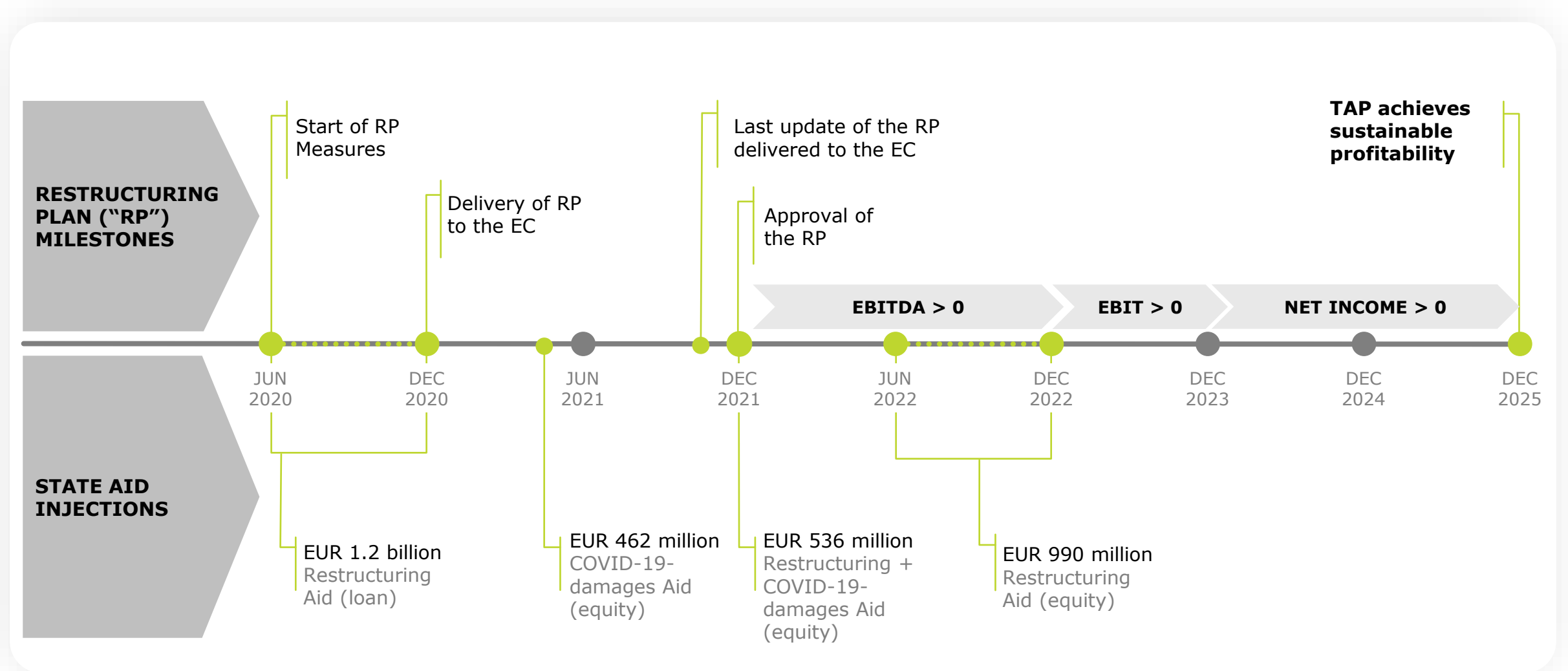
Aiming to hedge between 40% and 50% of next quarter's estimated fuel consumption

c. 46% of expected full year jet fuel consumption hedged

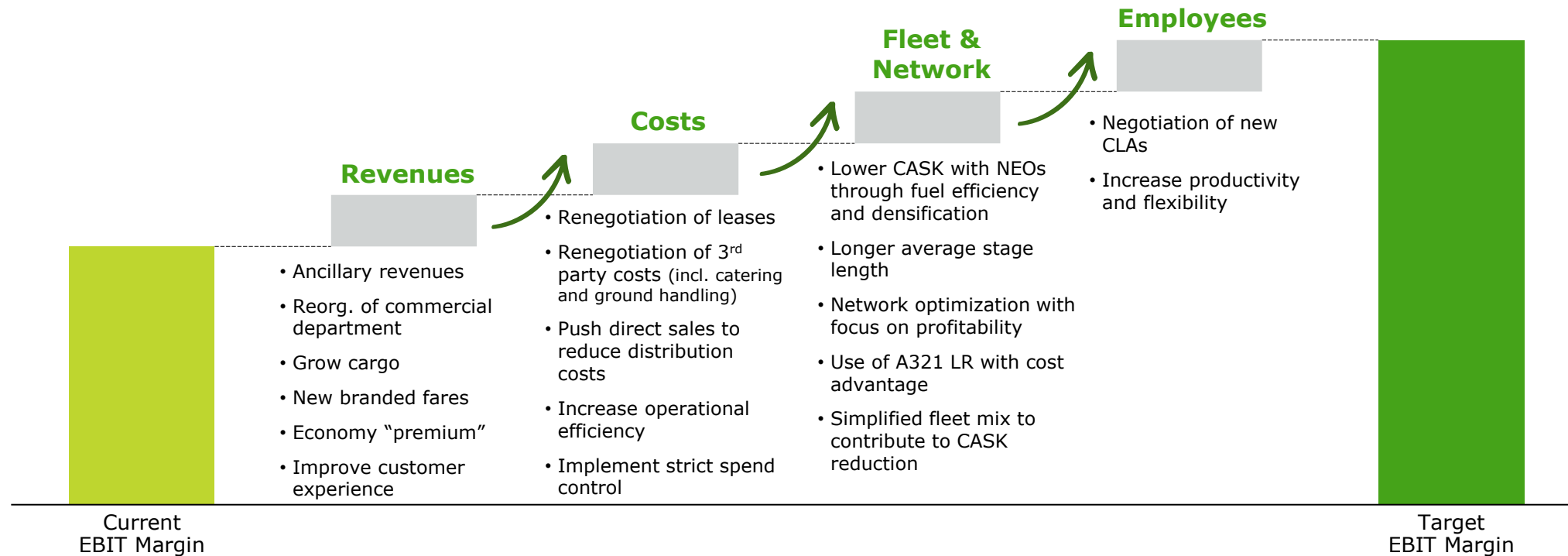
20% of expected volume for 1Q 23, hedged, 9% for 2Q 23

1. As of October 27, 2022.

# Continued focus on execution of the restructuring plan



# Focus on profitability improvement rather than growth





# Progressing in the implementation of the strategic plan

## Strategic initiatives for the second half of 2022

- **Negotiate all new 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
  - 68% of long and medium haul fleet are NEO; increasing to 75% 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
  - reached 88% of capacity and 108% of revenues in Q3 compared to 2019
- 6 Strategic plan** yields visible result improvements paving the way to deleveraging
  - Record operating results 3Q and 9M 2022
  - Strengthened balance sheet with solid liquidity level



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# Appendix

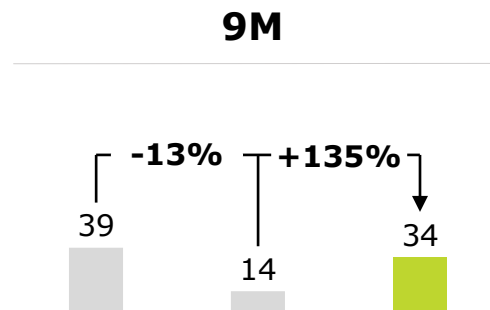
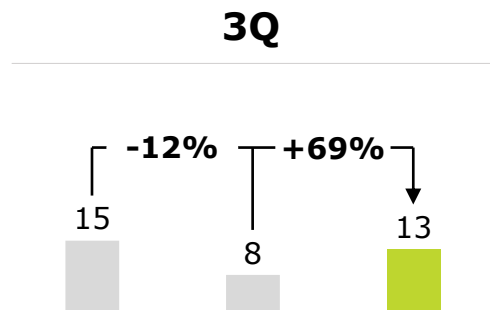
# 3Q and 9M 2022 results



# Volume metrics recovering but still below pre-crisis levels

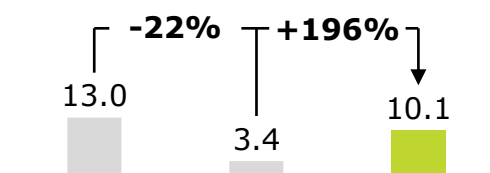
## ASKs

Billions



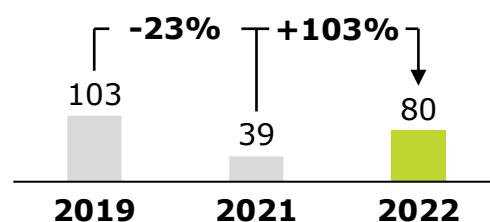
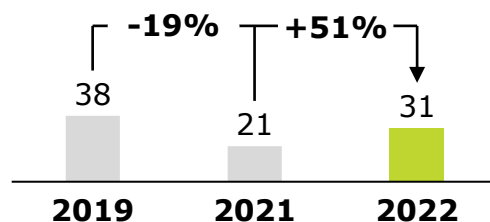
## Passengers

Millions



## Departures

Thousands



## Comments

Volume metrics impacted by smaller fleet. ASKs reaching 88% of 2019 levels in 3Q

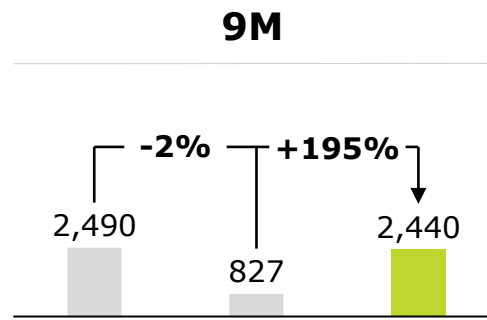
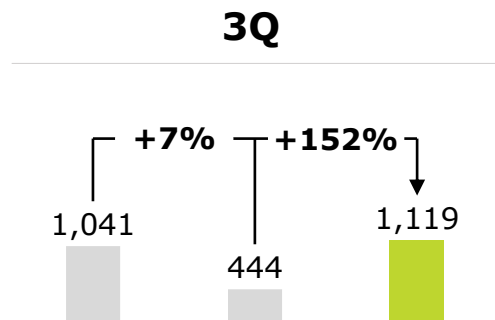
Number of passengers doubled versus 2021, reaching 85% of 2019 levels in 3Q

81% of 2019 departures achieved in 3Q

# Revenues surpassing pre-crisis level in 3Q

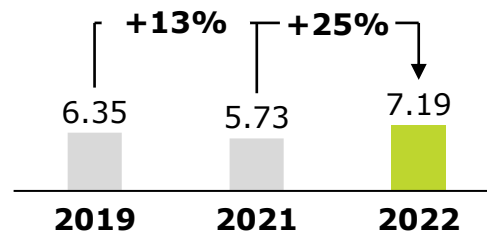
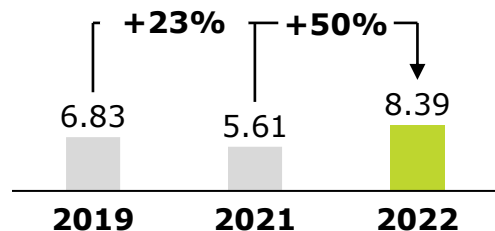
## Total operating revenue

EUR Millions



## RASK

EUR cents



## Comments

Revenues grew significantly and were 7% above pre-crisis level in 3Q, despite - 12% ASK vs. 2019

Passenger business represents about 90% of total revenues

Unit revenues clearly above 2019 level (+23% in 3Q) driven by higher fares and strongly improved load factors

# Record operating profit

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

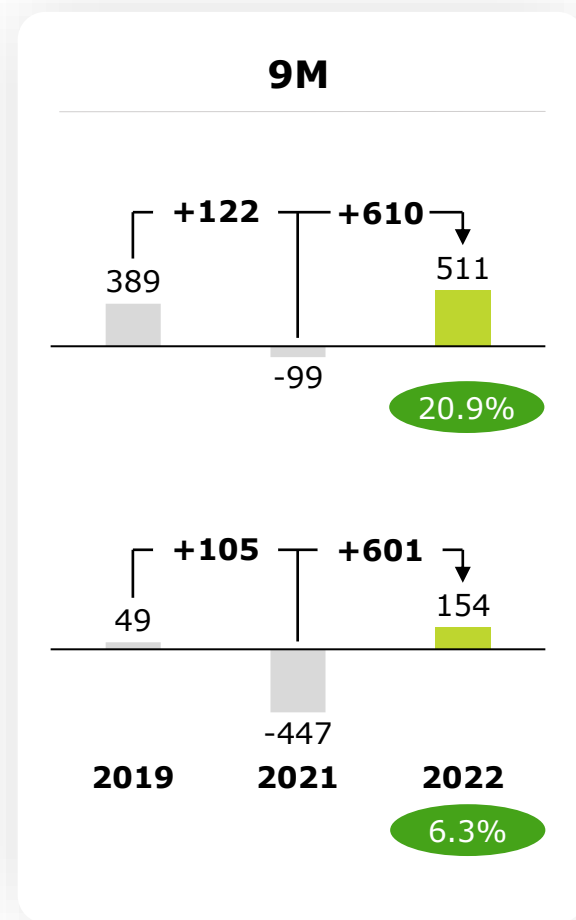
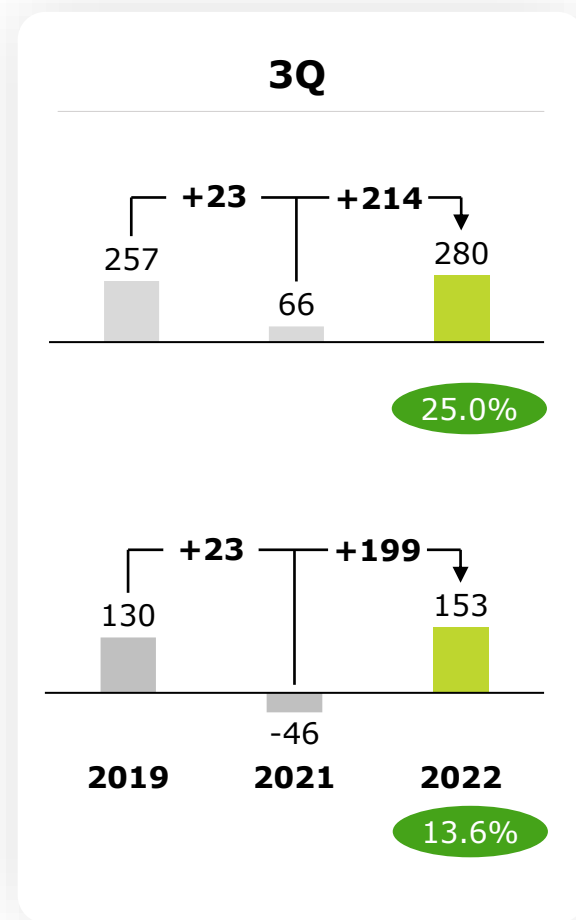
EUR million

### Margin

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

EUR million

### Margin



## Comments

Operating profit significantly higher than pre-crisis, despite higher fuel costs

Recurring EBIT in 9M 22 already ~3x FY 19 amount

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.



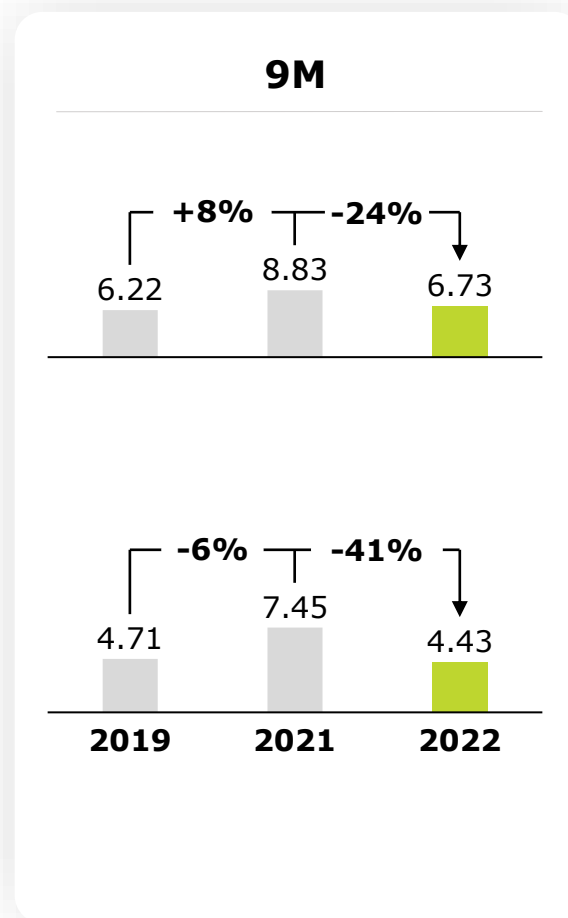
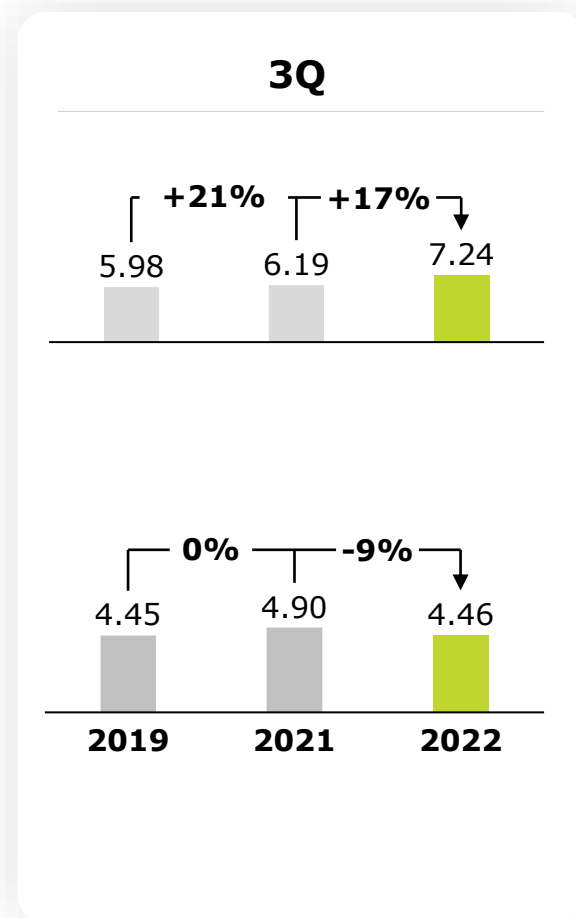
# Good unit cost performance despite lower capacity

## Recurring CASK

EUR cents

## Recurring CASK ex-fuel

EUR cents



## Comments

Year-on-year CASK development impacted by lower ASK recovery in 3Q than in previous quarters and further increased fuel prices

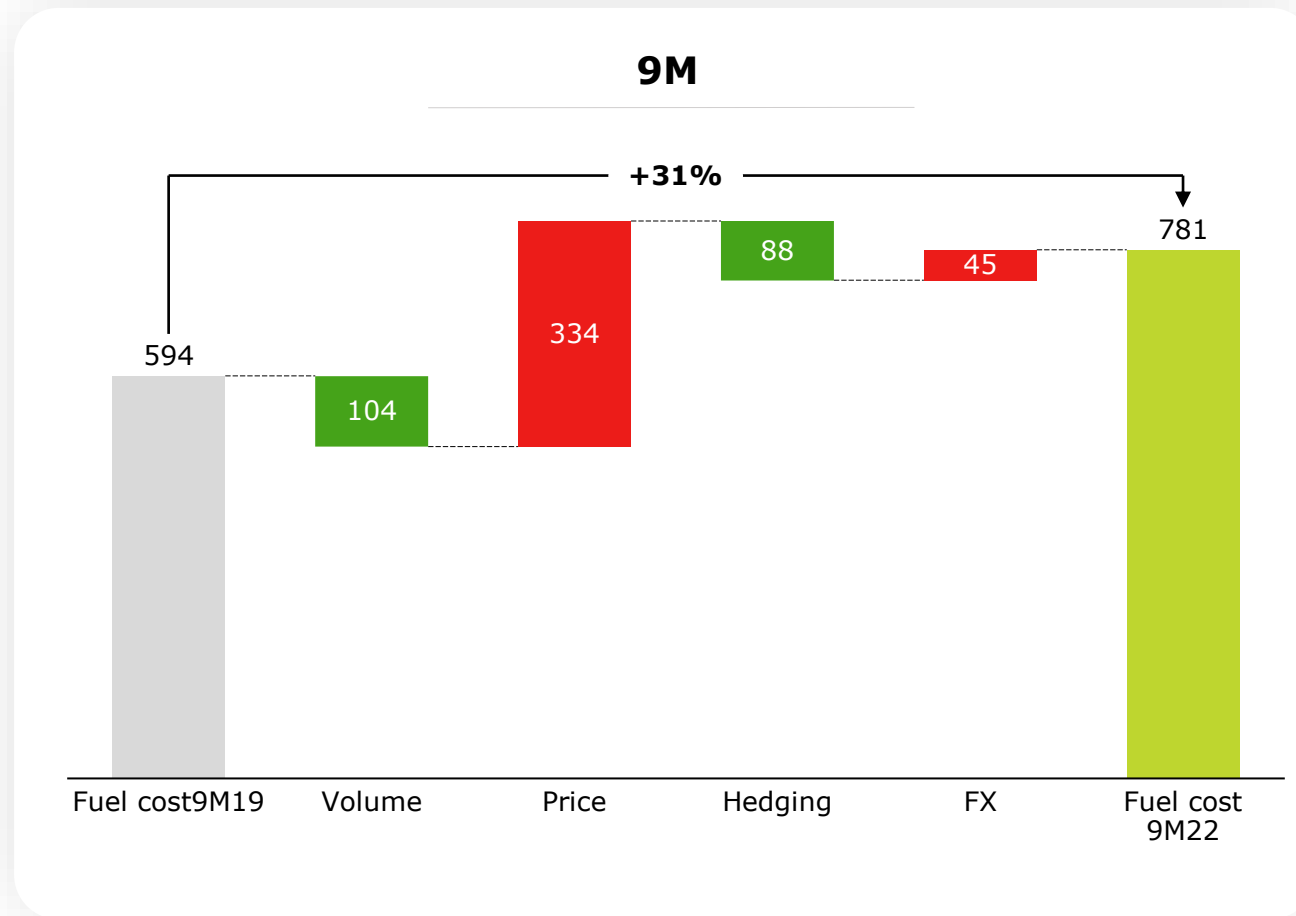
CASK ex-fuel on same level as 2019, despite lower ASK and higher inflation

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 essentially reflect the drastically increased Jet-fuel prices and USD appreciation, overcompensating effects from lower activity and hedging

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

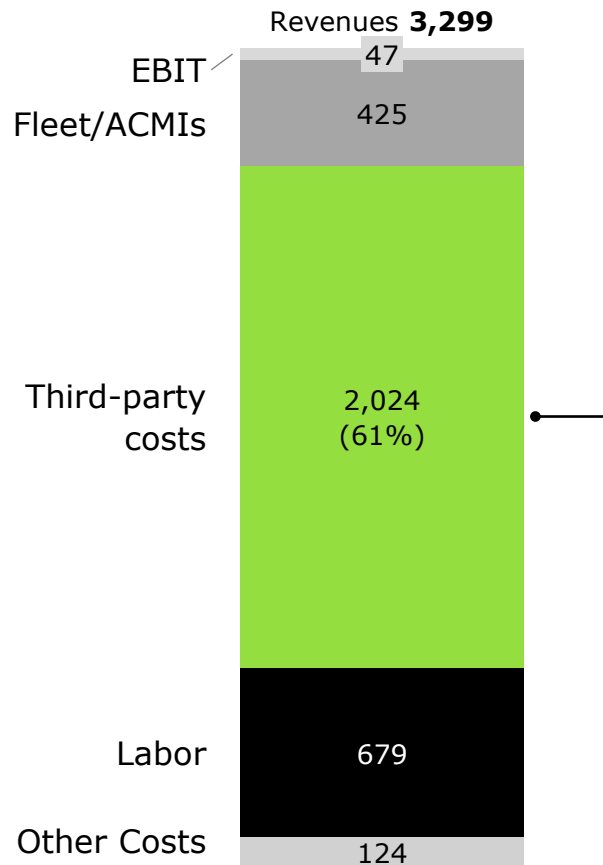
**Other**



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

## Costs to EBIT TAP 2019

Million €



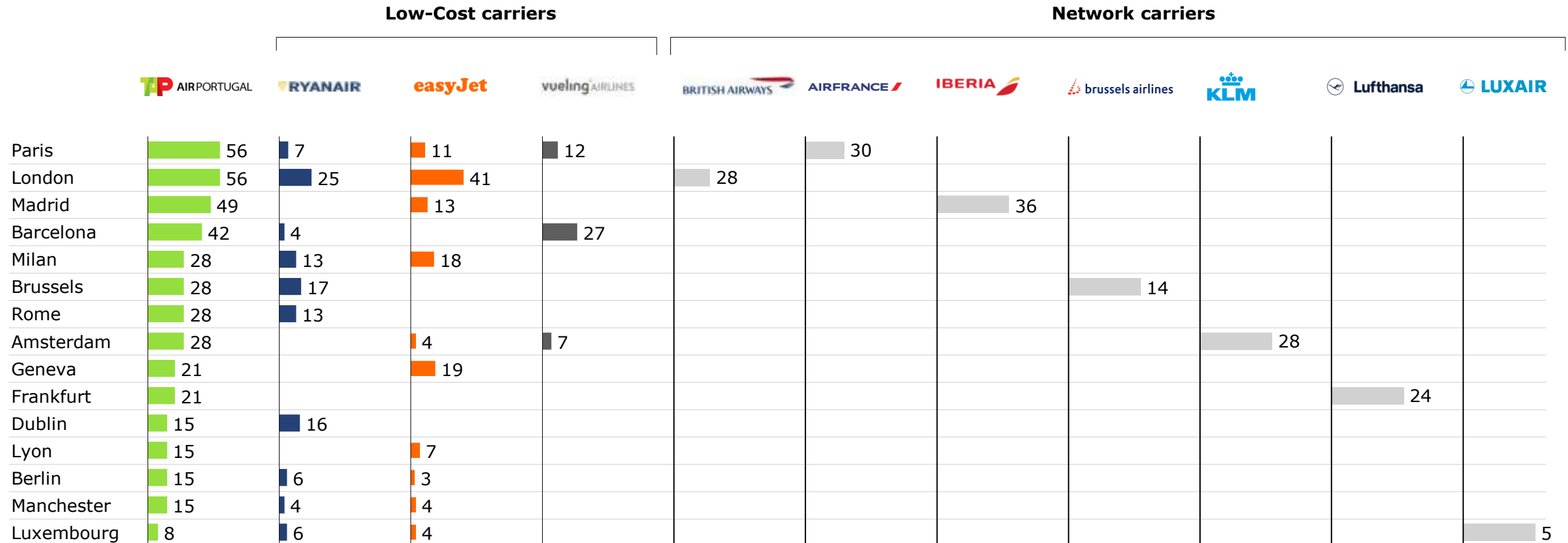
Categories	Cost base -M€, 2019 (% of total)	Mostly variable?	Actionable?
<b>Fuel</b>	<b>790</b> (39%)	✓	Only 2-3% is addressable for negotiations (~20M€)
<b>Handling</b>	<b>204</b> (10%)	✓	Prices payed in Portugal are high and should be subject to renegotiation
<b>M&amp;E</b>	<b>197</b> (10%)	✓	Semi-fixed 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