AIR PORTUGAL

TRANSPORTES AÉREOS PORTUGUESES, S.A.

2020

MANAGEMENT REPORT AND CONSOLIDATED ACCOUNTS

A STAR ALLIANCE MEMBER

CONSOLIDATED

MANAGEMENT REPORT

2020

CONTENTS

1. GOVERNING BODIES

Transportes Aéreos Portugueses, S.A. (“TAP”, “TAP, S.A.”, “Company” or “Airline”)

Three-year period 2018-2020

By unanimous written resolution of 31 January 2018, of the sole shareholder TAP-Transportes Aéreos Portugueses, SGPS, S.A. (“TAP SGPS”, “TAP Group” or “Group”).

General Meeting Committee

Composition on 31 December 2020

Chairman	Vítor Pereira das Neves *Appointed on 28 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

Composition on 31 December 2020

Chairman	Miguel Jorge Reis Antunes Frasquilho *Appointed on 28 October 2020, through unanimous written resolution of the sole shareholder TAP-Transportes Aéreos Portugueses, SGPS, S.A.*
Director	Ramiro José Oliveira Sequeira *Appointed on 16 September 2020, through unanimous written resolution of the sole shareholder TAP-Transportes Aéreos Portugueses, SGPS, S.A., coming into effect on 17 September 2020.*
Director	Raffael Guarita Quintas Alves *Resigned as Director of the Board of Directors, with effect from 15 January 2021.*
Director	Alexandra Margarida Vieira Reis *Appointed on 30 September 2020, through unanimous written resolution of the sole shareholder TAP-Transportes Aéreos Portugueses, SGPS, S.A.*
Director	José Manuel Silva Rodrigues *Appointed on 30 September 2020, through unanimous written resolution of the sole shareholder TAP-Transportes Aéreos Portugueses, SGPS, S.A.*

Antonoaldo Grangeon Trancoso Neves submitted his resignation as Director of the Board of Directors, with effect from 16 September 2020.

Humberto Manuel dos Santos Pedrosa and David Humberto Canas Pedrosa submitted their resignations from the positions of, respectively, Chairman and Director of the Board of Directors, with effect from 30 September 2020.

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

Executive Committee

Composition on 31 December 2020

Chief Executive Officer	Ramiro José Oliveira Sequeira *Appointed with effect from 17 September 2020, through resolution of the Board of Directors of 16 September 2020*
Director	Raffael Guarita Quintas Alves *Resigned as Director of the Board of Directors, with effect from 15 January 2021.*
Director	Alexandra Margarida Vieira Reis *Appointed on 30 September 2020, through resolution of the Board of Directors.*

Company Secretary

By resolution of the Board of Directors of 31 January 2018

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

Supervisory Board

Mandate (Start - End)	Position	Name	Appointment Doc.	Mandates held in the Company	
				Number	Date 1st appointed
2018-2020	Chairman	Baker Tilly, PG & Associados, SROC, S.A.	Unanimous Written Resolution	2	5.Mar.2020
	Director	Maria Susana da Mota Furtado e Almeida Rodrigues	Unanimous Written Resolution	2	13.Nov.2015
	Director	Susana Nereu de Oliveira Ribeiro (*)	Unanimous Written Resolution	1	5.Mar.2020
	Deputy	João Miguel Guerreiro Aranha	Unanimous Written Resolution	1	31.Jan.2018

(*) *submitted resignation with effect from 31 December 2020*

Certified Public Accountant

Appointed on 17 December 2019, through unanimous written resolution of the sole shareholder TAP-Transportes Aéreos Portugueses, SGPS, S.A.

Permanent PricewaterhouseCoopers & Associados, SROC, Lda., represented by António Joaquim Brochado Correia or Hugo Miguel Patrício Dias.

Deputy Carlos Figueiredo Rodrigues

2. CORPORATE STRUCTURE OF TAP, S.A. (CONSOLIDATED ACCOUNTS)

At 31 December 2020, TAP owned 100% of the subsidiary TAP Logistics Solutions, S.A., incorporated on 30 December 2019 to operate in the cargo and mail sector. Accordingly, the financial statements of this company were included by the full consolidation method in the consolidated financial statements of TAP, S.A. as at 31 December 2020.

3. DEVELOPMENT OF THE BUSINESS ACTIVITY IN 2020

3.1. Introduction

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

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

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

- **In addition to the adjustment of capacity, several other measures were taken to preserve the Company's liquidity**. These include the suspension or postponement of non-critical investments and the postponement of aircraft delivery, renegotiation of contracts and payment deadlines with suppliers and lessors, cutting ancillary expenses, not renewing fixed-term employment contracts, which resulted in an effective workforce reduction of 1,042 employees, suspension of salary progressions, adherence to the simplified layoff regime and extraordinary support for the gradual resumption of activity, and the implementation of temporary unpaid leave programmes. Out of the negotiations with providers, we highlight the agreement reached with Airbus, which changed the delivery dates of 15 new-generation aircraft, allowing for a CAPEX reduction of approximately USD 1,000 million between 2020-2022.

- **The speed with which some of these measures were taken at the beginning of the pandemic enabled TAP to maintain sufficient liquidity until the State aid was formally provided**. The State aid comprised financing granted by the Portuguese State to TAP of EUR 1,200 million, the first tranche of which was received on 17 July 2020**.** The subsequent tranches of this financing were received until 31 December 2020, which led the Company to end 2020 with a strong liquidity position of EUR 518.8 million.

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

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

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

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

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

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

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

3.2. Sector Environment

Economic Framework

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

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

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

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

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

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

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

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

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

Airline Sector Overview

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

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

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

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

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

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

3.3. Operational and Economic-Financial Performance

Operational Performance

TAP, S.A. Consolidated	2020	2019	Change	
			Abs.	%
Passenger ('000)	4,657.2	17,051.9	-12,394.7	-72.7%
RPK (million)	11,876.2	42,065.4	-30,189.2	-71.8%
ASK (million)	18,376.0	52,527.2	-34,151.1	-65.0%
Load Factor (%)	64.6	80.1	-15.5 p.p.	n.m.
Block Hours	147,213	409,522	-262,309	-64.1%
Number of Departures	47,900	136,705	-88,805.0	-65.0%
Average Stage Length (km)	2,044.2	1,955.9	88.3	+4.5%
Active Staff (end of period) [1)]	8,106	9,006	-900	-10.0%

1) Includes active staff and staff on the simplified layoff regime.

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

However, the drop in operations seen from March 2020, because of the pandemic, led to huge decreases in the consolidated operating indicators of 2020. For the year as a whole, TAP registered a 72.7% fall in passengers carried and the capacity, measured in ASKs, decreased by 65.0%. It should be noted that TAP's operation was residual in the months of April to June, with a decrease of capacity in that quarter of 98%, compared with the same quarter of 2019. The year-on-year variations in terms of ASKs were smaller from that date onwards, but still down -79% and -69% in Q3 and Q4 2020, respectively. Passenger demand, expressed in RPKs, suffered a 71.8% decrease in the year, resulting in a load factor of 64.6% in 2020, which compares with 80.1% in 2019 (-15.5 p.p.).

Economic-Financial Performance

TAP, S.A. Consolidated EUR million	2020	2019	Change Abs.	Change %
Operating Income	**1,060.2**	**3,298.8**	**-2,238.6**	**-67.9%**
Passenger	848.4	2,914.0	-2,065.6	-70.9%
Maintenance	67.9	211.3	-143.4	-67.9%
Cargo and mail	125.7	137.4	-11.7	-8.5%
Other operating income	18.2	36.1	-17.8	-49.4%
Operating Costs	**2,024.9**	**3,251.6**	**-1,226.6**	**-37.7%**
Aircraft fuel	260.5	789.7	-529.2	-67.0%
Traffic operating costs	350.8	807.3	-456.6	-56.6%
Employee costs	419.7	678.6	-258.9	-38.2%
Aircraft maintenance costs	24.4	56.1	-31.7	-56.5%
Cost of materials consumed	40.3	141.3	-101.0	-71.5%
Commercial, communication and marketing costs	69.2	153.2	-84.0	-54.8%
Impair. losses in inventories, receiv. and provisions	44.1	0.0	44.1	>+200%
Other operating expenses	125.0	144.1	-19.1	-13.2%
Restructuring	96.1	5.0	91.1	>+200%
Other non recurrent items	10.3	0.5	9.8	>+200%
Depreciation, amortisation and impairment losses	584.7	475.7	108.9	+22.9%
EBIT (Operating Result)	**-964.8**	**47.2**	**-1,011.9**	**<-200%**
EBIT margin	***-91.0%***	***1.4%***	**-92.4 p.p.**	**n.m.**
Recurring EBIT [1]	**-858.4**	**52.7**	**-911.1**	**<-200%**
Recurring EBIT margin	***-81.0%***	***1.6%***	**-82.6 p.p.**	**n.m.**
Interest and similar income	33.6	33.8	-0.3	-0.8%
Interests and similar expenses	-245.8	-185.4	-60.4	+32.6%
Overhedge Costs	-165.3	0.0	-165.3	n.m.
Net currency exchange	162.1	-21.3	183.4	>+200%
Earnings before taxes	**-1,180.2**	**-125.7**	**-1,054.5**	**<-200%**
Income tax	-50.1	30.1	-80.1	<-200%
Net income/ (loss)	**-1,230.3**	**-95.6**	**-1,134.6**	**<-200%**
EBITDA	**-380.1**	**522.9**	**-903.0**	**<-200%**
EBITDA margin	**-35.9%**	**15.9%**	**-51.7 p.p.**	**n.m.**
Recurring EBITDA [2]	**-273.7**	**528.4**	**-802.1**	**<-200%**
Recurring EBITDA margin	***-25.8%***	***+16.0%***	**-41.8 p.p.**	**n.m.**

1) Recurring EBIT = Operating Result + Restructuring + Other Non-recurring Items
2) Recurring EBITDA = Operating Result + Depreciation, amortisation and impairment losses + Restructuring + Other non-recurring items.

In the first two months of 2020, the main financial indicators showed the positive trajectory of growth and revenue increase of TAP, with total operating income increasing by 19.4% YoY and EBITDA increasing by EUR 54.4 million YoY, corresponding to an EBITDA margin of 5.1%, which represented an improvement of 12.9 p.p. on the same period of the previous year. **However, with the proliferation of the pandemic from March onwards, and despite some recovery of activity in the second half of 2020, total operating revenues of 2020 decreased by 67.9% YoY**. The decrease in ticket revenues was 70.9%. EBITDA dropped EUR 903.0 million YoY in the year to EUR -380.1 million, and the Operating Result (EBIT) fell EUR 1.0119 billion to EUR -964.8 million.

Operating Results

Total operating income during 2020 amounted to EUR 1,060.2 million, a decrease of EUR 2,238.6 million (-67.9%) on the operating income of 2019. This reduction was mainly due to the EUR 2,065.6 million (-70.9%) decrease in passenger revenue and the decline in the maintenance activity for third parties, which recorded a decrease of EUR 143.4 million (-67.9%) compared with the same period of the previous year.

By geographical segment, the largest declines relate to the destinations with the greatest restrictions on movement imposed over the course of the year. Ticket revenues on routes to/from Africa were those with a lower percentage reduction (-61.6% YoY), followed by mainland Portugal and the islands (-67.5% YoY), South Atlantic (-69.0% YoY), North Atlantic (-70.7% YoY), and Europe (-74.1% YoY).

Portugal's maintenance and engineering area was also strongly impacted by the pandemic falling by 67.9% to EUR 67.9 million as a result of a sharp reduction in the business for third parties.

The cargo and mail segment (TAP Air Cargo, responsible for TAP's cargo business) was the best performing segment in 2020, as its revenue registered a decrease of only EUR 11.7 million YoY (-8.5%) totalling EUR 125.7 million in revenue, despite the volumes of cargo and mail having decreased by around 40%.

Total operating expenses amounted to EUR 2,024.9 million in 2020, a decrease of EUR 1,226.6 million (-37.7%) YoY, mainly explained by the significant reduction in variable costs pegged to operations, as a result of the Company's quick decision to adjust capacity and the negotiations held with suppliers and lessors, as well as the reduction in personnel costs.

The following decreases are noteworthy: aircraft fuel costs (EUR -529.2 million YoY), traffic operating costs (EUR -456.6 million YoY), as a result of the reduced activity from March 2020, and personnel costs (EUR -258.9 million YoY), also a result of the company's decreased activity and through the reduction of the workforce by the non-renewal of fixed-term contracts, the use of the simplified layoff measure and, more recently, application of the extraordinary support for the gradual resumption of activity. These measures have been applied across the board at the Company.

The other cost items also suffered significant decreases, although with lower absolute values. Aircraft maintenance expenses decreased by EUR -31.7 million YoY in 2020, as a result of the shutdown of a large part of TAP's fleet and consequent reduction of the associated maintenance costs. The decrease in the costs of materials consumed by EUR -101.0 million YoY (-71.5%) essentially results from the decrease in the maintenance activity for third parties, when compared with the previous year. The EUR -84.0 million YoY (-54.8%) decrease in commercial, marketing and communication costs mainly results from the reduction in the Company's sales, and consequent reduction in commissions and other directly associated costs. The impairments item mostly reflects receivables from ME Brazil and indemnities to clients.

As a result of the pandemic, the Company has already set up a provision amounting to almost all the restructuring costs item in the amount of EUR 96.1 million.

The increase of depreciations, amortisations and impairment losses by EUR 108.9 million YoY, is mainly due to the fleet renewal effort in recent years, notwithstanding the deferrals of aircraft deliveries agreed with Airbus and the agreements with lessors.

As a result of all these items, there was a decrease in EBITDA of EUR 903.0 million YoY to EUR -380.1 million and in the Operating Result (EBIT) of EUR 1,011.9 million YoY to EUR -964.8 million in 2020. When adjusted for non-recurring items and restructuring costs, these items present values of EUR -273.7 million (recurring EBITDA) and EUR -858.4 million (recurring EBIT).

Financial Income

The increase in Interest and Similar Expenses by EUR 60.4 million YoY in the year (+32.6%) was largely due to the increase in the interest component associated with operating leasing (lease liabilities without purchase option) and financial leasing (lease liabilities with purchase option), as well as an increase in the cost of financing, due to the aforementioned heavy investment made in renewing the fleet in recent years and as a result of the sector's economic context.

Net Income/Loss

The net loss for the year was EUR 1,230.3 million. It was positively impacted by the exchange rate differences item (EUR 162.1 million) related to the appreciation of the EUR against the USD (with a strong impact on future rents and largely no cash effect during the year), which more than offset the penalisation from devaluation of the BRL against the EUR. The negative impact associated to the recognition of the Jet Fuel overhedge, in the amount of EUR 165.3 million, as a result of the drop in activity caused by the COVID-19 pandemic, should also be noted.

Financial Position

TAP, S.A. Consolidated EUR million	31-Dec-20	31-Dec-19	Variação	
			Abs.	%
Total Assets	**4,957.1**	**5,152.8**	**-195.7**	**-3.8%**
Non-current assets	3,216.4	3,298.0	-81.6	-2.5%
Current Assets	1,740.7	1,854.8	-114.1	-6.2%
Equity	**-1,154.3**	**134.5**	**-1,288.8**	s.s.
Total Liabilities	**6,111.4**	**5,018.3**	**1,093.1**	**+21.8%**
Non-current liabilities	3,024.4	3,282.9	-258.5	**-7.9%**
Current Liabilities	3,087.0	1,735.3	1,351.6	**+77.9%**

The negative change in Equity for 2020 (EUR -1,288.8 million) is mainly explained by the net loss for the period (EUR -1,230.3 million) and the change in the fair value reserve relating to Jet Fuel hedging (EUR -39.3 million).

Financing and Lease Liabilities

TAP, S.A. Consolidated EUR million	31-Dec-20	31-Dec-19	Variação	
			Abs.	%
Financial Debt	**2,590.4**	**1,358.3**	**1,232.1**	**+90.7%**
Bank Loans & Bonds	941.0	1,083.4	-142.4	-13.1%
Portuguese State Loan	1,210.8	0.0	1,210.8	s.s.
Lease liabilities with purchase option	438.6	274.9	163.7	+59.5%
Cash and cash equivalents	**518.8**	**426.3**	**92.5**	**+21.7%**
Net Financial Debt	**2,071.6**	**932.0**	**1,139.6**	**+122.3%**
Lease liabilities without purchase option	**2,038.6**	**2,278.7**	**-240.0**	**-10.5%**

Gross financial debt (which excludes lease liabilities without purchase option) recorded an increase of EUR 1,232.1 million during 2020, which was mainly due to (i) the loan received from the Portuguese State through the State aid approved by the European Commission in the amount of EUR 1,210.8 million (considering the capitalisation of interest), and (ii) the increase in lease liabilities with purchase option in the amount of EUR 163.7 million as a result of the financing of new aircraft that joined the fleet in 2020, resorting to this source of financing. On the contrary, bank and bond loans fell by EUR 142.4 million.

The cash and cash equivalents item was EUR 518.8 million at 31 December 2020, to which the available liquidity of credit card receivables in Brazil must be added, amounting to EUR 27.2 million on this date (considering the EUR/BRL exchange rate on 31 December 2020). This cash position reflects the receipt of the last tranche of the interest-bearing loan from the Portuguese State.

Lease liabilities without purchase option decreased by EUR 240.0 million (-10.5%) during 2020 as a result of negotiations with lessors, which mainly focused on the deferral of rent payments and maintenance reserves, as well as the renegotiation of future rent amounts.

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

3.4. Other Information

Fleet

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

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

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

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

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

2) White and Portugália fleets, operated under wet-lease agreements

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

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

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

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

Passenger Air Transport

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

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

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

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

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

Maintenance and Engineering

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

Cargo

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

Human Resources

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

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

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

Thus, the TAP workforce at 31 December 2020 consisted of 8,253 employees (of which 8,106 are active and 147 non-active). Of that total, 1,350 are Flight Deck Crew, 3,037 are Cabin Crew, 1,788 belong to the Maintenance and Engineering Department and the remaining 2,078 belong to the support areas and corporate bodies. Considering only active workers, there was a decrease of 10.0% in the number of employees compared to the same period of the previous year.

4. STATE AID AND RESTRUCTURING PLAN

State Aid and Restructuring Plan

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

In this context, TAP SA is obliged to reimburse the Loan to the Portuguese State following one of the 2 dates, whichever occurs first:

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

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

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

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

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

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

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

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

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

Financing under the Restructuring Plan

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

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

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

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

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

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

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

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

5. SUBSEQUENT EVENTS

Reduction of operations in February 2021

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

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

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

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

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

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

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

Agreement to purchase equipment from SPDH

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

6. OUTLOOK FOR 2021

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

Fleet

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

Passenger Air Transport

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

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

Maintenance and Engineering

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

Cargo

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

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

TAP's Commitment to Portugal

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

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

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

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

7. CORPORATE GOVERNANCE

7.1 Qualifying shareholdings in the Company as of 31 December 2020

Article 245-A, paragraph 1, sub-paragraph c) of the Portuguese Securities' Code[1]("PSC"), applicable ex-vi article 245-A, paragraph 6 of the PSC

Shareholders with qualifying shareholdings	Capital/Voting Rights (%)	Number of Shares
TAP – Transportes Aéreos Portugueses, SGPS S.A.	100%	8,300,000
In turn, the shareholders with qualifying holdings in the sole shareholder TAP-Transportes Aéreos Portugueses, SGPS, S.A. are the following:		
▪ Parpública – Participações Públicas (SGPS), S.A. (Portuguese Republic holds 100% of the share capital, through the Directorate-General of the Treasury and Finance)	50%	4,150,000
▪ Portuguese Republic (through the Directorate-General of the Treasury and Finance)	22.5%.	1,867,500
▪ HPGB, SGPS, S.A.	22.5%	1,867,500
▪ Others[2]	5%	415,000

7.2 Identification of any shareholders holding special rights and a description of such rights

Article 245-A, paragraph 1, sub-paragraph d) of the PSC, applicable ex-vi article 245-A, paragraph 6 of the PSC

TAP SGPS does not hold special rights in its capacity of sole shareholder of the Company.

7.3. Possible restrictions on voting rights, such as limitations on the exercise of voting rights depending on the ownership of a number or percentage of shares, time limits imposed for the exercise of voting rights, or systems for separating the financial rights attached to securities from the ownership of the securities

Article 245-A, paragraph 1, sub-paragraph f) of the PSC, applicable ex-vi article 245-A, paragraph 6 of the PSC

Pursuant to article 9, paragraph 2 of the articles of association of the Company, each 100 (one hundred) shares correspond to 1 (one) vote at the Shareholders' General Meeting. Shareholders holding less than 100 (one hundred) shares of the Company may group together with other shareholders in order to meet the necessary conditions for the joint exercise of the voting right.

[1] Decree-Law 486/99 of 13 November, as amended.

[2] On 10 April 2017 TAP SGPS launched a public share offering, exclusively for employees of TAP SGPS and other Group companies, under the scope of the indirect reprivatisation process of TAP's share capital, in accordance with Council of Ministers' Resolution number 42-A/2017 of 23 March 2017. Following this offering, TAP Group' employees acquired a total of 75,000 shares representing 5% of the share capital and voting rights of TAP SGPS. A number of those shares have since been sold to third parties.

Apart from this limitation on voting rights based on the number of shares of the Company, there are no restrictions or limitations on voting rights, nor any systems whereby the financial rights attached to securities remain separate from the ownership of the securities.

Pursuant to article 9, paragraph 3 of the articles of association of the Company, to obtain the right to vote, the respective shares must be registered in the name of the respective holders in the Company's share registry book at least 15 (fifteen) days before the date set for the Shareholders' General Meeting.

Shareholders may be represented at the Shareholders' General Meeting pursuant to the applicable law. In accordance with article 9, paragraph 4 of the articles of association of the Company, shareholders may be represented at the Shareholders' General Meeting by sending a letter addressed to the Chairman of the Shareholders' General Meeting before the beginning of the respective meeting.

Postal voting is allowed under the terms of Article 9, paragraph 10 of the Company's articles of association, and shareholders may exercise their voting right by post by means of a letter delivered by hand to the Chairman of the Board of the Shareholders' General Meeting or sent by registered mail with acknowledgement of receipt to the Company's registered office at least 3 (three) business days prior to the date of the Shareholders' General Meeting, unless a longer period is established in the Shareholders' General Meeting notice.

Lastly, as set out in article 9, paragraph 11 of the articles of association of the Company, electronic voting is permitted, in accordance with the authenticity requirements that shall be defined in the notice convening the meeting by the Chairman of the Shareholders' General Meeting.

7.4. Rules governing the appointment and replacement of members of the management body and amendments to the articles of association

Article 245-A, paragraph 1, sub-paragraph h) of the PSC, applicable ex-vi article 245-A, paragraph 6 of the PSC

The Board of Directors of the Company is composed by a minimum of 3 (three) and maximum of 11 (eleven) members. The Board of Directors of the Company is currently formed of 4 (four) members, including the Chairman. The members of the Board of Directors, including its chairman, are elected at a Shareholders' General Meeting, exercising their duties for a period of 3 (three) years, renewable according to the law.

Pursuant to article 13, paragraph 2 of the articles of association of the Company, the Board of Directors may delegate, within the limits established by law, day-to-day management of the Company to one or more appointed board members or an Executive Committee. The Board of Directors has appointed an Executive Committee formed of 3 (three) members at 31 December 2020, including its Chairman (see Section 7.5. below).

With regard to the absence and replacement of directors, article 12, paragraph 3 of the Company's articles of association states that the absence of a director from more than 4 (four) consecutive meetings or 6 (six) interspersed meetings of the Board of Directors, without reason that is accepted by the other members of the Board of Directors, leads to the situation of definitive absence. If a director is deemed to be definitively absent, he/she must be replaced in accordance with the terms of the applicable legislation, namely in accordance with the provisions of Articles 393 *et seq.* of the Portuguese Companies Code[3].

Pursuant to article 10, paragraph 2 of the Company's Articles of Association, the Shareholders' General Meeting may only adopt resolutions, on first call, provided that shareholders holding shares representing at least 51% (fifty-one per cent) of the Company's share capital are present or represented. Pursuant to article 10, paragraph 4 of the Company's articles of association, any resolutions of the Shareholders' General Meeting on any amendments to the articles of association of the Company must be approved by a qualified majority of two-thirds of the votes cast. However, when the resolution is adopted at a Shareholders' General Meeting held on second call, where shareholders holding at least half of the share capital of the Company and with voting rights are present or duly represented, any resolutions to amend the Company's articles of association can be approved by a simple majority of the votes cast.

7.5. Powers of the management body, especially regarding resolutions for share capital increases

Article 245-A, paragraph 1, sub-paragraph i) of the PSC, applicable ex-vi article 245-A, paragraph 6 of the PSC

The Board of Directors manages the Company's business and affairs and may decide on any matter relating to its management while abiding by the resolutions adopted by the Shareholders' General Meeting whenever required by law or by the articles of association.

Article 13 of the Company's articles of association grants the following powers to the Board of Directors:

a) Manage the Company's activities;

b) Manage the corporate business and perform all acts relating to the corporate purpose which do not fall within the powers attributed to the other corporate bodies of the Company;

c) Acquire, dispose of or encumber rights or movable and immovable property and shareholdings;

d) Enter into loan agreements on the national or foreign financial market;

e) Decide on the issuance of bonds or other securities, within the limits annually set by the Shareholders' General Meeting (as per section f) of article 11 of the Company's articles of association);

f) Represent the Company in court and out of court, as plaintiff and defendant, with the power to withdraw, transact and confess in any legal proceedings, as well as to enter into arbitration agreements;

g) Establish the technical and administrative organisation of the Company and the rules of its internal functioning;

h) Appoint proxies with the powers deemed appropriate;

i) Exercise any other powers that may be conferred by law or by the Shareholders' General Meeting.

Pursuant to the Company's articles of association, the Board of Directors determines the dates or frequency of its meetings. It must meet at least once every quarter and whenever convened by the Chairman, at his/her own initiative and, in his/her absence or impediment, by the substitute or at the request of two directors or at the request of the supervisory body.

[3]Decree-Law 76-A/2006 of 29 March, as amended.

The Board of Directors may not take decisions unless the majority of its members are present or represented, except in cases of urgency, recognised as such by the Chairman or by his/her substitute in the case of absence or impediment, in which case the votes may be cast by post.

The decisions of the Board of Directors are taken by majority vote of its members, and abstentions are not counted.

In accordance with TAP's articles of association, the Board of Directors may delegate, within the limits established by law, the day-to-day management of TAP to one or more delegated directors or to an Executive Committee.

On 31 January 2018, the Board of Directors decided to establish an Executive Committee for the 2018-2020 three-year period, and also approved its regulations.

The day-to-day management of the Company was delegated to the Executive Committee, in accordance with the provisions of paragraphs 3 and 4 of article 407 of the Portuguese Companies Code and paragraphs 2 and 3 of article 13 of the Company's articles of association, which includes, in particular, and within the framework of the general policies approved by the Board of Directors, the following acts:

a) Management of the Company's activities pursuant to the annual budget approved by the Board of Directors;

b) Preparation of the Company's annual budget for approval by the Board of Directors;

c) Hiring and exercising disciplinary power, directing and supervising the Company's employees and representing the Company in its relations with employees;

d) Preparation and presentation to the other board members of the information necessary for the Board of Directors to take decisions, in accordance with the respective agenda;

e) Presentation to the Board of Directors of matters that require specific technical studies;

f) Financial, operational, commercial, administrative, marketing and promotional management of the Company;

g) Negotiation and entering into all the necessary or convenient agreements to pursue the Company's corporate purpose, except agreements that imply the contracting, modification or termination of any loans or issuance of debt instruments, to which the Company or any other in which it holds an interest are a party, with an individual amount higher than 30% (thirty per cent) of TAP Group's assets; granting guarantees by the Company and/or by any company in which it holds an interest; approval of investments or other capital expenses of the Company and/or any company in which it holds an interest, with an individual amount higher than 30% (thirty per cent) of TAP Group's consolidated revenues; approval, modification or termination of partnership or joint-venture agreements to which the Company or any company in which it holds an interest are a party, with an individual amount higher than 30% (thirty per cent) of TAP Group's consolidated revenues; the acquisition, encumbrance or sale of assets of the Issuer and/or any company in which it holds an interest, with an individual amount higher than 30% (thirty per cent) of TAP Group's consolidated revenues; the acquisition or disposal of control over other companies by TAP; the transfer of shares of any of the companies of TAP Group;

h) Open bank accounts, negotiate financial conditions with the banks, make payments, make deposits or withdraw money from the Company's bank accounts;

i) Represent the Company before any ministries, general directorates, government departments, municipal councils and any public authorities or other public or private entities;

j) Represent the Company before all courts, whether civil, criminal, administrative, labour and tax in all instances, filing petitions, requests, applications, challenges, counterclaims, submitting evidence and filing ordinary or extraordinary appeals; settling all types of cases and disputes, withdraw from actions or appeals, freely define the conditions, agreements and obligations deemed convenient; settle and withdraw in any court, in all pleadings of a civil, criminal, administrative and tax nature, with the broadest powers, on behalf of the Company.

In addition to those matters that are the exclusive responsibility of the Board of Directors in accordance with the law, the Executive Committee may also not decide on the following matters:

a) Approval or modification of the business plan or annual budget of the Company;

b) Appointment of members of the corporate bodies of companies in which the Company has an interest, or of companies related to the Company;

c) Approval, modification or termination of any loans, issuance of debt instruments, to which the Company and/or any of the companies in which TAP SGPS holds an interest are party, with an individual amount higher than 30% (thirty per cent) of TAP Group's total assets;

d) Granting of guarantees by the Company and/or by any company in which it holds an interest;

e) Approval of any investments or other capital expenses of the Company and/or of any company in which it holds an interest, with an individual amount higher than 30% (thirty per cent) of TAP Group's consolidated revenue;

f) Approval, amendment, or termination of partnership or joint-venture agreements to which the Company or any company in which it holds an interest are a party, with an individual amount higher than 30% (thirty per cent) of TAP Group's consolidated revenue;

g) Acquisition, encumbrance or sale of assets of the Company and/or of any company in which it holds an interest, with an individual amount higher than 30% (thirty per cent) of TAP Group's consolidated revenue;

h) Acquisition or disposal of control over any other company by the Company;

i) Transfer of shares of any of the companies of TAP Group;

j) Filing of insolvency proceedings or a special revitalisation process for the Company;

k) Defining how the Company will vote on the following matters in the shareholders' general meetings of any of the companies in which it holds an interest:

(i) Amendment of the articles of association of any company in which the Company holds an interest;

(ii) Amendment of the dividends distribution policy of any company in which the Company holds an interest;

(iii) Merger, spin-off, share capital increases and reductions, transformation, liquidation or winding up of any company in which the Company holds an interest;

(iv) Implementation and reimbursement of additional paid-in capital, as well as the respective terms and conditions.

The Executive Committee shall meet whenever it is convened by its Chairman or by two of its members, with a minimum of 5 (five) days' notice, and shall meet at least once a month. An annual calendar may also be established.

The Executive Committee cannot decide without a majority of its members and of those who vote by post being present or represented, pursuant to paragraph 4 of article 14 of the Company's articles of association.

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

Lastly, with regard to increases in the Company's share capital, although article 456 of the Portuguese Companies Code establishes that the memorandum of association may authorise the management body to approve capital increases through cash contributions, the Company's articles of association do not confer such powers on the Board of Directors.

7.6. Core information of the internal control and risk management systems implemented in the Company regarding the financial information disclosure process

Article 245-A, paragraph 1, sub-paragraph m) of the PSC, applicable ex-vi article 245-A, paragraph 6 of the PSC

The Board of Directors is responsible for ensuring disclosure of accurate financial information that truthfully reflects the financial situation of the Company at any given moment, in compliance with the applicable legislation and regulations.

As regards the quality of the financial information that is publicly disclosed, it results from a financial reporting process that is ensured by the central services areas, subject to the TAP Group's procedures and internal control system and monitored by the TAP Group's Board of Directors and the Audit Committee on Financial Matters. In particular, in relation to the annual and half-yearly accounts, the documents are sent to the Board of Directors that approves them before they are published.

In addition, the Supervisory Board is responsible for monitoring the adequacy of the Board of Directors' process for preparing and disclosing financial information.

7.7. Specialised committees within the management body

It should also be mentioned that three specialised committees – the Strategy Committee, the Audit Committee on Financial Matters and the Human Resources Committee – are part of the governance model of TAP, as the sole shareholder TAP – Transportes Aéreos Portugueses, SGPS, S.A. These three specialised committees have been created within the respective management body.

8. RISK MANAGEMENT

8.1. Internal Control System

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

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

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

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

8.2. Main Risks

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

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

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

Economic Vulnerabilities

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

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

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

Geopolitical Tensions

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

Social Tension

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

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

Technological Instability

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

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

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

Environmental

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

8.3. Analysis Method

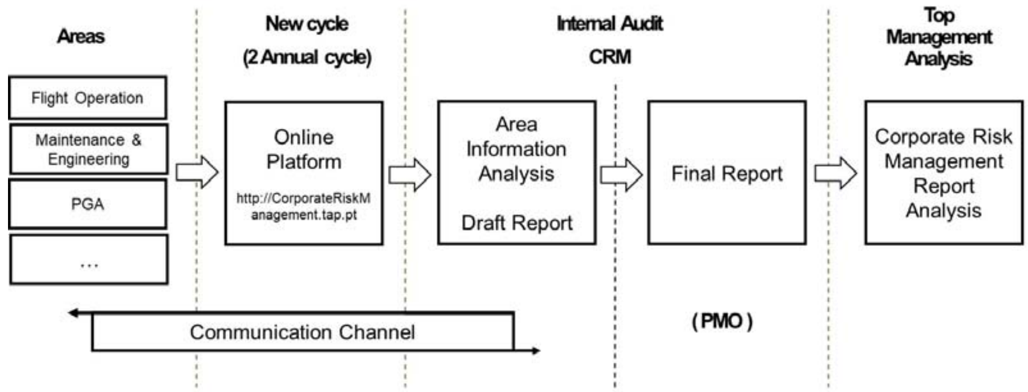
The methodological process used to carry out the Risk Assessment of the TAP Group involves the use of an analytical instrument - Corporate Risk Management ("CRM"), based on the methodology of the Committee of Sponsoring Organisations (COSO) of the Institute of Internal Auditors (IIA). In this method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

- Accept - if the level of risk monitored is within the range of variation in accordance with that established by the organisation;
- Share/Transfer - through entering into insurance contracts or outsourcing of functions;
- Mitigate - through procedures that allow the impact to be minimised, as well as controlling the process at the level of risk considered acceptable for the organisation.

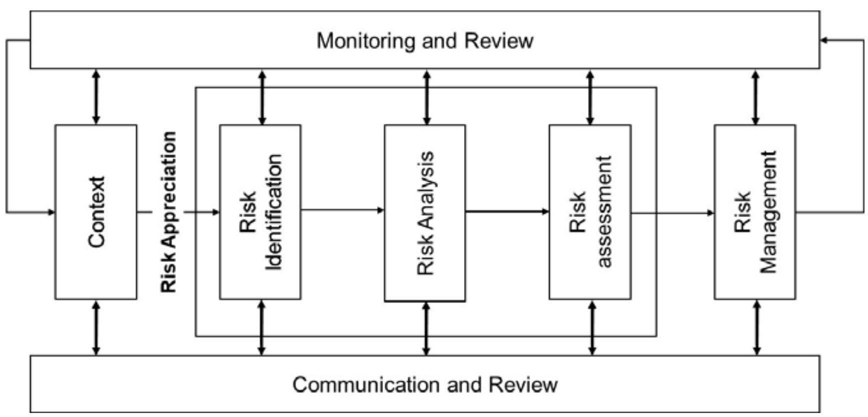
Another possible strategy is that of non-acceptance, "no go" of the process or performance, whenever the level of risk is not adequate for the intended operation and for the risk appetite profile of the organisation.

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

The CRM process entails the following phases in the flowchart:



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



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

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

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

8.4. Conclusions of the CRM process

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

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

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

APPENDIX

I - MANDATORY INFORMATION

1. **Own Shares**

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

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

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

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

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

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

3. **Montante anual da remuneração auferida pelos membros dos órgãos de administração e fiscalização da sociedade em 2020**

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

The members of the company's management and supervisory bodies are also members of TAP SGPS' management and supervisory bodies where they are remunerated for their role. They are not paid any additional remuneration for the performance of their functions within other companies of the TAP Group (including the Company). Exception is made for the member of the supervisory board, Susana Rodrigues, who is not a member of the supervisory board of TAP – Transportes Aéreos Portugueses, SGPS, S.A. and thus was paid by the Company the amount of EUR 41.170,84, in 2020.

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

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

See note 38 Related Parties of the individual financial statements for information on credit granted to companies in which an interest is held and the respective creditor or debtor positions.

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

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

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

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

II – STATEMENT ISSUED IN ACCORDANCE WITH ARTICLE 245 OF THE PORTUGUESE SECURITIES CODE

In accordance and for the purposes of article 245, paragraph 1, sub-paragraph 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 management report, the annual financial statements, the legal certification of accounts and all other accounting documents were prepared in conformity with the applicable accounting standards. They also declare that said documents provide a true and appropriate view of the assets and liabilities, financial position and profit/loss of the Company and the companies included in the consolidation perimeter. They further declare that the management report faithfully describes the business evolution, performance and position of the Company and of the companies included in the consolidation perimeter and it contains a description of the main risks and uncertainties that the Company and the companies included in the consolidation perimeter face.

Lisbon, 21 April 2021

BOARD OF DIRECTORS

Miguel Jorge Reis Antunes Frasquilho

Chairman of the Board of Directors

Ramiro José Oliveira Sequeira

Director of the Board of Directors and Director of the Executive Committee

Alexandra Margarida Vieira Reis

Director of the Board of Directors and Director of the Executive Committee

José Manuel Silva Rodrigues

Director of the Board of Directors

III – CONSOLIDATED NON-FINANCIAL INFORMATION

This section describes the development, performance, position, and impact of TAP's activities in relation to: environmental, social and labour issues, gender equality, non-discrimination, respect for human rights, and prevention of bribery and corruption.

ENVIRONMENT

TAP seeks to be increasingly efficient in its activity, responding to the enormous challenges that arise daily in operations and which go beyond the air transport activity, extending also to the facilities in which TAP operates and to the large-scale industrial activity of aircraft, engine and component maintenance. Until 2019 TAP consistently improved several environmental performance indicators, reflecting an increasingly optimised operation, but in 2020, with the drastic reduction of activity due to the COVID-19 pandemic, TAP was forced to suspend some of its projects and adjust environmental targets.

In 2020, TAP partnered with the city of Lisbon under the 'Lisbon European Green Capital' initiative, signing a letter of environmental commitment with a set of measures aimed at improving the Company's environmental performance. Some of these measures were temporarily restricted due to the pandemic, but it is expected that they may be resumed in the second half of 2021.

Portugal is a member state of the Voluntary Phase (2021-2026) of the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) of the International Civil Aviation Organization (ICAO), which establishes airlines' obligation to offset the growth of CO_2 emissions due to international flights. As in 2019, TAP was obliged to monitor, report and ensure the accredited verification of its emissions in 2020. Originally, emissions from 2019-2020 would form the baseline for CORSIA, but considering the high impact of the COVID-19 pandemic in the aviation sector, ICAO decided in June 2020 that only 2019 will be considered for the calculation of the base values for the pilot phase (2021-2023). In this way it will be possible to avoid what would be an unsustainable economic burden for the sector, which has seen a sharp drop in 2020 of international aviation emissions, down to 1990 levels. In line with the reduction in the industry, TAP's CO_2 emissions fell by around 60% compared to the previous year.

The pandemic also had repercussions on activities at the TAP campus. The drop in industrial activity, combined with the reduction of workers on call at the Company's facilities, led to a substantial reduction in waste production (-54% compared to 2019), as well as a drop of around 32% in natural gas consumption and 14% in water consumption compared to 2019.

TAP has monitored and implemented several environmental initiatives over the years. Strict legal and regulatory requirements are followed in the Maintenance & Engineering facilities in Lisbon, safeguarded through compliance with and strict control of the defined processes, as well as various environmental audits that enable constant identification and mitigation of the risks associated with the Company's activities. In addition, some of the facilities have an Environmental Licence from the Portuguese Environment Agency, which applies even stricter limits to activities in this sector, leading to greater complexity in the control of processes and reporting to authorities.

The entire TAP campus has been included in the energy audit programme since 2019, given the need to identify efficiency opportunities. The identified measures are expected to deliver a 6% reduction in electricity consumption by 2025. In 2020, a smart energy management system began to be implemented on the TAP campus that will allow better control of energy consumption, thereby facilitating the development of localised solutions that allow additional efficiency gains.

Lastly, TAP remains committed to identifying new solutions that ensure the use of more sustainable products on board, while complying with the limitations imposed by Portuguese and European legislation, as well as the strict food and health standards applicable to the aviation sector. Concerning plastic usage on board aircraft, the Company has undertaken efforts to look for more sustainable and reusable options. We believe that as some reusable, lighter and ideally plastic-free materials (such as cutlery, bowls and cups) become more available, this transition will occur rapidly in our activity. Some of the materials used on flights are already reusable and therefore collected by service providers in Portugal. Nevertheless, while efforts to implement new items on board were not interrupted during the year 2020, it was necessary, for health reasons, to return to the use of disposable items in some situations where they had already been replaced. It is expected that in 2021 we will be able to again focus on more sustainable solutions.

CORPORATE SOCIAL RESPONSIBILITY

Connecting people and communities is the essence of TAP’s business and is also part of its Corporate Social Responsibility (“CSR”) strategy. TAP’s CSR aims to value its people, promoting a culture of sharing and participation while at the same time being involved in the intensification of activities targeting the community, encouraging social cohesion. TAP is proud of its role and continues to search for new opportunities in the community to expand its ties to society. The main objectives of TAP's CSR are the connection with the Company's business, with the involvement of its employees in solidarity activities with a view to creating long-term value, favouring lasting projects. TAP's CSR initiatives, namely the TAP Donate Miles Programme, Charity Auctions, Campaigns & Donations and volunteering initiatives, promote a strong link between customers, employees and the Company.

In 2020, despite the complexity of operations in a highly adverse and uncertain context, due to the numerous impositions and restrictions that many countries placed on people's mobility as the main measure to contain the pandemic, TAP continued its mission to serve the country, the Portuguese and all its customers, working comprehensively and in an interdisciplinary manner that mobilised the Company's teams.

It was in this particularly difficult context that TAP brought thousands of people home in hundreds of humanitarian and repatriation flights, and it transported more than 10,000 tons of essential goods and medical cargo to more than 30 countries on 5 continents.

TAP DONATE MILES

In the CSR field, a policy of supporting travel and extra baggage has been promoted through the TAP Donate Miles Programme, which allows Miles & Go customers to donate miles to qualified non-governmental organisations (NGOs) and charitable associations travelling on national and international humanitarian missions. More than 50 organisations have benefitted from TAP customers’ donations of miles and baggage transport support since 2004. The TAP Donate Miles Programme currently supports 6 charitable associations and NGOs whose missions TAP recognises and supports in the areas of health, education and social entrepreneurship in Portugal, Mozambique, São Tomé and Príncipe, Guinea-Bissau, and Cape Verde, among other TAP destinations. The TAP Donate Miles partners in the 2019-2021 period are: Médicos do Mundo, SIM-Solidariedade Internacional a Moçambique, Estímulo, Mundo a Sorrir, APAV-Associação Portuguesa de Apoio à Vítima and WACT - We Are Changing Together.

TAP's support for these partners in 2020 resulted in 31 air tickets being made available to 13 destinations in its national and international network, which totalled 2,248,100 miles used. It was decided to extend these partnerships until 2022, due to the COVID-19 pandemic, to allow the resumption and continuity of the various projects. Existing vulnerabilities have increased in the context of a pandemic, which has forced organisations to dynamically develop new and urgent solutions to meet the needs of the most vulnerable populations.

2020 should mark the year of renewal of the Programme, now extended to candidates not only from Portugal but also from Brazil and TAP destinations in Africa, comprising an initial donation of 500,000 miles and three new entities per year. The response to the programme from social organisations has been very positive. A total of 106 candidates submitted applications to the programme – 405% growth compared to 2019. The inclusion of new entities in the programme was suspended due to the COVID-19 pandemic. Applications submitted in January 2020 remain valid and the partnership is expected to occur between 2021 and 2023.

CHARITY MILES & X BAG

Recognising that air travel is often decisive for the implementation of projects, TAP also made 43 trips possible for volunteers and other members of social organisations, responding to specific appeals from 10 Portuguese organisations to 11 national and international TAP destinations. Here we highlight the repatriation of four homeless citizens in connection with CASA – Homeless Support Centre, Lisbon Office and Albufeira Office, to the destinations Ponta Delgada, Frankfurt and Maputo.

Support for humanitarian projects was also maintained throughout 2020 through the authorisation of extra hold baggage. Encompassing a total of 13 organisations, including the six TAP Donate Miles partners, 34 extra pieces of luggage were authorised and arrived at six destinations in the TAP network.

TAP has also responded to new charity appeals sent to it. In addition to the various NGO's and Associations that it supports around the world, in 2020 the Company also contributed to the transportation of items that make a difference to the lives of the most vulnerable populations. In partnership with TAP Air Cargo, it was possible to support 7 social organisations with solidarity cargo, transporting 19 volumes to five TAP destinations.

INTERNAL VOLUNTEERING AND DONATIONS

Annual volunteer planning was suspended from March, because of the COVID-19 pandemic. However, two volunteering activities were carried out during 2020 – 28 TAP staff worked in partnership with CASA – Homeless Support Centre (Lisbon Office) to support the preparation and distribution of meals to homeless people in the city of Lisbon.

At the same time, many TAP employees have dedicated themselves to voluntary and social responsibility causes during their personal time, making their time, skills, and mobilisation capacity available to many. An example of this was the solidarity mission "Help the Heroes”. It is a group of Company employees with the objective of obtaining donations to purchase protective equipment for health professionals, firefighters, and police forces. Also of note was the production of more than 5,000 face visors by TAP Maintenance and Engineering technicians and the donation of 200 individual protection suits, used in TAP Maintenance and Engineering activities, to the Gastroenterology and Hepatology Department of Santa Maria Hospital.

TAP also extended its help to thousands of people not only in Portugal but around the world during 2020, making donations to many communities, families and institutions of surplus food from the onboard service and discontinued material from operations. The following initiatives stand out:

- Donation of more than half a million items to 25 Portuguese entities – NGOs and Associations – of a variety of products, in particular food and blankets.
- Donation of more than 530,000 food and drink items, together with more than 5,000 blankets and quilt and pillow kits to households, the elderly, children, and communities in social emergency situations.
- A solidarity auction of 21 triple economy and executive class airline seats (discontinued material) was organised in favour of START.SOCIAL, to support the HOPE.STUDIO musical project.
- Participation in the 2nd edition of Giving Tuesday Portugal, the world's largest solidarity movement. TAP supported the dissemination of the campaigns of 11 entities and it also involved 454 employees in an internal challenge focused on this initiative.

Social responsibility becomes even more relevant in the pandemic context and TAP was not indifferent to those most in need and who struggle every day to manage their home, their job, and their health. Since the start of the pandemic crisis, and despite the difficulties faced by the Company itself, the spirit of solidarity that characterises it has remained in place and it has participated in various solidarity initiatives.

EMPLOYEES

The partial stoppage of the Company's business activity and the sharp and abrupt drop in billing, due to the effects of the pandemic, forced TAP to implement very harsh measures. These measures included the termination of the fixed-term employment contracts of all employees holding such contracts, as well as the adoption of other mechanisms foreseen in the law.

One of the challenges that TAP faced in terms of Human Resources during 2020 was the use of layoffs and the development of teleworking. During the year, a large part of the workforce was instructed to remain at home and work remotely, whenever their duties allowed it, so as to comply with the legal framework regarding mandatory teleworking in order to minimise contagion by COVID-19. The only exception to this were the operational areas, which are essential to the operation of the Company.

This change forced TAP to adapt its Human Resources policies, thus giving rise to one of the greatest transformations in the workplace, both in terms of communication and strategy and in terms of information technologies. It became clear that flexibility at work, in terms of space and time, resulted in benefits for the organisation and for the employees, in such a challenging period as the one we are experiencing.

There was a strong focus on online training, favouring distance learning in accordance with International Commercial Aviation regulations. The continuous training of qualified employees in the aviation value chain is an essential condition, allowing an adequate balance to be achieved and maintained, among the recovery measures necessary to overcome the COVID-19 crisis.

In the highly competitive environment in which it operates, TAP has strengthened the working conditions of all its employees, an essential requirement for maintaining a skilled workforce without which it is not possible to guarantee sustainable competitiveness. The strong regulation of the sector demands increasing levels of quality, safety, technical capacity and an appropriate attitude. These are decisive requirements for meeting the levels of competitiveness and quality necessary for the development and sustainability of the business. The EC and national guidelines of the regulatory authorities in the sector require the maintenance of a sizeable structure, in terms of human resources and equipment, to meet these requirements and ensure compliance with the established standards.

In this respect, the valuing of its Human Resources, and in accordance with the policy aimed at ensuring compliance with its Social Responsibility, is guided by the following principles:

- Promote a balance between personal and professional life;
- The importance of gender equality in social sustainability;
- Adopt principles of transparency in the Company's management and its relations with society;
- Provide its employees with conditions for professional and academic development;
- Engage with employees and other stakeholders in accordance with principles of ethics and mutual respect;
- Respecting the fundamental principles of Human Rights and Labour Practices of the United Nations Global Compact.

It must also be noted, in the same scope, that a set of values are applied in the area of human rights (Principles 1 and 2 of the UN Global Compact) and labour standards (Principles 3 to 6 of the UN Global Compact), which are fundamental vectors of the corporate personality that TAP supports and defends in its sphere of action and influence. As TAP is a signatory of the principles of the UN Global Compact since 2004, it has been witnessing and living with the concerns related to human rights and labour practices since then, enshrining them in its values.

Indicators representing the Company's objectives from a social perspective

Goals	Indicators	2018	2019	2020
Promote Involvement with the Company	Absenteeism Rate	5.8%	5.7%	7%
Provide services and support of a social and cultural nature to Employees that contribute to improving working conditions and facilitate the compatibilization of professional and personal life	Number of children using the nursery	265	246	247
	Number of beneficiaries of the Group's Health Insurance[1)]	24,636	25,581	18,143
Promote and support initiatives of social nature	Realization of Internships in the Company	186	167	57

1) Figures relate to TAP Group

Profile of TAP Employees

Main employee indicators at 31 December 2020:

Main Indicators	2019	2020
Total Active Employees	**9,006**[1)]	**8,106**[1)]
Gender		
Female	42%	41%
Male	58%	59%
Function		
Ground Staff	46%	48%
Cabin Crew	39%	36%
Flight Deck Crew	15%	16%

1) 4% of employees are based abroad in the markets where the Company operates

Gender per Function	Number of Employees 2019	%	Number of Employees 2020	%
Portugal	**8,650**		**7,764**	
Ground Staff	**3,827**	**100.0%**	**3,501**	**100.0%**
Female	1,356	35.4%	1,173	33.5%
Male	2,471	64.6%	2,328	66.5%
Cabin Crew	**3,476**	**100.0%**	**2,930**	**100.0%**
Female	2,212	63.6%	1,890	64.5%
Male	1,264	36.4%	1,040	35.5%
Flight Deck Crew	**1,347**	**100.0%**	**1,333**	**100.0%**
Female	59	4.4%	57	4.3%
Male	1,288	95.6%	1,276	95.7%
Abroad	**356**		**342**	
Ground Staff	**356**	**100.0%**	**342**	**100.0%**
Female	179	50.3%	181	52.9%
Male	177	49.7%	161	47.1%
Total	**9,006**	**100.0%**	**8,106**	**100.0%**
Female	3,806	42.3%	3,301	40.7%
Male	5,200	57.7%	4,805	59.3%

Human Capital Management – Labour Practices

TAP has been implementing several policies in this area to enhance the value of its human resources.

Performance-based Promotion

Performance assessment is a process of assessing employee skills in terms of professional performance, in order to identify strengths and weaknesses, provide feedback and help set targets. The management of the remuneration policy and the analysis and qualification of duties are practices conducted by the Company, which aim to:

- Recognise the merit of its Employees, tracking their professional development and assessing their contribution to the Company;

- Monitor external competitiveness and assess fairness in relation to the internal equality of remuneration within the Company.

Promoting individual enhancement – Personal and professional development

The training and development of employees is a constant and decisive concern and practice for the Company's success and is aligned with the policy of internal enhancement of human resources and with the organisation's strategy. It is defined according to individual needs and, as already mentioned, in compliance with international regulations. In this manner, the Company creates commitment, competence, and contribution to the organisation, while also fostering the personal and professional enhancement of the employees.

Accordingly, and in the context of the pandemic, TAP promoted the proximity and personal and professional development of its employees through regular online training courses and webinars in various areas of expertise.

TAP University

In 2020, the TAP University led a set of initiatives carried out with the purpose of, on the one hand, responding to specific needs arising from the new labour reality and, on the other hand, minimising the impact of the pandemic situation on the Company's training process.

Despite the total stoppage imposed by the months of absolute confinement (March 2020 – May 2020), which eventually led to a drop of about 50% in the volume of training compared with the previous year, 320,000 hours of training were achieved during the year.

Since March 2020, the University has been proactively and effectively responding to this new challenge by complying with the constraints and adopting the best practices imposed by the health authorities, also in absolute compliance with the regulations that the Aeronautical Regulatory Authorities impose on the industry. The following stand out in terms of training provided:

Online Training

Virtual room training to enable the continuation of remote synchronous session training on various topics such as *Security*, *Safety Management System*, Microcomputing and Project Management and more.

IEFP Training Plan

The IEFP – Portuguese Institute of Employment and Professional Training (*Instituto do Emprego e da Formação Profissional*) has adopted the regulation on access to support to be granted for the frequency of a training plan by the workers covered by the Extraordinary Support Measure for the maintenance of contracts of employment in the event of a business crisis. In this context, various training activities have been carried out, in particular:

- Specialized technical training, such as 'Type Training Airbus 330', Maintenance Technicians or recurrent training of Navigating Personnel;
- General technical training, such as civil aviation security training;
- Mandatory training and/or job-specific technical training, such as Dangerous Cargo Regulation;
- Transverse training, such as *phishing training*;
- Information technologies such as microcomputer training (Excel, PowerPoint);
- Personal development, such as communication training;

- Technical development, such as project management.

Additionally, in addition to the measures taken to address effectively the training needs and changes imposed by the pandemic, the TAP Corporate University has developed numerous strategic initiatives to improve TAP's training process, notably:

- Project Success Factors Management, a new integrated training management tool that aims to deliver *user experience* enriched, have a single tool instead of multiple tools, go beyond data repository (SAP) and beyond the LMS platform, lower the likelihood of *non-compliance* and lower cost;
- The definition of the relationship model between TAP Corporate University and different Directorates/Areas of the Company, to optimize the training process by giving a detailed description of the roles and responsibility of each of the parties involved;
- TAP's portfolio and course plans review;
- The introduction of regular *reporting* to systematically analyse deviations and identify opportunities for improvement in close connection with business;
- Updating the pool of trainers;
- The launch of the teleworking project in the Company.

Safety and Health at Work

Employee health insurance, extended to family, and the existence of a medical clinic on the TAP Campus, the UCS Health Care Unit ("UCS"), with a large team of professionals, provide important support for family-work reconciliation, enabling TAP employees to access health care in a convenient and easy way by the proximity of the workplace. The UCS is active in providing outpatient, telemedicine, aerospace medical certification, and health and safety at work, both at the headquarters in Lisbon and in its delegations.

TAP also has a home-based health service for employees, which is extended to family members during night hours.

In the context of health and well-being, TAP also promotes a healthy lifestyle among its Employees, highlighting the following initiatives:

- *Mais Saúde* Program (More Health Program), recognized and supported by the Portuguese General Directorate for Health, which includes awareness, prevention and early diagnosis, free screenings and monitoring plans in pregnancy and childbirth preparation courses;
- Gym located on the TAP Campus, offering discounted rates for Employees;
- *Prevenir* Program, to prevent and control the consumption of alcohol, drugs and tobacco, taking into account the highest standards of safety in the aviation industry;
- Traveller consultation, with a strong preventive focus on health problems acquired in other parts of the globe, such as tropical diseases.

Balance between personal and professional life

In addition to all of its practices and initiatives to promote the feasibility of TAP objectives and strategies, practices and actions to improve the working conditions provided and support the compatibility of professional and personal life are also being developed in parallel, thus adding value to business. In this context, the following initiatives deserve mention:

- Telework – TAP has long been encouraging its employees to work at home, ensuring the desired levels of productivity and enabling greater support for family support. The year 2020, as has already been described, was the year with the most employees enjoying the flexibility of this work regime;
- Flexible working hours – the Company offers flexible hours up to 20% of working time; this possibility is available to most employees, with the exception of operational areas or those that involve working in shifts;
- Bus transport – TAP offers free bus transport between its premises and the city centre in periods outside the public transport schedule, thus facilitating the transport to and from the workplace of employees who work in shifts.

Benefits

Thinking about motivation, safety and the quality of life of its Employees and their families, the Company grants different Social Benefits namely social support, a nursery, a canteen and health insurance. Also, TAP has celebrated many protocols with companies with benefits (mainly discounts) to TAP's Employees and families. Another important benefit that all employees with more than six months of seniority enjoy is the granting of airfares with special rates, conditional on the availability of unsold seats and other conditions, for employees, family and friends.

Diversity and Gender Equality

Recognizing the importance of Diversity and Gender Equality, TAP values the role of each Employee in the value chain, reinforcing their commitment to citizenship, social responsibility and sustainable growth by applying best practices. In this sense, TAP invests in promoting inclusion in the workplace, regardless of gender, age, race, religion, disability and/or sexual orientation, ensuring that all collaborators have equal and equal conditions and opportunities that promote non-discrimination and diversity within the organization.

TAP promotes the following, *inter alia*:

- Multiculturalism, which at TAP is reflected in the integration of 29 different nationalities in its staff;
- Gender equality, where gender diversity is favoured even in roles usually performed by men. TAP staff includes women in the following functions: pilots (about 57, of which 19 are commanders) and aircraft maintenance experts (32). In addition, about 1,805 women have higher education in a total of 3,301 (approximately 53%) and in 594 employees holding managerial/supervisory positions, 198 are women;
- The inclusion of people with disabilities in the business environment as a result of protocols with various social support institutions, in functions adapted to each other's special needs. TAP employs around 104 staff in Portugal with a degree of disability.

Respect for Human Rights

In its Human Resource Management, TAP is particularly strict in observing all the legal and conventional rules governing labour relations, and respects the fundamental principles of human rights and labour practices of *UN Global Compact*, as has already been mentioned.

PREVENTION OF CORRUPTION AND BRIBERY

A sound corporate conduct not only contributes to enhance a Company’s reputation, but it is also responsible for the development of high trust levels among the different stakeholders, being highly valued by TAP’s customers and business partners and for its integration and social acceptance, which are all elements with a positive impact in TAP’s sustainability. Considering these aspects may be safeguarded, it is fundamental that the actions of TAP’s employees are oriented by the sense of responsibility in complying with the rules, values, principles and ethically correct practices, that should be observed, defended and complied by everyone, as defined in TAP’s Code of Ethics and Good Business Conduct.

These practices are intended to guide TAP employees towards strengthening a culture of ethics and complying with the laws and internal rules of TAP, thereby seeking to preserve the Company's credibility, reputation and image.

Among the various initiatives that have already been implemented at TAP, as part of its Ethics & *Compliance Program*, we highlight the following:

(i) Subscription to *Call to Action* Anticorruption of *UN Global Compact*, which encourages both public and private sectors to promote transparency, integrity and good governance measures by Governments, thereby encouraging the adoption of its Principle 10, according to which "organizations should work against corruption in all its forms, including extortion and bribery";

(ii) Participation in the Portuguese Platform for Integrity (“*Plataforma Portuguesa para a Integridade*”) initiative, which consists in developing strategies and initiatives that have a real and positive impact on society in the fight against corruption;

(iii) Inclusion of new Ethics & Compliance-specific risks in the Corporate Risk Management (CRM) matrix.

IV - GLOSSARY

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

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

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

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

IATA: International Air Transport Association.

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

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

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

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

Shop Visit: Maintenance event of an engine in workshop.

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

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

YoY: Year-over-year.

V – RESULTS CONFERENCE CALL

The *conference call* on 2020 results will take place on 23 April 2021 at 16:00 (Portugal/UK time). To attend the conference call, please register in advance through the following link:

www.incommuk.com/customers/tap2020earningscall

Conference call for investors and financial analysts.

VI – CONSOLIDATED FINANCIAL STATEMENTS

TRANSPORTES AÉREOS PORTUGUESES, S.A.

CONSOLIDATED FINANCIAL STATEMENTS

2020

INDEX OF FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amount stated in euros	Notes	2020	2019
ASSETS			
Non-current assets			
Tangible fixed assets	4	2,944,258,588	3,026,328,568
Investment Properties	5	1,543,825	2,148,564
Intagible assets	6	24,872,065	25,376,777
Investments in associates	7	172,310	172,310
Other financial assets	8	488,730	481,040
Other non current assets	13	23,784,741	16,207,546
Deferred tax assets	9	129,070,918	110,977,269
Other receivables	10	92,173,501	116,269,240
		3,216,364,678	**3,297,961,314**
Current Assets			
Inventories	11	80,166,181	100,329,977
Other receivables	10	1,115,559,061	1,288,115,891
Income tax receivable	12	291,037	539,123
Other financial assets	8	-	4,880,346
Other current assets	13	25,964,000	34,683,915
Cash and cash equivalents	14	518,756,607	426,290,329
		1,740,736,886	**1,854,839,581**
Total Assets		**4,957,101,564**	**5,152,800,895**
EQUITY AND LIABILITIES			
Equity			
Share Capital	15	41,500,000	41,500,000
Supplementary capital contributions	16	154,353,400	154,353,400
Legal reserves	16	8,300,000	8,300,000
Hedge reserves	16	(22,921,191)	16,417,199
Other reserves	16	(200,588)	(200,588)
Retained earnings	16	(105,028,018)	9,804,345
Net income/(loss) for the year		(1,230,255,776)	(95,637,433)
Total equity		**(1,154,252,173)**	**134,536,923**
Non-current liabilities			
Deferred tax liabilities	9	108,025,578	59,837,627
Post-employment benefits obligations	17	109,569,660	96,356,353
Provisions	18	108,971,298	77,784,854
Restructuring provision	18	93,197,493	-
Borrowings	19	596,023,660	957,948,155
Lease liabilities with purchase option	19	397,235,680	239,007,723
Lease liabilities without purchase option	19	1,611,374,047	1,851,992,700
		3,024,397,416	**3,282,927,412**
Current Liabilities			
Borrowings	19	1,555,785,594	125,454,332
Lease liabilities with purchase option	19	41,343,311	35,885,034
Lease liabilities without purchase option	19	427,266,305	426,685,786
Other payables	20	386,515,799	571,718,616
Income tax payable	9	17,430	17,430
Other current liabilities	21	74,038,599	94,812,885
Liabilities from unused flight documents	22	601,989,283	480,762,477
		3,086,956,321	**1,735,336,560**
Total liabilities		**6,111,353,737**	**5,018,263,972**
Total equity and liabilities		**4,957,101,564**	**5,152,800,895**

These notes are an integral part of the consolidated statement of financial position as of 31 December 2020.

CONSOLIDATED INCOME STATEMENT

Amounts stated in euros	Notas	2020	2019
Operating Income			
Revenue			
Passenger	24	848,373,665	2,914,005,095
Maintenance	24	67,878,479	211,289,251
Cargo and mail	24	125,689,785	137,392,757
Other operating income	24 e 25	18,242,437	36,066,423
		1,060,184,366	**3,298,753,526**
Operating costs			
Aircraft fuel	26	(260,455,413)	(789,677,244)
Traffic operating costs	26	(350,750,131)	(807,340,162)
Aircraft maintenance costs	26	(24,426,407)	(56,127,269)
Cost of materials consumed	26	(40,283,352)	(141,326,887)
Comercial, communication and marketing costs	26	(69,204,310)	(153,171,796)
Employee costs	27	(419,719,963)	(678,635,700)
Impairment losses in inventories and receivables	28	(31,839,446)	(2,953,678)
Provisions	28	(12,234,448)	2,958,327
Other operating expenses	29	(124,995,579)	(144,068,232)
Restructuring	30	(96,086,525)	(4,983,097)
Other non recurrent items	31	(10,279,202)	(501,098)
Depreciation, amortisation and impairment losses	32	(584,672,061)	(475,745,165)
Operating income/(loss)		**(964,762,471)**	**47,181,525**
Interests and similar income	33	33,566,552	33,820,521
Interests and similar expenses	33	(245,828,552)	(185,431,144)
Overhedge cost	33	(165,281,173)	-
Net currency exchange	33	162,108,338	(21,283,835)
Net income/(loss) before income tax		**(1,180,197,306)**	**(125,712,933)**
Income tax for the year	34	(50,058,470)	30,075,500
Net income/(loss) for the year		**(1,230,255,776)**	**(95,637,433)**
Net income/(loss) attributable to ow ners of TAP SA		(1,230,255,776)	(95,637,433)
Net income/(loss) attributable to non-controlling interests		-	-
Results per share			
Basic and diluted earnings per share	35	(148.2)	(11.5)

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

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

Amounts stated in euros	Notes	2020	2019
Net income/(loss) for the year		**(1,230,255,776)**	**(95,637,433)**
Items that may be reclassified to income statement:			
Gains and losses in derivate financial instruments - cash flow hedge	20	(52,980,880)	65,289,101
Deferred tax on derivative financial instruments - cash flow hedge	9	13,642,490	(19,739,619)
Items that will not be reclassified to income statement:			
Remeasurements of defined benefit plans	17	(25,420,003)	(17,575,097)
Deferred tax on remeasurements	9	6,225,074	6,458,481
Other comprehensive income/(loss) net of tax		**(58,533,319)**	**34,432,866**
Comprehensive income/(loss) for the year		**(1,288,789,095)**	**(61,204,567)**
Attributable to:			
Owners of TAP SA		(1,288,789,095)	(61,204,567)
Non-controlling interests		-	-
		(1,288,789,095)	**(61,204,567)**

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

CONSOLIDATED 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 year	Total
Equity as at January 1, 2019		**41,500,000**	**154,353,400**	**8,300,000**	**(29,132,283)**	**(200,588)**	**(11,956,732)**	**(58,065,358)**	**104,798,439**
Change in accounting policy - adoption of IFRS 16*	2	-	-	-	-	-	90,943,051	-	90,943,051
Application of net income/(loss) of the year 2019		-	-	-	-	-	(58,065,358)	58,065,358	-
Remeasurement*	9 and 17	-	-	-	-	-	(11,116,616)	-	(11,116,616)
Fair value of derivative financial instruments*	9 and 21	-	-	-	45,549,482	-	-	-	45,549,482
Net income/(loss) for the year		-	-	-	-	-	-	(95,637,433)	(95,637,433)
Equity as at December 31, 2019		**41,500,000**	**154,353,400**	**8,300,000**	**16,417,199**	**(200,588)**	**9,804,345**	**(95,637,433)**	**134,536,923**
Application of net income/(loss) of the year 2019		-	-	-	-	-	(95,637,433)	95,637,433	-
Remeasurement*	9 and 17	-	-	-	-	-	(19,194,930)	-	(19,194,930)
Fair value of derivative financial instruments*	9 and 21	-	-	-	(39,338,390)	-	-	-	(39,338,390)
Net income/(loss) for the year		-	-	-	-	-	-	(1,230,255,776)	(1,230,255,776)
Equity as at December 31, 2020		**41,500,000**	**154,353,400**	**8,300,000**	**(22,921,191)**	**(200,588)**	**(105,028,018)**	**(1,230,255,776)**	**(1,154,252,173)**

*Net deferred tax amounts, where applicable.

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

CONSOLIDATED CASH FLOW STATEMENT

	Notes	2020	2019
Operating activities:			
Receipts from customers		1,230,205,068	3,499,487,705
Payments to suppliers		(1,123,281,276)	(2,510,312,615)
Payments to employees		(437,915,431)	(626,486,259)
Payments of low value and short-term leases		(6,232,806)	(7,407,952)
Cash generated from operations		**(337,224,445)**	**355,280,879**
Income tax (payment)/receipt		(323,366)	271,855
Other receipts/payments relating to operating activities		24,633,510	(18,468,931)
Cash flow from operating activities (1)		**(312,914,301)**	**337,083,803**
Receipts from:			
Financial investments			
Other financial assets	8 and 10	16,537,385	133,095,264
Tangible fixed assets		1,021,981	23,300,712
Investment grants		768,708	-
Loans granted		841,965,000	824,730,000
Interests and similar income		34,598,417	33,291,836
		894,891,491	**1,014,417,812**
Payments relating to:			
Financial investments	8 and 10	(108,118,884)	(150,355,288)
Tangible fixed assets		(54,507,976)	(132,468,189)
Intangible assets		(7,875,188)	(21,700,983)
Loans granted		(889,530,000)	(844,595,000)
		(1,060,032,048)	**(1,149,119,460)**
Cash flow from investment activities (2)		**(165,140,557)**	**(134,701,648)**
Financing activities:			
Receipts from:			
Borrowings	19	1,225,011,144	702,045,778
Lease liabilities with purchase option	19	16,311,909	77,014,133
		1,241,323,053	**779,059,911**
Payments relating to:			
Borrowings	19	(179,662,265)	(249,816,467)
Lease liabilities with purchase option	19	(35,719,503)	(38,795,503)
Lease liabilities without purchase option	19	(213,596,674)	(296,742,165)
Interests and similar costs		(62,017,886)	(58,130,505)
Interest elements of lease liabilities without purchase option		(32,389,843)	(119,769,279)
Over-hedge fuel derivatives	23	(145,017,782)	-
		(668,403,953)	**(763,253,919)**
Cash flow from financing activities (3)		**572,919,100**	**15,805,992**
Net increase (decrease) in cash and cash equivalents (1)+(2)+(3)		94,864,242	218,188,147
Effects of currency exchange differences		(2,397,964)	(5,286,494)
Cash and cash equivalents at the beginning of the year	14	426,290,329	213,354,955
Megasis Merge		-	33,721
Cash and cash equivalents at the end of the year	14	**518,756,607**	**426,290,329**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Introduction

Transportes Aéreos Portugueses, S.A. ("TAP Air Portugal", "TAP S.A." or "Company") essentially operates public air transport services for passengers, freight and mail, as well as the provision of services and the performance of commercial, industrial and financial operations relating directly or indirectly to such operation.

On 30 December 2019, TAP S.A. established TAP Logistics Solutions, S.A. ("TAP Logistics"; TAP S.A. and TAP Logistics together are called "TAP S.A. Group"). As such, TAP S.A. presents consolidated financial statements in accordance with Decree-Law No 158/2009 of 13 July (as amended).

TAP S.A. Group provides services in Portugal (Mainland and Autonomous Regions), Europe, Africa, North America, South America and the Middle East. TAP S.A. Group has 20 offices in foreign countries and 4 in Portugal.

Headquarters Edifício 25, Lisbon Airport, 1700-008 Lisbon
Share Capital EUR 41,500,000
Tax identification number 500 278 725

The Company is affiliated with IATA - International Air Transport Association, among other associations in the industry.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Parpública owns 750,000 ordinary shares, representing 50% of the share capital and voting rights of TAP SGPS;

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

- HPGB owns 337,500 ordinary shares representing 22.5% of the share capital, voting rights and economic rights of TAP SGPS;

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

The consolidated financial statements for the period ended on 31 December 2020, approved at the Board of Directors meeting of 21 April 2021 and subjected to the approval of the General Meeting, were prepared for presentation to multiple stakeholders.

The members of the Board of Directors who sign this report declare that, to the best of their knowledge, the information contained herein was prepared in accordance with the applicable Accounting Standards, giving a true and appropriate image of the assets and liabilities of the financial situation and results of the Group.

Ongoing Restructuring Plan for the TAP Group - State Aid

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

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

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

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

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

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

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

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

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

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

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

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

1.1. COVID-19 pandemic impact

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

1.1.1 Impact on operational indicators

The evolution of the main operational indicators for the financial year 2020 compared with 2019 is detailed as follows:

Operational indicators	2020	2019	Variation	
			Value	%
Passenger (000)	4,657	17,052	-12,395	-72.7%
RPK (million)	11,876	42,065	-30,189	-71.8%
ASK (million)	18,376	52,527	-34,151	-65.0%
Load Factor	64.6%	80.1%	-15.5p.p.	n.a.
Block Hours	147,213	409,522	-262,309	-64.1%
Number of Departures	47,900	136,705	-88,805	-65.0%
Average Stage Length (km)	2,044	1,956	88	+4.5%
Staff (end of period)	8,106	9,006	-900	-10.0%

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

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

1.1.2 Impact on financial indicators

The evolution of the main financial indicators for the years ending 31 December 2020 and 2019 are detailed as follows:

Financial indicators	dec/20	dec/19	Variation	
			Value	%
Income statement data				
Operating income	1,060,184,366	3,298,753,526	-2,238,569,160	-67.9%
Ticket revenue	848,373,665	2,914,005,095	-2,065,631,430	-70.9%
EBITDA *	-380,090,410	522,926,690	-903,017,100	n.a.
EBITDA Margin	*-35.9%*	*15.9%*	-51,7p.p.	
Operational result (EBIT)	-964,762,471	47,181,525	-1,011,943,996	n.a.
EBIT margin	*-91.0%*	*1.4%*	-92,4p.p.	
Cash flow statement data				
Cash flow from operating activity	-312,914,301	337,083,803	-649,998,104	-192.8%
Cash flow from investment activities	-165,140,557	-134,701,648	-30,438,909	+22.6%
Cash flow from financing activities	572,919,100	15,805,992	557,113,108	n.a.

Financial position data	dec/20	dec/19	Variation	
			Value	%
Total assets	4,957,101,564	5,152,800,895	-195,699,331	-3.8%
Total liabilities	6,111,353,737	5,018,263,972	1,093,089,765	+21.8%
Total equity	-1,154,252,173	134,536,923	-1,288,789,096	n.a.

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

Financial performance in 2020 was severely impacted by the reduction in activity from March 2020 onwards as a result of the Covid-19 pandemic, with total operating income falling by 67.9% in the year and travel revenue falling by 70.9%. EBITDA has fallen from EUR 522.9 million to EUR -380.1 million and the Operating Profit (EBIT) from EUR 47.2 million to EUR -964.8 million.

Concerning to the variation in the consolidated cash flow statement, there is a reduction of EUR 650 million in the operating cash flows, essentially resulting from the deterioration of the Group's revenue, because of the impact of the pandemic. In investment cash flows there is a reduction of EUR 30 million as a result of the reduction in investment directly associated with the reduction in activity. As regards cash flows, there is an increase of EUR 557 million as a result of Portuguese state funding (see Introductory Note).

1.1.3 Impact on key estimates

The impact of the Covid-19 pandemic on the main estimations made by the board of directors, is shown in detail below:
Notwithstanding the fact that the Restructuring Plan is still being reviewed by the European Commission, and subject to any ongoing interactions by and between the State of Portugal and the Group's board of directors, it is the understanding of the board of directors that the best estimation possible, on 31 December 2020, is the one reflected in the projections inserted to the Restructuring Plan, approved by the board of directors at the meeting held on 2 December 2020.

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

Restructuring provision (Note 30)

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

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

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

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

Other Provisions (Note 18)

The Group has registered provisions for any eventual contingencies. The board regularly evaluates the criteria used to measure such provisions.

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

In the year ending 31 December 2020, the Board of directors has increased the provision related with the costs of the equipment's redelivery operated under lease agreements with no buy-out option, roughly EUR 72 million, net of reversions, and considering the new information on deadlines and associated costs to the phase-out process, as defined in the Restructuring Plan.

Current asset impairment losses (Notes 10,11 and 28)

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

As a result of the declaration of the pandemic and the consequent effects on the economic activity, especially in the civil aviation sector, the Board of Directors identified the need to reinforce the impairment losses (i) of accounts receivable by EUR 26.9 million euro (Note 10) due to the increased collection risk identified in some customers, and (ii) the current expectations regarding the recoverability of balances receivable from TAP ME Brasil, considering the current perspectives of the said company under the ongoing Restructuring Plan (Note 28), and (iii) considering the inventories of EUR 5,3 million (Note 11) resulting of the decrease of rotation and usage expectation of some items used to repair its fleet or third party's fleet.
It should be stressed that the retrievability of TAP SGPS's balance, on 31 December 2020, in the amount of EUR 874,1 million, has been appraised, on this date, by the Board of directors under the scope of the Restructuring Plan.

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

Non-current asset impairment losses – Air fleet (Note 4)

On 31 December 2020, the total of non-current consolidated assets related with the air fleet, subject to impairment testing in accordance with IAS 36 in the case impairment indications exist, amount to EUR 2.844 million.

The World Health Organization's declaration of a pandemic resulted in limitations on mobility, plus the economic and social effects of the pandemic itself, resulting in a sharp decline in the Group's activities, and the Board of Directors understood that there was a need to review the impairment tests of non-current assets.

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

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

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

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

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

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

Discontinuance of coverage accounting (Note 23)

Until the outbreak of the Covid-19 pandemic, the Group had as policy, regarding the risk reduction on the price volatility of fuel used on civil aviation business, namely, the contracting of Jet fuel derivatives through the negotiation of contracts with a period of up to 12 months comprising between 50% and 60% of the total estimated consumption. The Group uses coverage accounting when the IFRS 9 requirements are fulfilled. With the reduction of air transport activity resulting from the Covid-19 pandemic and based on the best available information, the Board has reviewed the short-term fuel consumption assumptions and identified that some existing contracts related with coverage operations that did not meet the requirements under IFRS 9, on the account of future transactions that are now very unlikely to occur. Regarding IFRS 9, in these cases the coverage accounting was disrupted. The losses associated with such disruption were recognized in a separate line under the title over hedge costs, in accordance with the Group's accounting policy.

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

Deferred Taxes

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

As a result of the Covid-19 pandemic, in June 2020 a number of amendments to tax legislation were adopted within the framework of the Economic and Social Stabilization Plan, in particular with regard to the period of limitations and deduction percentage of the tax losses generated in 2020 and 2021, and the increase of the period of limitations for another two years with regard to tax losses generated before 2020. TAP SA Group registered assets relating to deferred taxes regarding tax losses reported on 2014, 2015, 2018 and 2019 exercises, amounting to 76,9 million euro, which amount the Group expects to recover, considering the projections of future profits to be subject to taxes, included to the 2021-2025 period, in accordance with the restructuring plan approved by the Board of directors on 2 December 2020.

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

As a result of the effects of Covid-19 on the Group's activity, an estimated tax loss of EUR 1,194 million was assessed during the 2020 exercise, for which it was not recognized the respective assets by deferred taxes, considering its magnitude and extension in the period on which the same could be recovered, in accordance with the international accounting rules and financial report.

Unused flight tickets (Note 22)

As of December 31, 2020 and 2019, the total value of unused tickets amounted to approximately EUR 602.0 million and EUR 480.8 million, respectively. The amount of unused tickets was significantly impacted on 31 December 2020 by the effects of the Covid-19 pandemic.

As a result of the reduction in activity after April 2020 and the cancellation of flights imposed on the aviation sector and the Group, the unused tickets as of December 31, 2020 include significant amounts related to flights not carried out by that date, while the Group remains responsible for providing the service in the future or for refunding the tickets under the contractual terms.

In this context, the Board of Directors has revised the policy for the use of unused tickets, specifically regarding the possibility of rebooking tickets at no additional cost and the reimbursement of tickets as vouchers of a higher value and extended validity periods, which together with the cancellation of flights due to the COVID-19 pandemic, resulted in an increase in liabilities recorded on December 31, 2020.

The criteria used to estimate the valuation of unused flight tickets have been revised in accordance with the aforementioned policy, including, but not limited to, differentiated estimates regarding the future use of refund vouchers and future use of tickets. Any changes to the policy for the use of unused tickets and new relevant information may result in changes in the estimates made by the Board of Directors regarding the valuation of this liability.

Customer loyalty programme (Note 21)

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

In 2020, in order to mitigate the impacts caused by the pandemic, TAP extended by 12 months the validity of the miles allocated to customers, to miles expiring between March and September 2020 and as a caution it did not change the “stand-alone price” calculated in 2019. This measure had an impact on the obligation registered with the loyalty program, increasing the liabilities by approximately EUR 6 million (Note 21). If the redemption of miles, in the coming years, does not reach the pre-pandemic COVID-19 historical values and the commercial strategy does not involve the attribution of new validity extensions, the results of the Group may register a positive impact.

1.1.4 Mitigation measures for the COVID-19 pandemic effect

Since the beginning of the Covid-19 pandemic, the Group has adopted liquidity protection measures, namely suspension or postponement of non-critical investments, renegotiation of contracts and payment terms with suppliers and lessors, cut of ancillary expenses, suspension of hiring and promotions, no renewal of fixed-term employment contracts, as well as adherence to the simplified layoff regime and extraordinary support for the progressive resumption of activity, and the implementation of temporary unpaid leave programmes.

Providers and lessors

As a result of the reduction in activity and liquidity management, the Group reduced the hiring of current service providers, which led to a reduction in accounts payable compared to December 2019. The Group has also renegotiated payment plans with some of its current suppliers with a corresponding extension of the payment term as a prudent way of managing liquidity.

As a consequence of the slowdown in commercial and operational activity, there were also contacts with lessors for contractual renegotiation of some conditions of aircraft lease agreements, which represented almost the entire fleet. These negotiations, which took place in 2020 (and will continue in 2021), focused mainly on the deferral of rent payments and maintenance reserves, as well as on the renegotiation of future rent amounts, keeping in mind in these negotiations the possible future need for fleet reduction resulting from the Restructuring Plan. As of December 31, 2020, the number of overdue installments unpaid to lessors was EUR 33.0 million and was classified under the caption "Liabilities with no purchase option", and the reduction in "Liabilities with no purchase option" resulting from the referred renegotiations already concluded up to 31 December 2020 was EUR 96.9 million (Note 19).

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

Lay-off

As an exceptional and temporary job protection measure, within the scope of the COVID-19 pandemic, the Group adhered between April and June 2020 to the measure set out in Decree-Law no. 10-G / 2020, of 26 March, in its current wording, consisting of a temporary reduction of the normal working period or a suspension of the employment contract (simplified lay-off programme). After August 1, 2020 and until November 30, 2020, the Group adhered to the new mechanism that succeeds the simplified lay-off, called extraordinary support for the progressive recovery, regulated under the terms of the Economic and Social Stabilisation Programme, approved by Resolution of the Council of Ministers no. 41/2020 of 6 June, namely the measures to support the progressive recovery set out in section 2.2.1. (“Extraordinary Support for the Progressive Recovery”).

In financial year 2020, and as a result of adhering to the support programmes identified above, estimated labour cost savings of EUR 127 million were recorded, including the effect of non-payment of Social Security contributions, the financial support provided by Social Security and the reduction of wage costs according to the lay-off regime adopted for each worker.

Government Support

Pursuant to the approval by the European Commission, on June 10, of the granting of State Aid by the Portuguese State to TAP Group in the amount of up to EUR 1.2 billion (Introductory Note), the Board of Directors, with the support of external advisors, prepared a long-term Restructuring Plan to demonstrate the Group's economic viability. This plan includes a set of long term structural and implementation measures aimed at mitigating the effects of the COVID-19 pandemic on the Group's operational activity and equity situation.

Meanwhile, the Group joined a set of supportive measures for the economy promoted by the Portuguese Government in the context of the pandemic COVID-19, namely: (i) the exceptional and temporary regime for compliance with tax obligations and social security contributions, within the scope of the pandemic COVID-19, set out in Decree-Law no. 10-F / 2020, of 26 March, in its current wording; (ii) the application of the exceptional and temporary regime for the suspension of judicial, administrative and tax periods, pursuant to Law No. 1-A / 2020, of March 19, in its current wording, and (iii) the exceptional regime for the protection of company credits, in the context of the COVID-19 pandemic, set out in Decree-Law No. 10- J / 2020, of March 26, in its current wording.

1.1.5. Continuity of Operations

The European Commission approved on June 10, 2020 a State Aid to be granted by the Portuguese State to TAP Group in the amount of EUR 1.2 billion, formalized through interest-bearing financing of EUR 946 million to TAP SA, to which an additional amount of EUR 254 million was added (Introductory Note). This funding has a term of 6 (six) months, unless such term is extended by agreement of the parties and with the approval of the European Commission or if, within that period, a Group Restructuring Plan is finalized and approved by TAP’s Board of Directors and submitted to the European Commission, which happened and the aforementioned Restructuring Plan was submitted for the European Commission approval on December 10, 2020.

Therefore TAP SA undertakes to repay the Loan to the Portuguese State, at a later date, whichever of the two scenarios bellow occurs earlier:

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

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

Upon approval of the Restructuring Plan by the European Commission, the Credit Used will be part of the restructuring aid included therein.

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

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

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

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

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

Nevertheless, and taking into account the baseline scenario considered in the projections embedded in the Restructuring Plan approved by the Board of Directors in December 2020 and the expectation regarding its approval by the European Commission, the Board of Directors believes that the continuity of TAP Group's operations and liquidity are is assured, based on the funding of estimated cash needs, at this time for the twelve-month period.

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

2 Summary of key accounting policies

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

2.1. Preparation Base

These financial statements relate to the period ended 31 December 2020 and were prepared in accordance with International Financial Reporting Standards adopted by the European Union ("IFRS" - previously called 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 previous Standing Interpretations Committee ("SIC"), effective on 1 January 2020. From now on, all of those standards and interpretations will be generically called 'IFRS'.

The accompanying consolidated financial statements have been prepared on a going concern basis (Note 1.1.5), from the books and accounting records of the Group, and under the historical cost convention, except for derivative financial instruments and investment properties, which are stated at fair value.

In preparing the financial statements in accordance with IFRS, the Board of Directors has used critical estimates, assumptions, and judgments that impact on the value of assets and liabilities and the recognition of income and expenses for each reporting period. Although these estimates are based on the best information available at the time of preparing the financial statements, the current and future outcomes may differ from these estimates. The key assertions involving a higher level of judgment or complexity, or the most significant assumptions and estimates for the preparation of such financial statements, are published in Note 2.33.

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

2.2. New rules, changes to rules and interpretations as mandated on 31 December 2020

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

Description	Alteration	Effective date
1. New standards, changes to effective standards as of 1 January 2020		
• IFRS 3 - Business combinations	Alteration of business definition	1 January 2020
• IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform - phase 1	Introduction of exemptions from hedge accounting so that the reform of benchmark interest rates does not affect hedge accounting	1 January 2020
• IAS 1 - Presentation of financial statements; IAS 8 - Accounting policies, changes in accounting estimates and errors	Update of the definition of "material" in the application of the rules to financial statements as a whole	1 January 2020
• Conceptual structure - Changes in reference to other IFRS	Change to some IFRS on cross-references and clarification on the application of new definitions of assets / liabilities and expenses / income	1 January 2020

2. Standards (new and changed) that become effective on or after 1 January 2021, already endorsed by the EU		
• IFRS 16 - Rent subsidies related to Covid-19	Exempt from accounting for rebates allocated by lessors related to Covid-19, such as modifications	1 June 2020
• IFRS 4 - Deferral of IFRS 9 application	End of deferral from the start of application of IFRS 9 for entities with insurance business, postponed until 1 January 2023	1 January 2021

3. Standards (new and changed) that become effective on or after 1 January 2021, not yet endorsed by the EU		
• IAS 1 - Presentation of financial statements - Classification of liabilities	Classification of a liability as current or non-current, according to the right that an entity must defer its payment. New definition of "settlement" of a liability	1 January 2023
• IAS 16 - Revenues obtained before entry into operation	No right to deduct income from the sale of items produced during the testing phase from the acquisition cost of tangible assets	1 January 2022
• IAS 37 - Onerous contracts - costs to comply with a contract	Clarification on the nature of the expenses to consider in determining whether a contract has become onerous	1 January 2022
• 2018 - 2020 Improvement Cycle	Specific and one-off changes to IFRS 1, IFRS 9, IFRS 16 and IAS 41	1 January 2022
• IFRS 3 - Conceptual Structure References	Update to the references to the Structure of Conceptual and Clarification on the Posting of Contingent Provisions and Liabilities in a Business Combination	1 January 2022
• IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest rate benchmark reform - phase 2	Additional exemptions related to the impacts of the benchmark interest rate reform ("IBOR"), and especially the replacement of a reference interest rate with another alternative in negotiated financial instruments	1 January 2021
• IFRS 17 - Insurance contracts	New accounting for insurance contracts, reinsurance contracts, and investment contracts with discretionary participation characteristics	1 January 2023

• IFRS 17 - Insurance contracts (amendments)	Inclusion of changes to IFRS 17 in areas such as: i) scope; ii) aggregation level of insurance contracts; iii) recognition; (iv) measurement; v) modification and derecognition; vi) presentation of the statement of financial position; vii) recognition and measurement of the Income Statement; and viii) disclosures	1 January 2023

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

2.3. Comparability of financial statements

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

2.4. Consolidation perimeter

Subsidiaries

Subsidiaries are the entities over which the Group has control.

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

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

The participation of third parties in their equity and net income is shown separately in the consolidated statement of financial position and in the consolidated statement of income, respectively, under the heading "Non-controlling interests".

Entities included in the consolidation perimeter are detailed below:

Name	Head office	Object	% Equity
TAP Logistics Solutions, S.A.	Lisbon	Postal services and collection and transportation of documents, cargo and other goods.	100%

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

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

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

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

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

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

When the acquisition of control is less than 100%, in applying the purchase method, non-controlling interests can be measured at fair value or in the proportion of the fair value of the assets and liabilities acquired, and that option is defined for each transaction.

Subsequent transactions in the sale or acquisition of non-controlling interest, which do not imply change in control, do not result in the recognition of gains, losses, or goodwill, and any difference is determined between the transaction value and the book value of the traded equity recognised.

The equity and net income corresponding to the participation of third parties in the subsidiary companies are shown separately in the consolidated statement of financial position and in the of consolidated profit statement, respectively, under the heading of uncontrolled interests. The losses and gains applicable to the interests they do not control are attributable to them.

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

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

2.5. Segment reporting

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

Two operational segments were identified: air transportation and maintenance and engineering. The activities aggregated in "Others" do not qualify to be reported separately.

Segment reporting accounting policies are consistently used in the Group. All inter-segment revenues are priced at market prices and eliminated in consolidation. Information regarding identified segments is provided in Note 24.

2.6. Currency conversion

Functional and presentation currency

The details included in the financial statements of each of the entities in the Group are measured using the currency of the economic environment in which the entity operates (functional currency). Consolidated financial statements are presented in Euro, with the Euro being the functional currency of TAP S.A. and the Group's display currency.

Balances and transactions in foreign currency

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

The exchange rates used to translate consolidated financial statements expressed in a currency other than the Euro or to update balances expressed in foreign currency on 31 December 2020 and 2019 were as follows:

			Average Rate	
Currency	**2020**	**2019**	**2020**	**2019**
USD	1.2271	1.1234	1.147	1.121
CHF	1.0802	1.0854	1.071	1.116
GBP	0.8990	0.8508	0.889	0.880
BRL	6.3735	4.5157	5.999	4.417
AOA	797.13	536.26	663.60	406.77

2.7. Tangible fixed assets

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

Additionally, at the transition date, TAP S.A. applied the exception set forth in IFRS 1 - First-time Application of the International Financial Reporting Standards, by which the fair value of some categories of assets, reported at transition date (January 1, 2004), can be considered as deemed cost.

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

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

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

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

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

Residual asset values and their useful lives are reviewed and adjusted prospectively, if necessary, on the reporting date (Note 4). If the carrying amount is greater than the recoverable value of the asset, it is readjusted to the estimated recoverable value by recording impairment losses (Note 2.10.).

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

For right of use please refer to Note 2.25.

2.8. Investment properties

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

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

2.9. Intangible assets

Intangible assets essentially includes software to support the activity, recorded at acquisition cost minus amortisations and impairment losses, according to the straight-line method, for a period ranging from 3 to 10 years.

2.10. Non-financial asset impairment

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

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

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

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

The reversal of impairment losses, recognised in previous years, is recorded when it is concluded that recognised impairment losses no longer exist or have decreased.

The reversal of impairment losses is recognised in the consolidated income statement under the heading "Depreciations, amortisations and impairment losses". However, the impairment loss is reversed up to the limit of the amount that would have been recognised (net of amortisation or depreciation) had the impairment loss not been recorded in previous years.

2.11. Financial assets

Classification

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

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

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

✈ **Debt instruments**

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

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

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

✈ **Equity instruments**

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

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

Impairment of financial assets

IFRS 9 establishes an impairment model based on "expected losses", according to which the estimate of impairment is assessed from the initial recognition, taking into account the assessment of credit risk.

✈ **Other accounts receivable**

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

The adjustment for impairment losses is posted against income for the period, under "Incoming Accounts and Inventory Impairment".

✈ **Other financial assets**

The Group considers that all debt instruments measured at amortised cost have zero credit risk.

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

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

Any impairment loss on these financial assets is recognised in the income statement for the period under "Accounts receivable and inventories impairment" and "Provisions".

Derecognition of financial assets

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

2.12. Derivatives

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

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

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

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

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

Hedge accounting

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

- At the start date of the transaction the hedging relationship is identified and formally documented, including the identification of the hedged item, the hedging instrument and the assessment of the hedging effectiveness;
- The hedging relationship is aligned with the risk management strategy and management goals;
- The hedging effectiveness can be measured reliably at the start date of the transaction and throughout the life of the operation;
- There is an economic relationship (50%) between the hedged item and the hedging instrument; and
- Variation risk is not primarily a function of credit risk.

2.13. Assets and liabilities at fair value

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

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

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

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

2.14. Income tax

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

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

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

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

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

2.15. Inventories

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

The inventories held relate essentially to parts for maintaining engines and aircraft components. Recovered material refers essentially to equipment and spare parts to be used in aircraft and engines and is valued at cost.

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

2.16. Customers and other accounts receivable

Customer balances and other current accounts receivable are initially accounted for at the agreed consideration value unless they have a significant financing component, in which case they are accounted for at fair value. The Group holds current customer and other receivable balances for the purpose of recovering them, so that they are subsequently measured at amortised cost minus impairment losses (Note 10).

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

2.17. Cash and cash equivalents

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

2.18. Share capital

Ordinary shares are classified in shareholder equity (Note 15).

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

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

2.19. Interest-bearing liabilities

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

Interest-bearing liabilities and lease liabilities with option to purchase are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the date of the consolidated financial position (Note 19).

2.20. Borrowing costs on loans

Borrowing costs for generic and specific loans, directly related to the acquisition, construction (if the construction or development period exceeds one year) or production of fixed assets that take a substantial period of time to be completed, are capitalised, and form part of the cost of the asset.

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

Other financial charges are recognised as expenses when incurred.

2.21. Provisions

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

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

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

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

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

2.22. Post-employment employee benefits

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

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

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

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

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

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

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

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

2.23. Other accounts payable

Supplier balances and other current amounts payable are initially recorded at fair value and subsequently measured at amortised cost (Note 20).

2.24. Grants

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

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

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

2.25. Leases

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

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

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

Lease payments included in the measurement of lease liabilities include:

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

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

Lease liability is measured subsequently with increases that reflect past due interest on the liability and reductions that reflect payments made.

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

i) The lease term changes or a significant event or change in circumstances occurs, resulting in a change in the evaluation of exercising a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments, using a revised discount rate.

ii) Lease payments are changed due to changes in an index or rate or there is a change in the expectation of payment of a guaranteed residual value. In such cases the lease liability is remeasured, discounting revised lease payments using an unchanged discount rate (unless in circumstances where changes in payments result from a change in the variable interest rate, in which case a revised discount rate is used).

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

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

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

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

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

Variable-value leases that do not depend on an index or rate are not included in the measurement of the lease liability and the right-to-use asset. Their payments are recognised as being spent in the period in which the event or condition that determines the occurrence of such payments occurs, and are included under the heading "Other expenses" in the consolidated income statement.

IFRS 16 allows the lessee to not separate non-lease components and to account for any associated lease and non-lease components as a single contract. The Group did not use this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the contractual consideration for each lease component based on the price, independent of the lease component, and on the price independent of the non-lease components.

2.26. Dividend distribution

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

2.27. Revenue

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

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

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

The Group recognises revenue from maintenance contracts according to the *cost-to-cost* method (also called the percentage of completion method), which is defined as the ratio of spending on each contract to a given date to the estimated spending to complete it. Differences obtained between the amounts resulting from applying the percentage of completion method to the total estimated revenue and the amounts already invoiced are recorded in the accounts receivable as creditor accruals (Note 10). In addition, the Group Board of Directors believes that the *cost-to-cost* method is the most appropriate method for measuring the degree to which performance obligations are met in maintenance contracts.

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

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

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

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

2.28. Accruals and deferrals

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

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

2.29. Contingent assets and liabilities

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

Provisions are recognised for liabilities that meet the conditions in Note 2.21.

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

2.30. Non-recurring items

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

2.31. Consolidated cash flow statement

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

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

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

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

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

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

i) Lease payments representing cash payments from the principal portion of the lease liabilities are shown as cash flows arising from financing activities;

ii) Lease payments representing the interest portion are also shown as cash flows arising from financing activities; and

iii) Lease payments that have not been included in the measurement of lease liabilities, including variable payments, short-term leases, and low-value asset leases, are displayed as operating cash flows.

2.32. Subsequent events

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

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

2.33. Estimates and judgements

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

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

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

✈ **Deferred taxes (Notes 1.1.3 and 9)**

The Group recognises net income tax on the basis of the results of transactions settled in accordance with the tax legislation in force. In accordance with IAS 12, the Group recognises deferred tax assets and liabilities based on the difference between the book value and the tax bases of the assets and liabilities. The Group periodically analyses the recoverability of deferred tax assets based on the projection of the future taxable profit and the estimated period to roll back the time differences.

✈ **Post-employment benefits (Note 17)**

The present value of liabilities on retirement benefits is calculated on the basis of actuarial methodologies, which use certain assumptions. Any changes to those assumptions will have an impact on the book value of these liabilities. The main demographic and financial assumptions used in calculating retirement benefit liabilities are described in Note 17. The Group's policy is to periodically review the main demographic and financial assumptions if their impact is material on the consolidated financial statements.

✈ **Recognition of provisions and impairments (Notes 1.1.3, 10, 11, and 18)**

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

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

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

✈ **Customer loyalty programme (Notes 1.1.3 and 21)**

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

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

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

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

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

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

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

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

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

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

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

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

✈ ***Redelivery* provision (Notes 1.1.3, 4 and 18)**

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

The key assumptions are reviewed periodically, taking into account available information, and there may be circumstances that significantly change this estimate, such as renegotiating aircraft redelivery conditions, significantly changing the use of the aircraft and their navigability conditions, renegotiating leasing contracts, and changes in the cost of such structural maintenance. The estimated future cost of the structural maintenance of aircraft requires judgement by the Board of Directors, so changes in the assumptions used by the Group in the calculation of this estimate may have a significant impact on the consolidated financial statements.

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

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

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

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

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

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

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

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

3 Financial risk management policies

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

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

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

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

✈ **Market risk**

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

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

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

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

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

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

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

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

✈ **Fuel price risk**

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

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

Before the COVID-19 pandemic outbreak in Europe, the Group carried out fuel pricing operations (Note 20).

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

On 31 December 2020, the fair value of contract derivatives is unfavourable to the Group by EUR 42.8 million, with total losses of EUR 165 million in the 2020 financial year, of which EUR 145 million have already been settled.

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

The Group is also subject to changes in the prices of CO2 emission allowances, which are acquired each year to comply with European Union standards. During 2020, the prices of these allowances ranged from EUR 15.30 to EUR 33.40 per ton.

✈ Exchange rate risk

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

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

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

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

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

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

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

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

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

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

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

	2020				
	USD	BRL	AOA	OTHER	TOTAL
ASSETS					
Cash and cash equivalents (Note 14)	13,750,540	35,543,376	9,515,709	13,354,096	72,163,721
Other financial assets (Note 8)	455,915	-	-	-	455,915
Receivables - customers (Note 10)	52,148,136	28,154,332	511,605	14,467,851	95,281,924
Receivables - other (Note 10)	138,881,465	1,535,727	32,081	6,815,546	147,264,819
	205,236,056	**65,233,435**	**10,059,395**	**34,637,493**	**315,166,379**
LIABILITIES					
Borrow ing and lease liabilities w ith purchase option (Note 19)	336,389,636	-	-	(664,299)	335,725,337
Lease liabilities w ithout purchase option (Note 19)	1,894,535,964	-	-	-	1,894,535,964
Payables - suppliers (Note 20)	5,674,436	1,071,506	10,811	4,085,184	10,841,937
Payables - other (Note 20)	35,280,243	1,760,161	1,547,152	2,928,116	41,515,672
	2,271,880,279	**2,831,667**	**1,557,963**	**6,349,001**	**2,282,618,910**

	2019				
	USD	BRL	AOA	OTHER	TOTAL
ASSETS					
Cash and cash equivalents (Note 14)	225,268,194	10,948,393	12,386,044	13,733,352	262,335,983
Other financial assets (Note 8)	5,336,261	-	-	-	5,336,261
Receivables - customers (Note 10)	44,535,711	120,813,029	941,987	15,347,881	181,638,608
Receivables - other (Note 10)	205,915,262	11,455,835	37,306	7,584,860	224,993,263
	481,055,428	**143,217,257**	**13,365,337**	**36,666,093**	**674,304,115**
LIABILITIES					
Borrow ing and lease liabilities w ith purchase option (Note 19)	164,032,127	-	-	-	164,032,127
Liabilities w ith contractual obligations (Note 19)	2,084,698,745	-	-	-	2,084,698,745
Payables - suppliers (Note 20)	48,719,416	1,925,323	409,290	7,148,212	58,202,241
Payables - other (Note 20)	54,744,526	4,939,994	1,547,926	5,785,707	67,018,153
	2,352,194,814	**6,865,317**	**1,957,216**	**12,933,919**	**2,373,951,266**

Net foreign exchange gains of EUR 162 million were recorded in the 2020 financial year (Note 33), including positive effects on the impact of the USD’s devaluation on recorded liabilities and negative effects on the impact of the BRL's devaluation on recorded assets.

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

As of 31 December 2020, a (positive or negative) variation of 10% of all exchange rates referring to the euro would result in an impact on the financial year's results of approximately EUR 197 million (2019: EUR 179 million).

✈ **Interest rate risk**

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

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

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

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

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

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

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

	2020					
	< 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Variable Rate						
Borrowings	1,237,164,486	46,248,453	122,351,017	42,242,333	-	1,448,006,289
Lease liabilities with purchase option	12,848,064	17,243,012	54,639,814	-	-	84,730,890
	1,250,012,550	**63,491,465**	**176,990,831**	**42,242,333**	**-**	**1,532,737,179**
Fixed Rate						
Borrowings	318,621,109	7,456,122	376,717,666	1,008,069	-	703,802,966
Lease liabilities with purchase option	28,495,246	28,375,361	94,290,536	161,820,760	40,866,197	353,848,100
	347,116,355	**35,831,483**	**471,008,202**	**162,828,829**	**40,866,197**	**1,057,651,066**
Total	**1,597,128,905**	**99,322,948**	**647,999,033**	**205,071,162**	**40,866,197**	**2,590,388,245**
% fixed rate	**22%**	**36%**	**73%**	**79%**	**100%**	**41%**

	2019					
	< 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Variable Rate						
Borrowings	107,936,821	106,545,332	121,989,387	29,821,633	-	366,293,173
Lease liabilities with purchase option	24,856,624	16,755,798	53,407,666	-	-	95,020,088
	132,793,445	**123,301,130**	**175,397,053**	**29,821,633**	**-**	**461,313,261**
Fixed Rate						
Borrowings	17,517,511	7,495,321	586,833,472	23,972,484	81,290,526	717,109,314
Lease liabilities with purchase option	11,028,410	11,348,236	37,469,415	88,296,773	31,729,835	179,872,669
	28,545,921	**18,843,557**	**624,302,887**	**112,269,257**	**113,020,361**	**896,981,983**
Total	**161,339,366**	**142,144,687**	**799,699,940**	**142,090,890**	**113,020,361**	**1,358,295,244**
% fixed rate	**18%**	**13%**	**78%**	**79%**	**100%**	**66%**

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

Sensitivity analysis is based on the following assumptions:

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

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

In November 2019, TAP S.A. obtained a credit rating for the first time from two international credit agencies, and was assigned a BB- (preliminary, stable Outlook) rating by Standard & Poor's, and a B2 (stable

Outlook) by Moody’s Investors Service. In 2020, as a result of the pandemic, and like most companies in the sector, TAP saw its credit ratings changed and on December 31, 2020, the ratings of these credit agencies were B- (negative Outlook) and Caa2 (negative Outlook) respectively.

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

✈ **Liquidity risk**

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

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

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

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

The Group's cash position on 31 December 2020 shows an increase from the end of 2019, from EUR 426.3 million to EUR 518.8 million at the end of 2020. This liquidity position reflects the receipt of the last instalment of the Portuguese Government's interest-bearing loan.

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

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

	2020						
	< 6 months	6 months - 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Borrowings	364,128,178	1,257,578,380	86,897,951	548,966,264	47,286,307	-	2,304,857,080
Lease liabilities with purchase option	27,661,521	31,667,596	63,310,005	188,014,065	190,345,928	41,984,294	542,983,409
Lease liabilities without purchase option	242,572,761	184,693,544	309,723,157	572,547,652	602,619,452	126,483,786	2,038,640,352
Total	**634,362,460**	**1,473,939,520**	**459,931,113**	**1,309,527,981**	**840,251,687**	**168,468,080**	**4,886,480,841**

	2019						
	< 6 months	6 months - 1 year	1 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Total
Borrowings	90,211,169	83,444,041	162,673,798	781,700,612	145,129,385	-	1,263,159,005
Lease liabilities with purchase option	24,554,726	24,429,149	40,393,072	118,127,210	109,803,175	33,867,207	351,174,539
Lease liabilities without purchase option	212,044,689	214,641,097	366,503,715	677,788,421	679,741,895	127,958,669	2,278,678,486
Total	**326,810,584**	**322,514,287**	**569,570,585**	**1,577,616,243**	**934,674,455**	**161,825,876**	**3,893,012,030**

✈ Credit risk

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

	2020	2019
Non-current assets		
Other financial assets and receivables	92,662,231	116,750,280
Current assets		
Cash and cash equivalents	518,756,607	426,290,329
Other receivables - Customers (Note 10)	131,316,742	240,677,357
Other financial assets and receivables (Notes 8 and 10)	984,242,319	1,052,318,880
	1,726,977,899	**1,836,036,846**

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

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

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

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

As part of its business, Group advanced payments to Airbus for the acquisition of new aircraft and entered into lease liabilities without purchase option contracts for the acquisition of aircraft in which it pays the lessors maintenance reserves and security deposits. In analysing the credit losses for these amounts, the Group considers the financial position of the counterparties and all transactions it has in progress with them.

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

✈ **Capital management**

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

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

As regards current and non-current paid liabilities, there has been an increase of around 99% compared to 2019, with the loan of EUR 1.2 billion obtained from the Portuguese state being the most important component of this increase.

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

4 Tangible fixed assets

During the periods ending on 31 December 2020 and 2019, the movement under the item Property, plant and equipment item, as well as the respective accumulated depreciations and impairment losses, was 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	Total
Acquisition Cost											
January 1, 2019	**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**
IFRS16 Adoption (Note 2.2)	-	-	-	-	-	-	-	-	-	1,178,987,847	1,178,987,847
Acquisitions	-	699,544	222,406,611	23,753	2,502,785	2,325,336	304,788	29,315,029	20,637,801	1,622,431,990	1,900,647,637
Disposals	-	-	(531,022,329)	-	-	(5,598)	-	(24,489,208)	-	-	(555,517,135)
Megasis merge	-	-	7,650,870	-	-	9,341,947	21,102	6,510	-	-	17,020,429
Regularisation, transfer and write-off	-	-	(6,369,180)	69,824	(26,820)	(1,266,438)	(20,846)	(3,859,867)	(42,324,105)	(59,959,978)	(113,757,410)
December 31, 2019	**41,125,597**	**156,024,418**	**1,073,552,123**	**2,270,501**	**27,912,533**	**66,751,616**	**12,726,109**	**40,017,604**	**75,228,289**	**2,741,459,859**	**4,237,068,649**
Acquisitions	-	1,047,094	251,526,999	2,417	2,156,009	666,949	171,766	8,547,154	8,617,354	379,960,050	652,695,792
Disposals	-	-	(483,759)	(18,678)	(35,796)	(20,106)	-	-	-	-	(558,339)
Regularisation, transfer and write-off	-	-	18,707,919	-	(11,940)	(14,588,333)	(5,437)	(26,421,566)	(22,202,182)	(144,712,404)	(189,233,943)
December 31, 2020	**41,125,597**	**157,071,512**	**1,343,303,282**	**2,254,240**	**30,020,806**	**52,810,126**	**12,892,438**	**22,143,192**	**61,643,461**	**2,976,707,505**	**4,699,972,159**
Accumulated deprec. and impairment losses											
January 1, 2019	**-**	**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 32)	-	5,431,247	62,424,035	54,293	697,722	1,544,262	342,795	-	-	394,150,933	464,645,287
Megasis merge	-	-	6,501,452	-	-	8,846,575	18,631	-	-	-	15,366,658
Impairment losses (Note 32)	-	-	2,740,781	-	-	-	-	-	-	-	2,740,781
Disposals	-	-	(516,090,444)	-	-	(5,217)	-	-	-	-	(516,095,661)
Regularisation, transfer and write-off	-	-	(12,882,500)	2,291	(18,931)	(1,265,621)	(20,846)	-	-	(30,382,309)	(44,567,916)
December 31, 2019	**-**	**84,197,625**	**668,354,417**	**2,146,265**	**17,476,756**	**63,574,525**	**11,221,869**	**-**	**-**	**363,768,624**	**1,210,740,081**
Depreciations (Note 32)	-	5,522,652	74,527,228	45,302	796,512	1,330,473	282,060	-	-	486,658,675	569,162,902
Impairment losses (Note 32)	-	-	2,723,947	-	-	-	-	-	-	-	2,723,947
Disposals	-	-	(155,015)	(18,678)	(22,731)	(20,106)	-	-	-	-	(216,530)
Regularisation, transfer and write-off	-	-	(11,980,438)	-	(5,655)	(14,705,298)	(5,437)	-	-	-	(26,696,828)
December 31, 2020	**-**	**89,720,277**	**733,470,139**	**2,172,889**	**18,244,882**	**50,179,594**	**11,498,492**	**-**	**-**	**850,427,299**	**1,755,713,572**
Carrying amount as at December 31, 2019	**41,125,597**	**71,826,793**	**405,197,706**	**124,236**	**10,435,777**	**3,177,091**	**1,504,240**	**40,017,604**	**75,228,289**	**2,377,691,235**	**3,026,328,568**
Carrying amount as at December 31, 2020	**41,125,597**	**67,351,235**	**609,833,143**	**81,351**	**11,775,924**	**2,630,532**	**1,393,946**	**22,143,192**	**61,643,461**	**2,126,280,206**	**2,944,258,588**

On 31 December 2020 and 2019, the “Right of use” item had the following composition:

	Buildings and other constructions	Basic equipment	Transport equipment	Total
Assets				
IRFS 16 Adoption	1,832,381	1,176,363,069	792,397	**1,178,987,847**
Acquisitions	-	1,622,332,098	99,892	**1,622,431,990**
Write-off	-	(59,959,978)	-	**(59,959,978)**
Closing Balance December 31, 2019	**1,832,381**	**2,738,735,189**	**892,289**	**2,741,459,859**
Acquisitions	-	379,960,050	-	**379,960,050**
Write-off	-	(144,595,471)	(116,933)	**(144,712,404)**
Closing Balance December 31, 2020	**1,832,381**	**2,974,099,768**	**775,356**	**2,976,707,505**
Accumulated depreciations				
Depreciations (Note 32)	714,284	393,181,811	254,838	**394,150,933**
Write-off	-	(30,382,309)	-	**(30,382,309)**
Closing Balance December 31, 2019	**714,284**	**362,799,502**	**254,838**	**363,768,624**
Depreciations (Note 32)	710,226	485,670,496	277,953	**486,658,675**
Closing Balance December 31, 2020	**1,424,510**	**848,469,998**	**532,791**	**850,427,299**
Carrying amount December 31, 2019	**1,118,097**	**2,375,935,687**	**637,451**	**2,377,691,235**
Carrying amount Decmber 31, 2020	**407,871**	**2,125,629,770**	**242,565**	**2,126,280,206**

Land and buildings and other constructions of the headquarters were transferred to the Group's property under Decree-Law 351/89 of 13 October.

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

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

- The additions to basic equipment of EUR 251,527 thousand mainly relate to: (i) purchase of two aircraft amounting to approximately EUR 200,789 thousand and (ii) purchase of two engines under lease with a purchase option for EUR 27,472 thousand, and (iii) capitalisation of aircraft structural maintenance charges of EUR 9,875 thousand.

- Disposal of basic equipment for the net sum of EUR 329 thousand essentially relates to the sale of APU’s (A340) and Spare Parts, which generated a gain of EUR 28 thousand.

- On 31 December 2020, additions under the Right of use item essentially include: (i) five new leasing contracts with no option to purchase in the amount of EUR 159,317 thousand; (ii) increase in capitalised large-scale maintenance spending by EUR 57,430 thousand, (iii) increase in the redelivery provision to the sum of EUR 106,098 thousand and (iv) increase in capitalization of non-recoverable maintenance reserves spending to the sum of EUR 48,120 thousand.

- In addition, settlements, transfers and write-offs under the Right of Use item essentially include: (i) reduction resulting from renegotiations of contracts with lessors amounting to approximately EUR 100,622 thousand and (ii) resulting from the revision of the redelivery provision, a reduction of EUR 36,653 thousand.

- Additions of other assets in progress amounting to EUR 8,547 thousand essentially relate to: (i) to an A330 flight simulator for an amount of EUR 5,888 thousand, (ii) spending on large-scale maintenance in progress in the amount of EUR 1,491 thousand, and (iii) building refurbishments in the amount of EUR 922 thousand.

- The decrease in Transfer and write-off of Other assets in progress includes the amount of EUR 26,750 thousand transferred in the merger of two aircraft;

- Additions of advances amounting to EUR 8,617 thousand essentially refer to pre-delivery payments

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

- The additions of basic equipment in the amount of EUR 222,407 thousand, mainly relate to: (i) acquisition of one aircraft in the amount of EUR 106,488 thousand under lease agreements with purchase option and (ii) capitalisation of expenses with structural maintenance of aircraft owned or under financial leasing in the amount of approximately EUR 55,373 thousand and (iii) acquisition of two engines under financial leasing arrangements amounting to EUR 30,420 thousand and (iv) acquisition of spares in the amount of EUR 17,137 thousand.

- In addition, the disposal of A340 aircraft occurred in 2019 resulted in a loss of approximately EUR 1,200 thousand.

- Disposals of basic equipment in the net amount of EUR 14,932 thousand, refers essentially to the sale of three aircraft (A330), which generated a gain in the amount of EUR 7,433 thousand.

- The additions of other assets in progress in the amount of EUR 29,315 thousand, refers essentially to pre-delivery payments for the future acquisition of aircraft.

- The increase verified in the caption “Advances to suppliers of tangible assets” in the amount of EUR 20,638 thousand refers, essentially, to advances related to Rolls Royce “Total Care”.

Depreciation of property, plant and equipment is recognised in full under the item "Depreciations, amortisations and impairment losses" in the income statement (Note 32).

On 31 December 2020 and 2019, the "Basic equipment" (own assets) item had the following composition:

	2020			2019		
	Acquisition cost	Accumulated depreciation	Carrying amount	Acquisition cost	Accumulated depreciation	Carrying amount
Flight equipment						
Aircraft	322,921,384	(260,195,337)	62,726,047	143,940,402	(82,274,713)	61,665,689
Spare engines	4,000,254	(2,699,214)	1,301,040	8,225,988	(2,255,574)	5,970,414
Spare parts	122,417,735	(78,486,005)	43,931,730	121,246,691	(77,138,480)	44,108,211
	449,339,373	(341,380,556)	107,958,817	273,413,081	(161,668,767)	111,744,314
Flight equipment under Leases w ith purcahse option						
Aircraft	693,681,606	(309,632,064)	384,049,542	634,912,162	(428,450,165)	206,461,997
Reserve engines	109,059,662	(12,040,881)	97,018,781	72,803,235	(7,429,895)	65,373,340
	802,741,268	(321,672,945)	481,068,323	707,715,397	(435,880,060)	271,835,337
Machinery and equipment	91,222,641	(70,416,638)	20,806,003	92,423,645	(70,805,590)	21,618,055
	1,343,303,282	**(733,470,139)**	**609,833,143**	**1,073,552,123**	**(668,354,417)**	**405,197,706**

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

	2020					2019				
	Ow ned by TAP Group	Lease liabilities with purchase option	Lease liabilities without purchase option	ACMI	Total	Ow ned by TAP Group	Lease liabilities with purchase option	Lease liabilities without purchase option	ACMI	Total
Airbus A330	-	-	7	-	**7**	-	-	7	-	**7**
Airbus A330 NEO	-	3	16	-	**19**	-	1	16	-	**17**
Airbus A319	6	3	5	-	**14**	2	7	9	-	**18**
Airbus A320	2	3	13	-	**18**	-	5	14	-	**19**
Airbus A320 NEO	-	-	8	-	**8**	-	-	7	-	**7**
Airbus A321	-	2	1	-	**3**	-	2	2	-	**4**
Airbus A321 NEO	-	-	10	-	**10**	-	-	8	-	**8**
Airbus A321 NEO LR	-	-	6	-	**6**	-	-	4	-	**4**
Embraer 190	-	-	-	9	**9**	-	-	-	9	**9**
Embraer 195	-	-	-	4	**4**	-	-	-	4	**4**
ATR 72	-	-	-	8	**8**	-	-	-	8	**8**
	8	**11**	**66**	**21**	**106**	**2**	**15**	**67**	**21**	**105**

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

As a result of the current situation of the Group on 31 December 2020, of the 106 aircraft, 10 are not operating (6 A319, 2 A320 and 2 A330) being in a phase-out situation, taking into consideration their disposal/return to lessors.

Consequently, TAP ended the year 2020 with an operating fleet of 96 planes, a net decrease of 9 planes when compared to the end of 2019, when the Group had an operational fleet of 105 planes.

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

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

Impairment

In the year ended December 31, 2020, as a result of signs of impairment in non-current assets related to air transport, as a result of the reduction in activity resulting from the COVID-19 pandemic, an analysis of impairment of the respective assets was carried out.

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

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

On December 31, 2020, TAP SA calculated the recoverable amount of air transport assets, essentially arising from the fleet, in the amount of EUR 2,844,772 thousand, by determining the value in use allocated to the cash-generating unit defined (Air Transport of the TAP Group), according to the discounted cash flow method, considering in the respective impairment test the estimated impacts, to this date, related to the Covid-19 pandemic.

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

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

* Assumptions used for impairment testing of Air Transport goodw ill at TAP SGPS headquarters
** Discount rate net of taxes
*** Average grow th rate of turnover. In 2019 w as considered the period of 2019-2024 and in 2020 w as considered the period of 2019-2025

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

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

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

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

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

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

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

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

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

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

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

5 Investment properties

On 31 December 2020 and 2019, entries recorded in investment properties were as follows:

	2020	2019
Opening Value	**2,148,564**	**1,925,764**
Transfers - Megasis merge	-	1,205,000
Disposals	-	(1,000,000)
Fair value adjustments	(604,739)	17,800
Closing Balance	**1,543,825**	**2,148,564**

On 31 December 2020, EUR 604,739 was recorded for variation in relation to the updating of the fair value of the property of Portela.

6 Intangible assets

On 31 December 2020 and 2019, the entries under the "Intangible assets" item were as follows:

	Industrial property and other rights	Computer programmes	Assets in progress	Advances to suppliers of in tangible assets	Total
Acquisition cost					
Balance as at January 1, 2019	**11,951,704**	**8,346,817**	**4,660,163**	**1,215,922**	**26,174,606**
Acquisitions	-	18,043,192	3,382,051	275,740	**21,700,983**
Regularization, transfer and write-off	-	11,169,878	(4,332,301)	-	**6,837,577**
Balance as at December 31, 2019	**11,951,704**	**37,559,887**	**3,709,913**	**1,491,662**	**54,713,166**
Acquisitions	-	10,432,421	3,339,740	-	**13,772,161**
Regularization, transfer and write-off	-	3,852,337	(3,852,337)	(1,491,662)	**(1,491,662)**
Balance as at December 31, 2020	**11,951,704**	**51,844,645**	**3,197,316**	**-**	**66,993,665**
Accumulated amort. and impairment losses					
Balance as at January 1, 2019	**(11,951,704)**	**(2,977,517)**	**-**	**-**	**(14,929,221)**
Amortisations and impairment losses (Note 32)	-	(8,359,097)	-	-	(8,359,097)
Regularization and transfer	-	(6,048,071)	-	-	(6,048,071)
Balance as at December 31, 2019	**(11,951,704)**	**(17,384,685)**	**-**	**-**	**(29,336,389)**
Amortisations and impairment losses (Note 32)	-	(12,785,212)	-		(12,785,212)
Balance as at December 31, 2020	**(11,951,704)**	**(30,169,897)**	**-**	**-**	**(42,121,601)**
Carrying amount as at December 31, 2019	**-**	**20,175,202**	**3,709,913**	**1,491,662**	**25,376,777**
Carrying amount as at December 31, 2020	**-**	**21,674,748**	**3,197,316**	**-**	**24,872,065**

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

- The increase in the Computer Software item of EUR 10,432 thousand essentially relates to software licensing contracts.

- The increase in the current Assets item of EUR 3,340 thousand refers to various ongoing development and implementation projects in the areas of operations, sales and maintenance.

7 Financial holdings

On 31 December 2020 and 2019, the financial holdings are broken down as follows:

	2020			
	% Owned	Opening Balance	Increases/ Decreases	Closing Balance
IC TAP Limited	100%	143,592	-	143,592
IC SAFIT Limited	20%	28,718	-	28,718
		172,310	**-**	**172,310**

	2019			
	% Owned	Opening Balance	Increases/ Decreases	Closing Balance
IC TAP Limited	100%	143,592	-	143,592
IC SAFIT Limited	20%	28,718	-	28,718
		172,310	**-**	**172,310**

8 Other financial assets

On 31 December 2020 and 2019, the other financial assets item had the following composition:

	2020		2019	
	Current	Non-Current	Current	Non-Current
Angola's treasury bonds	-	-	4,880,346	-
Bank deposits in Guinea Bissau	-	1,661,670	-	1,746,631
SITA Group Foundation	-	455,915	-	455,915
Other	-	47,373	-	39,683
	-	**2,164,958**	**4,880,346**	**2,242,229**
Impairment losses	-	(1,676,228)	-	(1,761,189)
	-	**488,730**	**4,880,346**	**481,040**

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

The entries under this item during the fiscal years ending on 31 December 2020 and 2019 were as follows:

	2020		2019	
	Current	Non-Current	Current	Non-Current
As at January 1	4,880,346	481,040	13,224,721	481,040
Increases	-	7,690	-	4,830,936
Decreases	(4,880,346)	-	(12,789,293)	-
Transfers	-	-	4,957,349	(4,957,349)
Currency translation differences	-	-	(512,431)	126,413
As at December 31	**-**	**488,730**	**4,880,346**	**481,040**

The decrease in the fiscal year ending 31 December 2020 to the value of EUR 4,880,346 refers to the "Angolan Treasury Bonds" subscribed to the value of 1,737,479,000 kwanzas, corresponding to the original exchange rate of 316,909 kwanzas/dollar, which matured on 18 December 2020.

9 Deferred tax assets and liabilities

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

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

The main temporary differences between accounting and taxable amounts as at December 31, 2020 and 2019, the corresponding deferred tax assets and liabilities and the respective effect on the results for the periods ending on 31 December 2020 and 2019 are as follows:

	2020			
	Opening balance	Effect in results (Note 34)	Effect in other comprehensive income	Closing balance
Deferred tax assets				
Tax losses carried forward	66,242,707	10,659,300	-	76,902,007
Post-employment benefits obligations	30,352,251	(4,268,385)	6,225,074	32,308,940
Impairment losses in inventories	7,158,124	(893,218)	-	6,264,906
Impairment losses of receivables	7,096,835	(167,028)	-	6,929,807
Tax benefits	-	456,670	-	456,670
Other provisions and adjustments not accepted for tax purposes	127,352	(11,739)	-	115,613
Impairment losses in fixed assets	-			-
Derivative financial instruments	-	-	6,092,975	6,092,975
	110,977,269	**5,775,600**	**12,318,049**	**129,070,918**
Deferred tax liabilities				
Revaluation of tangible fixed assets	19,324,081	(2,189,449)	-	17,134,632
Impairment losses in fixed assets	7,549,515	-	(7,549,515)	-
Adjustments from IFRS 16	32,964,031	57,926,915	-	90,890,946
	59,837,627	**55,737,466**	**(7,549,515)**	**108,025,578**
	51,139,642	**(49,961,866)**	**19,867,564**	**21,045,340**

	2019				
	Opening balance	Megasis merger	Effect in results (Note 34)	Effect in other comprehensive income	Closing balance
Deferred tax assets					
Tax losses carried forward	37,163,328	-	29,079,379	-	66,242,707
Post-employment benefits obligations	25,432,762	103,615	(1,642,607)	6,458,481	30,352,251
Impairment losses in inventories	6,831,884	-	326,240	-	7,158,124
Impairment losses of receivables	7,020,375	13,488	62,972	-	7,096,835
Tax benefits	442,275	-	(442,275)	-	-
Other provisions and adjustments not accepted for tax purposes	122,949	-	4,403	-	127,352
Impairment losses in fixed assets	1,837,028	-	(1,837,028)	-	-
Derivative financial instruments	12,190,104	-	-	(12,190,104)	-
	91,040,705	**117,103**	**25,551,084**	**(5,731,623)**	**110,977,269**
Deferred tax liabilities					
Revaluation of tangible fixed assets	18,760,179	258,203	305,699	-	19,324,081
Derivative financial instruments	-	-	-	7,549,515	7,549,515
Ajustments due the adoption of IFRS 16	-	-	(5,090,153)	38,054,184	32,964,031
	18,760,179	**258,203**	**(4,784,454)**	**45,603,699**	**59,837,627**
	72,280,526	**(141,100)**	**30,335,538**	**(51,335,322)**	**51,139,642**

✈ Reportable tax losses

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

The Group considers that part of the reportable tax losses is recoverable through their use in reducing the future tax liability (according to TAP SA's individual financial statements, prepared in accordance with the SNC). 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 securitisation operation in the years 2014 and 2015 amounting to EUR 99 million, currently under dispute in a tax court.

In addition, as disclosed in Note 1.1.3, no deferred tax assets were recorded for the estimated tax loss for the year 2020 in the amount of EUR 1,194 million.

The detail of tax losses as of 31 December 2020 is as follows:

	Without securitization	Securitization	Total	Deadline for deduction *
2014	-	31,071,827	31,071,827	2028
2015	96,780,011	67,927,000	164,707,011	2029
2018	78,541,247	-	78,541,247	2025
2019	190,878,773	-	190,878,773	2026
2020 (estimated)	1,193,934,649	-	1,193,934,649	2032
	1,560,134,680	**98,998,827**	**1,659,133,507**	

* According to the economic and social stabilisation programme.

As of 31 December 2020, no deferred tax assets were set up for the reportable tax losses for the fiscal year 2020 (Note 1.1.3).

10 Other accounts receivable

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

	2020		2019	
	Current	Non-current	Current	Non-current
Customers	211,852,190	-	302,432,507	-
Security deposits of lease contracts	3,681,690	48,075,004	4,570,304	51,606,307
Recoverable maintenance reserves	-	43,848,514	12,361,581	64,428,164
Sw aps jet fuel (Note 23)	-	-	23,966,713	-
Advances to suppliers	21,396,362	-	15,908,249	-
Accrued income	9,603,494	-	52,558,098	-
Other debtors	960,406,235	2,171,371	942,246,194	2,156,157
	1,206,939,971	**94,094,889**	**1,354,043,646**	**118,190,628**
Receivables impairment losses	(91,380,910)	(1,921,388)	(65,927,755)	(1,921,388)
	1,115,559,061	**92,173,501**	**1,288,115,891**	**116,269,240**

There are no differences between the book values and fair value for the periods in question.

✈ Customers

As at 31 December 2020 and 2019, customer line is detailed as follows:

	2020	2019
Private entities	102,562,859	138,601,024
Related parties (Note 38)	17,216,531	17,853,053
Travel agency	12,981,721	66,570,860
Airline companies	11,147,484	18,886,632
Other	7,690,122	5,782,117
Doubtful customers	60,253,473	54,738,821
	211,852,190	**302,432,507**
Impairment	(80,535,448)	(61,755,150)
	131,316,742	**240,677,357**

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

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

✈ Security deposits of lease contracts

Security deposits are made under lease contracts with no option to purchase for aircraft and engines which will be returned, without interest, as such aircraft and engines are returned to the lessors. In addition, on 31 December 2020, the expenses to be recognised item includes an amount of EUR 23.8 million related to the financial discount cost of these receivables, to be recognised in the period term of the related lease contracts (Note 13).

✈ Recoverable maintenance reserves

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

✈ Accrued income

As at 31 December 2020 and 2019, Accrued income item is detailed as follows:

	2020	2019
Work for aviation companies	7,007,606	32,291,174
Related parties (Note 38)	1,661,846	6,024,357
Airport facilities - incentives	591,157	3,524,855
Other	342,885	10,717,712
	9,603,494	**52,558,098**

The reduction in the amount of work for airlines is the result of the reduction in activity in the maintenance of third-party aircraft and engines as a result of the COVID-19 pandemic.

✈ Advances to suppliers

On 31 December 2020 and 2019, the advances to suppliers item is detailed as follows:

	2020	2019
Related parties (Note 38)	3,340,117	2,743,637
Others	18,056,245	13,164,612
	21,396,362	**15,908,249**

✈ Other debtors

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

	2020		2019	
	Current	Non-current	Current	Non-current
Related parties (Note 38)	882,666,366	-	843,683,068	-
Deposits and guarantees	16,417,099	-	2,565,631	-
Interline and other invoicing	14,412,247	-	11,638,094	-
Advances related to lease contracts	14,380,537	-	22,710,579	-
Employees	11,043,150	-	18,892,199	-
Doubtful accounts	10,845,462	-	4,172,605	-
Representations VAT	2,422,079	-	1,697,080	-
Other	8,219,295	2,171,371	36,886,938	2,156,157
	960,406,235	**2,171,371**	**942,246,194**	**2,156,157**
Impairment	(10,845,462)	(1,921,388)	(4,172,605)	(1,921,388)
	949,560,773	**249,983**	**938,073,589**	**234,769**

As of December 31, 2020, the caption of other debtors (Related parties) includes an amount of EUR 874,123,772 receivable from TAP SGPS, which results from its management of financial holdings in TAP ME Brasil, SPdH and Portugália.

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

✈ **Impairment losses on current receivables**

The movement that occurred under the impairment losses on receivables item on 31 December 2020 and 2019 is as follows:

	2020		2019	
	Clients	Others	Clients	Others
Opening balance	61,755,150	4,172,605	61,191,974	4,191,009
Increases (Note 28)	20,243,982	6,686,434	8,007,239	42,115
Reversals (Note 28)	(340,788)	(13,577)	(4,645,223)	(20,101)
Utilisation	(1,122,896)	-	(2,798,840)	(40,418)
Closing balance	**80,535,448**	**10,845,462**	**61,755,150**	**4,172,605**

As a result of the analysis of the recoverability of accounts receivable, an impairment loss of EUR 18.9 million was recorded in relation to TAP ME Brasil (Note 1.1.3).

11 Inventories

The inventory detail at 31 December 2020 and 2019 is as follows:

	2020	2019
Raw materials and consumables	101,403,150	123,054,181
Inventory impairment losses	(21,236,969)	(22,724,204)
	80,166,181	**100,329,977**

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

The movement that occurred under the impairment losses on receivables item for the periods ending on 30 December 2020 and 2019 is as follows:

	2020	2019
Opening balance	22,724,204	23,158,930
Increases (Note 28)	5,300,972	48,341
Decreases (Note 28)	(37,577)	(478,692)
Utilisation	(6,750,630)	(4,375)
Closing balance	**21,236,969**	**22,724,204**

As of 31 December 2020, the amount recorded in an increase in impairment is essentially the result of the impact of the COVID-19 pandemic and the consequent expectation of fleet rotation, as well as the termination of the A340 maintenance contract with the French Air Force.

The amount recorded in uses mainly relates to material sold and fully impaired in the amount of EUR 5.6 million.

12 Income tax receivable/payable

The Group is taxed through the special corporate-group taxation ("RETGS") scheme, with the taxable income being assessed at TAP SGPS.

31 December 2020 and 2019, the balance relating to income tax receivable or payable is detailed as follows:

	2020		2019	
	Current assets	Current liabilities	Current assets	Current liabilities
RETGS: Related Parties (Note 38)				
Payments on account	122,893	-	122,893	-
Withholding taxes	314,356	-	770,466	-
Current income tax (Note 34)	(146,212)	-	(354,236)	-
	291,037	**-**	**539,123**	**-**
State and Other Public Entities				
Other	-	(17,430)	-	(17,430)
	-	**(17,430)**	**-**	**(17,430)**
	291,037	**(17,430)**	**539,123**	**(17,430)**

13 Other current and non-current assets

Other current and non-current assets as of 31 December 2020 and 2019 are detailed as follows:

	2020		2019	
	Current	Non-Current	Current	Non-Current
Deferred costs	21,935,413	23,784,741	30,553,073	16,207,546
State	4,028,587	-	4,130,842	-
	25,964,000	**23,784,741**	**34,683,915**	**16,207,546**

✈ Expenses to be recognised

On 31 December 2020 and 2019, the Expenses to be recognised item is as follows:

	2020		2019	
	Current	Non-Current	Current	Non-Current
Security deposits (Note 8)	-	23,784,741	-	16,207,546
Related Parties (Note 38)	8,611,466	-	2,880,426	-
Commissions	6,892,747	-	17,609,882	-
Rental costs	894,353	-	833,740	-
Other	5,536,847	-	9,229,025	-
	21,935,413	**23,784,741**	**30,553,073**	**16,207,546**

Commissions relate to amounts paid to agents for tickets sold, but not yet flown and not expired, on 31 December 2020 and 2019 respectively. Their variation is due to the reduction in activity in 2020.

✈ **State**

In the periods ending on 31 December 2020 and 2019, this item's balances are detailed as follows:

	2020	2019
Value Added Tax - VAT	2,395,060	3,932,987
Other	1,633,527	197,855
	4,028,587	**4,130,842**

On 31 December 2020 and 2019, the balance of VAT owed refers to requests for reimbursement not yet received.

14 Cash and cash equivalents

On December 31, 2020 and 2019, the detail of cash and cash equivalents shows the following figures:

	2020	2019
Bank deposits available on demand	504,838,428	140,082,840
Term deposits	13,807,641	286,024,702
Other deposits	93,000	111,000
Cash	17,538	71,787
Cash and cash equivalents in the cash flow statement	**518,756,607**	**426,290,329**

15 Capital

On 31 December 2020 and 2019, TAP S.A.'s share capital is fully subscribed and paid up, and is represented by 8,300,000 shares with a nominal value of EUR 5, fully owned by TAP – Transportes Aéreos Portugueses, SGPS, S.A.

16 Supplementary capital contributions and reserves

Supplementary capital contributions

Following the Shareholders General Meeting resolution on 13 November 2015, the shareholder TAP SGPS has made a fully realised cash entry of EUR 29,542,000 in the form of supplementary capital contributions. Additionally, on December 11, 2015, by a unanimous written resolution, supplementary capital contributions were approved, in the total amount of EUR 124,811,400, whose cash entry also took place in December.

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

Reserves

- **Legal reserve**

Commercial legislation provides that at least 5% of the annual net income must be earmarked for strengthening the legal reserve until it represents at least 20% of the capital.

This reserve is not distributable except in the event of the liquidation of the Group, but may be incorporated into the capital or used to absorb losses after the other reserves have been exhausted.

As at 31 December 2020 and 2019, the legal reserve was fully constituted in accordance with the commercial legislation in force.

- **Fair value reserves**

As of 31 December 2020, the negative amount of EUR 22,921,191, shown under the "Fair value reserves" item, is the fair value of financial instruments classified as hedging (EUR 29,014,165), net of tax of EUR 6,092,974 (Notes 9 and 23).

- **Other reserves**

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

Retained earnings

The item “Retained earnings” corresponds to the net income of previous years, as per the decisions made at the General Meetings. In addition, changes resulting from the application of International Financial Reporting Standards for the first time, as well as gains or losses from remeasurements of post-employment benefits, net of tax and adjustments arising from the adoption of IFRS 16, are recorded under this item.

17 Pensions and other post-employment benefits

As noted in Note 2.22., TAP S.A. is responsible for paying post-employment benefits to retired, pre-retired, and still active employees.

✈ **Retirement pension supplements and early retirement instalments (VIVA)**

According to current rules at Group, this guarantees employees hired before 31 May 1993 the difference between the pension, for age or disability, allocated by Social Security, and a minimum amount guaranteed by the Group. This amount corresponds to a fixed percentage of part of the salary (basic salary + annuities), at the retirement date, for each year in the Group's service, up to a maximum of 20 years, as follows:

- Flight deck crew (pilots and flight technicians) - 3.2% per year of service;
- Ground staff and cabin crew - 4% per year of service.

In addition, the Group has undertaken to pay early retirement pensions, whose value is fixed so that the respective net value receivable in situations of early retirement ranges from 75% to 100% of the net value that the employees received when active on the date of early retirement.

In October 2008, the Labour Agreement TAP, SA with the Civil Aviation Pilots Union ("SPAC") was amended, with the following main changes:

- Pilots recruited before 31 May 2007: the pension plan includes the seniority bonus guaranteed by the State (of 15% or 10%, according to the start date of the contributory career) and the possibility of an additional bonus (up to 25% or 30%) as an option for the beneficiary upon retirement (this additional bonus will be paid by the Group);

- Pilots recruited after 1 June 2007: the pension plan consists of a defined contribution scheme of 7.5% of the base remuneration effectively earned (14 times a year), of which 80% is paid by the Group. This plan is guaranteed by contracts of participation in open pension funds managed by Banco Português de Investimento ("BPI"). The participation contracts and their management are optional to SPAC, as established in the collective regulations.

The Group has recorded all its liabilities related to past services for the payment of pension supplements and early retirement benefits relative to the defined benefit plan.

The measurement of liabilities took into consideration that, under the terms of the collective regulations establishing the aforementioned pension plan, the total pension guaranteed by the Group, i.e. the social security pension and pension supplement will never exceed the base monthly remuneration, net of personal income tax (IRS) and Social Security payments during employment. This requirement is not applicable because it is not enshrined in the collective regulations governing the technical flight crew, for which the limit does not exist and the pensionable salary is the basic salary of the salary scale, plus the financial year salary and seniority.

In order to cover the liabilities related to the defined benefit plan, the Group concluded a contract to join the VIVA open pension fund. As of 2011, the cost related to retirement pension supplements, constituted since 1998, is assumed by this participation. Annual expenditure on pensions is determined in accordance with the actuarial study, reviewed and adjusted annually according to the updating of salaries and the evolution of the participant group. Costs relating to retirement supplements constituted by December 1997, early retirement instalments and the portion of pilot retirement supplements, which exceeds the limit referred to in the preceding paragraph, are assumed directly by TAP S.A. and covered by a specific provision.

✈ **Retirement Bonus - PNT**

The Company Agreement concluded between TAP S.A. and SPAC establishes that TAP, SA undertakes to pay to pilots recruited before 31 May 2007, in addition to a pension scheme, a one-off retirement bonus to every pilot upon retirement due to old age, which is funded by the capital accumulated in a collective insurance policy constituted by TAP S.A. on behalf of the pilots. The main conditions of the collective retirement policy agreed with the insurance company, describing this Retirement Benefits Plan for Pilots, are as follows:

- Admission conditions: pilots who are still in active service;
- Standard retirement age: 65 years;
- Guarantees: each participant is entitled, upon the retirement date, to an amount equal to 16 times the last declared monthly wage.

The Benefit Plan is funded through an insurance policy that is reinforced by contributions (premiums) paid by the Group and by income obtained from investments made by the insurance company in an Autonomous Fund which supports this type of insurance.

In October 2008, the agreement between TAP, SA and SPAC was amended, with the main changes being as follows:

- <u>Pilots recruited before 31 May 2007</u>: the one-off retirement bonus is maintained, but will only be paid if, on the retirement date, the person is entitled to the full pension, with the possibility of increasing the capital for every additional year of service after the full pension age has been reached;

- <u>Pilots recruited after 1 June 2007</u>: there is no entitlement to a retirement bonus.

✈ **Healthcare**

The Group ensures that both pre-retired and early-retired employees, below the age of 65, are awarded with a healthcare plan providing access to medical care at reduced prices. In addition, the Group provides its retired employees with access to medical services from UCS – Cuidados Integrados de Saúde, S.A.

(“UCS”), as a freely granted benefit, for which they pay a portion of the cost of each clinical service with the remainder being paid by TAP, SA.

The Group considers that although it provides its former employees with access to the health care services of UCS, this is not an obligation but rather a freely granted benefit that, therefore, does not constitute a liability to provide any healthcare for workers after they leave employment at the Group. Therefore, to date, the company assumes no accounting liability regarding the provision of health care services for pre-retired, early-retired and retired employees. This liability was determined based on actuarial evaluation by an independent entity.

Assumptions used in the evaluation of liabilities

The liabilities of the different companies of the Group were calculated through actuarial studies reported as at 31 December 2020 and 2019, prepared by independent entities, individually for each company, using the "Projected Unit Credit Method" and essentially based on the following financial and demographic assumptions:

	2020		2019	
	Portugal VIVA	Portugal Jubileu	Portugal VIVA	Portugal Jubileu
Mortality table	TV 88/90	TV 88/90	TV 88/90	TV 88/90
Disability table	EKV1980	EKV1980	EKV1980	EKV1980
Discount rate	0.75%	0.75%	1.50%	1.50%
Fund yield rate	1.50%	1.50%	1.50%	1.50%
Growth rate				
Wages	[1,5%-3%]	1.50%	[1,5%-5%]	2.00%
Pensions	1.00%	1.00%	1.00%	1.00%
Trend of medical costs	1.50%	--	1.50%	--
Regular retirement age	66	65	66	65

The Group reviews the actuarial assumptions periodically, or whenever relevant events occur, based on market financial information and information related to the beneficiaries covered by these plans. On 31 December 2020, the discount rate for VIVA and Retirement Bonus was reduced to 0.75%, following a reduction in interest rates on high-quality bonds. The reduction in the rate of wage growth is based on the best estimate to date, taking into account the ongoing restructuring plan at the Group.

Liabilities as of 31 December 2020 and 2019 are detailed as follows:

	2020					
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Liabilities from past services						
- Active employees	1,071,326	2,872,138	-	99,759,690	-	103,703,154
- Early retirement	69,105	14,800,491	442,757	-	-	15,312,353
- Retired	11,679,575	28,258,481	2,765,200	-	31,073,490	73,776,746
Fair value of the fund	(15,234,853)	-	-	(36,914,250)	(31,121,319)	(83,270,422)
Defit/(surplus)	**(2,414,847)**	**45,931,110**	**3,207,957**	**62,845,440**	**(47,829)**	**109,521,831**

	2019					
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Liabilities from past services						
- Active employees	622,374	3,334,671	-	100,979,484	-	104,936,529
- Early retirement	46,622	16,174,758	454,112	-	-	16,675,492
- Retired	9,643,670	27,883,399	2,769,961	-	16,919,499	57,216,529
Fair value of the fund	(15,737,186)	-	-	(51,237,487)	(15,497,524)	(82,472,197)
Defit/(surplus)	**(5,424,520)**	**47,392,828**	**3,224,073**	**49,741,997**	**1,421,975**	**96,356,353**

According to the study carried out by independent individuals, the best estimate of contribution to pension benefit plans for the subsequent year is EUR 9,000,000.

On 31 December 2020, and in 2019, the Group's defined benefit plans in Portugal (excluding the UK Representation) respectively covered 1,814 and 1,850 beneficiaries in active employment. The total number of retired and pre-retired employees entitled to a pension supplement on 31 December 2020 and 2019 was 652 and 647 recipients respectively.

As at 31 December 2020 and 2019, the average maturity of the liabilities related to the defined benefit plan for the "VIVA fund" is 10 years and for the "Retirement Bonuses" is 11 and 12 years respectively.

Sensitivity analyses

✈ **Annual discount rate**

An increase (decrease) of 0.25% in the annual discount rate of the defined benefit plans of the VIVA pension fund and Retirement Bonus would correspond to the following impacts on the Group's liabilities as at 31 December 2020 and 2019:

2020	Rate	VIVA Plan*	Jubileu Bonus
Annual discount rate of pensions	0.75%	58,751,116	99,759,689
0.25% increase in the discount rate	1.00%	57,795,059	96,209,232
0.25% decrease in the discount rate	0.50%	59,754,261	103,477,886

* Includes "VIVA Pensions" and "VIVA Fund"

2019	Rate	VIVA Plan*	Jubileu Bonus
Annual discount rate of pensions	1.50%	57,705,494	100,979,484
0.25% increase in the discount rate	1.75%	56,856,420	97,426,235
0.25% decrease in the discount rate	1.25%	58,583,136	104,699,357

* Includes "VIVA Pensions" and "VIVA Fund"

✈ Healthcare cost growth rate

If the growth rate of medical care costs increases or decreases by one percentage point, the respective impact on the Group's liabilities as at 31 December 2020 and 2019 is as follows:

	Rate	2020	2019
Annual growth rate of medical costs	1.50%	3,207,957	3,224,073
1% increase in the growth rate of medical costs	2.50%	3,467,511	3,481,516
1% decrease in the growth rate of medical costs	0.50%	2,978,852	2,996,387

✈ Pension growth rate

If the pension growth rate increase or decreases by 0.25 percentage points, the respective impact on the Group's liabilities as at 31 December 2020 and 2019 is as follows:

	Rate	2020	2019
Growth rate of VIVA Plan pension (*)	1.00%	58,751,116	57,705,494
0.25% increase in the Pension growth rat	1.25%	59,606,772	58,472,211
0.25% decrease in the Pension growth ra	0.75%	57,898,610	56,961,597

* Includes "VIVA Pensions" and "VIVA Fund"

Evolution of liabilities from past services

The evolution of liabilities for past services, reflected in the statement of financial position, during the period ending on 31 December 2020 and 2019, is as follows:

	2020					
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Liabilities at the beginning of the year	10,312,666	47,392,828	3,224,073	100,979,484	16,919,499	178,828,550
Currency translation differences	-	-	-	-	(84,689)	(84,689)
Values recorded through profit or loss for the year:						
Current services	29,993	-	-	5,223,104	12,243,195	17,496,292
Net interest	154,690	710,892	48,363	1,483,843	450,486	2,848,274
Reestructuring - early retairment (Note 30)	-	932,552	-	-	-	932,552
Actuarial gain and losses	3,199,986	4,405,025	(64,479)	13,247,595	4,762,912	25,551,039
Benefits paid	(877,329)	(7,510,187)	-	(21,174,336)	(3,217,913)	(32,779,765)
Liabilities at the end of the year	**12,820,006**	**45,931,110**	**3,207,957**	**99,759,690**	**31,073,490**	**192,792,253**

	2019					
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Liabilities at the beginning of the year	10,955,825	51,031,672	3,036,709	83,939,828	16,919,499	165,883,533
Values recorded through profit or loss for the year:						
Current services	20,686	-	-	4,246,404	-	4,267,090
Net interest	219,116	1,834,781	60,735	1,229,963	-	3,344,595
Reestructuring - early retairment (Note 30)	-	2,035,816	-	-	-	2,035,816
Actuarial gain and losses	(118,121)	2,404,426	126,629	15,142,218	-	17,555,152
Benefits paid	(764,840)	(9,913,867)	-	(3,578,929)	-	(14,257,636)
Liabilities at the end of the year	**10,312,666**	**47,392,828**	**3,224,073**	**100,979,484**	**16,919,499**	**178,828,550**

Evolution of funds allocated to pensions benefit schemes

During the period ending 31 December 2020 and 2019, the evolution of the assets of the funds was as follows:

	2020			
	VIVA Fund	Jubileu Bonus	England Representation	Total
Opening balance	15,737,186	51,237,487	15,497,524	82,472,197
Contributions in the year	-	6,000,000	486,079	6,486,079
Net interest	374,996	720,063	18,598,492	19,693,551
Benefits paid	(877,329)	(21,174,336)	(3,217,913)	(25,269,578)
Return of plan assets (excluding net interest)	-	131,036	-	131,036
Currency translation differences	-	-	(242,863)	(242,863)
Closing Balance	**15,234,853**	**36,914,250**	**31,121,319**	**83,270,422**

	2019			
	VIVA Fund	Jubileu Bonus	England Representation	Total
Opening balance	15,230,464	48,942,794	15,497,524	79,670,782
Contributions in the year	-	5,416,724	-	5,416,724
Net interest	1,271,562	921,721	-	2,193,283
Benefits paid	(764,840)	(4,023,807)	-	(4,788,647)
Return of plan assets (excluding net interest)	-	(19,945)	-	(19,945)
Closing Balance	**15,737,186**	**51,237,487**	**15,497,524**	**82,472,197**

The composition of the funds and their category of amounts included as of 31 December 2020 and 2019 is as follows:

	2020				
	Fair value level	VIVA Fund	Jubileu Bonus	England Representation	Total
Shares	1	4,136,867	-	4,019,888	8,156,755
Bonds	1	5,619,578	36,626,319	1,707,396	43,953,293
Public debt	1	4,196,773	-	-	4,196,773
Real estate	1	479,515	-	-	479,515
Liquidity	1	802,120	287,931	629,567	1,719,618
Other current investments	1	-	-	24,764,468	24,764,468
		15,234,853	**36,914,250**	**31,121,319**	**83,270,422**

	2019				
	Fair value level	VIVA Fund	Jubileu Bonus	England Representation	Total
Shares	1	4,168,874	-	13,618,325	17,787,199
Bonds	1	6,300,699	49,700,362	1,666,797	57,667,858
Public debt	1	3,985,378	-	-	3,985,378
Real estate	2	321,915	-	-	321,915
Liquidity	1	960,320	1,537,125	-	2,497,445
Other current investments	1	-	-	212,402	212,402
		15,737,186	**51,237,487**	**15,497,524**	**82,472,197**

Expenses related to pensions and other post-employment benefits

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

	2020					
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Current Services	29,993	-	-	5,223,104	12,243,195	17,496,292
Net interest	(220,306)	710,892	48,363	763,780	(18,148,006)	(16,845,277)
Sub-total (Note 27)	**(190,313)**	**710,892**	**48,363**	**5,986,884**	**(5,904,811)**	**651,015**
Reestructuring - early retairment (Note 30)	-	932,552	-	-	-	932,552
Total	**(190,313)**	**1,643,444**	**48,363**	**5,986,884**	**(5,904,811)**	**1,583,567**

	2019					
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Current Services	20,686	-	-	4,246,404	-	4,267,090
Net interest	644,289	721,322	60,735	308,242	-	1,734,588
Sub-total (Note 27)	**664,975**	**721,322**	**60,735**	**4,554,646**	**-**	**6,001,678**
Reestructuring - early retairment (Note 30)	-	2,035,816	-	-	-	2,035,816
Total	**664,975**	**2,757,138**	**60,735**	**4,554,646**	**-**	**8,037,494**

As mentioned, Group pilots recruited after 1 June 2007 benefit from a defined contribution plan. During the period ending on 31 December 2020, expenses related to on post-employment benefits were recognised in the amount of EUR 3,042 thousand (2019: EUR 750 thousand), relating to contributions made during the year in favour of its employees (Note 27).

Spending on pensions and other post-employment benefits during the fiscal years ending on 31 December 2020 and 2019 is recorded under the personnel expenditure heading (Note 27).

Remeasurement gains/losses

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

	2020					
	VIVA Fund	VIVA Pensons	Health Care	Jubileu Bonus	England Representation	Total
Remeasurements						
Return of assets, excluding amounts included in net income	-	-	-	(131,036)	-	(131,036)
	-	**-**	**-**	**(131,036)**	**-**	**(131,036)**
(Gains)/losses due to changes in financial assumptions	930,980	2,174,901	-	14,940,826	-	18,046,707
(Gains)/losses due to experience	2,269,006	2,230,124	(64,479)	(1,693,231)	4,762,912	7,504,332
	3,199,986	**4,405,025**	**(64,479)**	**13,247,595**	**4,762,912**	**25,551,039**
Total remeasurements	**3,199,986**	**4,405,025**	**(64,479)**	**13,116,559**	**4,762,912**	**25,420,003**

	2019					
	VIVA Fund	VIVA Pensons	Health Care	Jubileu Bonus	England Representation	Total
Remeasurements						
Return of assets, excluding amounts included in net income	-	-	-	19,945	-	19,945
	-	**-**	**-**	**19,945**	**-**	**19,945**
(Gains)/losses due to changes in financial assumptions	-	-	-	11,684,871	-	11,684,871
(Gains)/losses due to experience	(118,121)	2,404,426	126,629	3,457,347	-	5,870,281
	(118,121)	**2,404,426**	**126,629**	**15,142,218**	**-**	**17,555,152**
Total remeasurements	**(118,121)**	**2,404,426**	**126,629**	**15,162,163**	**-**	**17,575,097**

Actuarial losses recognised in 2020 as a result of changes in financial assumptions in the total amount of EUR 18,046,707 are largely the result of a reduction in the discount rate.

The remeasurement gains/losses were recognised directly in the Group's comprehensive income.

18 Provisions

In the periods ending on 31 December 2020 and 2019, the item Provisions had the following movement:

	Provision for legal claims	Other	Redelivery costs (Note 1.1.3)	Restructuring provision (Note 30)	Total
January 1, 2019	**11,797,878**	**416,777**	**-**	**-**	**12,214,655**
IFRS 16 adoption	-	-	26,082,076	-	26,082,076
Increases (Note 28)	-	-	62,616,178	-	62,616,178
Reversals (Note 28)	(2,945,843)	(12,484)	-	-	(2,958,327)
Utilisation	(136,101)	-	(24,405,128)	-	(24,541,229)
Exchanges and interests	-	-	4,371,501	-	4,371,501
December 31, 2019	**8,715,934**	**404,293**	**68,664,627**	**-**	**77,784,854**
Increases (Note 28)	1,836,833	10,410,000	109,194,100	93,197,493	214,638,426
Reversals (Note 28)	-	(12,385)	(37,579,811)	-	(37,592,196)
Utilisation	-	-	(44,484,268)	-	(44,484,268)
Exchanges and interests	-	-	(8,178,025)	-	(8,178,025)
December 31, 2020	**10,552,767**	**10,801,908**	**87,616,623**	**93,197,493**	**202,168,791**

✈ Provision for ongoing legal proceedings

Provisions for current lawsuits are recorded in accordance with the risk assessments carried out by the Group and its legal advisors, based on historical success rates by nature of legal action and probability of unfavourable outcomes for the Group. On 31 December 2020, the existing provision of EUR 10,552,767 is intended to deal with various legal proceedings brought against the Group in Portugal and abroad.

✈ Others

As a result of the COVID-19 pandemic on 31 December 2020, a provision of EUR 10.4 million was made for damages to passengers whose claims are being processed by the Group.

✈ **Redelivery costs (Note 1.1.3)**

Increases in the redelivery provision are recognised in exchange for the right to use and are then subject to depreciation. The increase recognised against 31 December 2019 is the effect of the redelivery estimate made on 31 December 2020, taking into account the information available on that date (Note 1.1.3).

19 Borrowings and Lease liabilities with and without purchase option

As at 31 December 2020 and 2019, Borrowings and lease liabilities with and with no option to purchase are detailed as follows:

	2020		2019	
	Current	Non-Current	Current	Non-Current
State aid	1,200,000,000	-	-	-
Interest accrued	10,825,439	-	-	-
State aid	**1,210,825,439**	**-**	**-**	**-**
Bank loans	34,553,137	228,193,571	121,434,904	279,119,809
Interest accrued	1,495,224	-	2,562,446	-
Initial expenses	(1,417,234)	(2,220,723)	(1,922,791)	(2,081,336)
Remunerated bank debt	**34,631,127**	**225,972,848**	**122,074,559**	**277,038,473**
Bonds	321,099,187	375,000,000	2,588,428	698,172,098
Interest accrured	2,602,732	-	4,406,277	-
Initial expenses	(13,372,891)	(4,949,188)	(3,614,932)	(17,262,416)
Bond issuance	**310,329,028**	**370,050,812**	**3,379,773**	**680,909,682**
Lease liabilities with purchase option	40,331,578	399,700,211	35,896,286	242,325,894
Interest accrued	1,797,633	-	940,896	-
Initial expenses	(785,900)	(2,464,531)	(952,148)	(3,318,171)
Lease liabilities with purchase option	**41,343,311**	**397,235,680**	**35,885,034**	**239,007,723**
Lease liabilities without purchase option	**427,266,305**	**1,611,374,047**	**426,685,786**	**1,851,992,700**
Total Borrowings	**2,024,395,210**	**2,604,633,387**	**588,025,152**	**3,048,948,578**

✈ Net debt

On 31 December 2020 and 2019, net debt is detailed as follows:

	2020	2019
Borrowings except Lease liabilities without purchase option		
Non-Current	993,259,340	1,196,955,878
Current	1,597,128,905	161,339,366
	2,590,388,245	**1,358,295,244**
Cash and Cash Equivalents (Note 14)		
Cash	17,538	71,787
Bank deposits available on demand	504,838,428	140,082,840
Other deposits	13,900,641	286,135,702
	518,756,607	**426,290,329**
Net debt	**2,071,631,638**	**932,004,915**
Net debt without State aid	**860,806,199**	**932,004,915**

As of 31 December 2020 and 2019, the interest-bearing debt and leasing liabilities with a purchase option, by maturity and by type of interest rate, is broken down as follows:

	2020	2019
Variable rate		
Up to 1 year	1,250,012,550	132,793,445
1 to 2 years	63,491,465	123,301,130
2 to 3 years	64,443,846	124,534,647
Over 3 years	154,789,318	80,684,039
	1,532,737,179	**461,313,261**
Fixed rate		
Up to 1 year	347,116,355	28,545,921
1 to 2 years	35,831,483	18,843,557
2 to 3 years	31,055,984	19,609,273
Over 3 years	643,647,244	829,983,232
	1,057,651,066	**896,981,983**
	2,590,388,245	**1,358,295,244**

✈ State Support

This item includes the loan paid by the Portuguese State in the amount of EUR 1.2 billion, distributed in seven instalments until 30 December 2020 (see introductory Note).

✈ Bank loans

This heading includes EUR 144.8 million for financing with a syndicate of banks. According to the conditions established in the Share Purchase Agreement, complemented by the Agreement on the Debt Service Restructuring and Monitoring of the TAP Group, referred to in Note 1, on 30 June 2017, bank debt was restructured. The main changes were related to the loans' maturity and conditions, namely the applicable interest rate and spread.

On 23 December 2019 and 12 February 2020, TAP S.A. made a voluntary early repayment for financing with a syndicate of Portuguese Banks of EUR 47.5 million and EUR 133.6 million respectively. Following the first voluntary repayment mentioned, it is no longer necessary to establish the Net Debt/EBITDAR Ratio for the purpose of this financing.

In addition, the bank loans line includes two loans with a national credit institution of EUR 92.3 million and financing from a Luxembourg financial institution of EUR 18.8 million.

- **Bond loans**

TAP, SA issued a private bond subscribed on 14 January 2019, in the amount of EUR 137.2 million and maturity in 2034. The fulfilment of the principal and interest repayment obligations related to these bonds benefit from a pledge on a bank deposit constituted by the Issuer for this specific purpose (presented, in the balance sheet, as a deduction to the Gross Financial Debt) and from additional guarantees over contractual rights that do not affect any assets recognised in financial position of the Group.

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

In December 2019, TAP S.A. made a private offering to institutional investors of 5-year bonds, with a fixed interest rate of 5.625 % per year, in the amount of EUR 375 million, called "TAP 2019-2024 Bonds". The issue and financial and physical settlement of the transaction, as well as the bonds' admission to trading, took place on 2 December 2019.

As of 31 December 2020 and 2019, all loans are denominated in Euro.

- **Lease liabilities with purchase option**

On 31 December 2020 and 2019, leasing liabilities with option to purchase (plus interest expense minus initial charges) essentially relate to aircraft and engines.

Leases with purchase option are denominated in the following currencies:

	2020	2019
Lease liabilities in EUR	106,621,809	110,860,628
Lease liabilities in USD	331,957,182	164,032,127
	438,578,991	**274,892,755**

On 31 December 2020 and 2019, lease liabilities with purchase option, by maturity, are broken down as follows:

	2020	2019
Up to 1 year	41,343,310	35,885,034
1 to 2 years	45,618,373	28,104,033
2 to 3 years	47,564,335	29,199,225
3 to 4 years	49,804,162	30,300,751
4 to 5 years	51,561,853	31,377,105
More than 5 years	202,686,958	120,026,607
	438,578,991	**274,892,755**

✈ **Lease liabilities without purchase option**

The Lease liabilities without purchase option item refers essentially to the Company's non-cancellable payments under lease contracts, which vary in duration up to 14 years and may be extended at the express wish of the contracting parties, which are recognised in the statement of financial position from 1 January 2019 with the adoption of IFRS 16.

On 31 December 2020, there are 66 aircraft, 18 engines on lease agreements without purchase option and 21 aircraft under ACMI (as per Note 4).

On 31 December 2020 and 2019, leasing liabilities without purchase option per maturity are detailed as follows:

	2020	2019
Up to 1 year	427,266,305	426,685,786
1 to 2 years	309,723,157	366,503,715
2 to 3 years	223,928,336	284,950,720
3 to 4 years	181,756,599	214,759,116
4 to 5 years	166,862,717	178,078,585
Over 5 years	729,103,238	807,700,564
	2,038,640,352	**2,278,678,486**

Liabilities without purchase option are determined largely in USD.

✈ Financial Covenants

The financial covenants in the lease and loan contracts are the usual ones in operations of this nature, including compulsory provisions such as the maintenance of the airline operator activity, commitments to periodically disclose the available financial information, and, in the specific case of leases with no option to purchase, operating duties relative to registrations at official entities, information relative to leased aircraft, strict compliance with all the regulations, and procedures defined by the authorities, among others.

Additionally, following the restructuring of the aforementioned financial debt and the issue of bond loans, commitments were made to monitor the financial performance of the TAP Group, through the analysis and compliance with certain ratios related to the consolidated financial statements of the TAP Group, particularly with equity, EBITDAR, Net Debt/EBITDAR and unsecured net financial debt and minimum amount of cash and its unrestricted equivalents. These ratios are intended to monitor the financial situation of the TAP Group and measure its ability to service debt.

Due to the COVID-19 pandemic and the consequent deterioration of EBITDAR with the drop in activity in the months of 2020, the Group failed to comply with certain financial covenants, namely those related to the maintenance of Equity and the compliance with the Adjusted Net Debt/EBITDAR ratio as fixed in certain borrowings.

Regarding the syndicated Financing from Portuguese Banks in the outstanding amount of EUR 141.4 million as of 31 December 2020, the banks' waivers were obtained in 2020 in relation to the compliance with the financial covenants referring to the consolidated minimum capital (adjusted) and TAP SGPS's Adjusted Net Financial Debt/Adjusted EBITDAR at the end of 2020.

Regarding the issue of bonds by private offering made to foreign institutional investors in the amount of EUR 114.5 million as of 31 December 2020, the financial covenant of the Adjusted Net Debt/EBITDAR ratio will refer to the financial statements as of 31 December 2020 and its compliance will be verified on the date of publication of the accounts.

Given that the ratio of 31 December is above the agreed contractual limit, the Group has reclassified the debt to Current Liabilities and is working to obtain the waiver within the period allowed after the assessment.

Since the value of the ratio with reference to December 31 is higher than the agreed contractual limit, considering international accounting and financial reporting standards, the Group reclassified the debt to Current Liabilities.

At this date, it is planned to obtain the waiver in the allowed period.

Regarding the public offer of 4-year bonds denominated "TAP 2019-2023" bonds in the amount of EUR 200 million at 31 December 2020, the financial covenant of the Adjusted Net Debt/EBITDAR ratio is based on the financial statements at 31 December 2020 and its non-compliance may be remedied after the approval of these financial statements at the General Meeting.

Given the value of the ratio, with reference to December 31, being higher than the agreed contractual limit, in considering of international accounting and financial reporting standards, the Group reclassified the debt to Current Liabilities.

At this date, the process of obtaining the waiver is in progress within the permitted period.

✈ Reconciliation of finance cash flows

The evolution of borrowings and lease liabilities with purchase option and their reconciliation to the consolidated statement of cash flows is as follows:

	Remunerated bank debt and Bonds	Leases with purchase option	Leases without purcase option	Total
January 1, 2019	**643,970,125**	**131,969,705**	**1,166,735,189**	**1,942,675,019**
Receipts	702,045,778	77,014,133	-	779,059,911
Payments	(300,795,483)	(45,946,992)	(416,511,444)	(763,253,919)
New lease agreements	-	110,096,089	1,446,876,344	1,556,972,433
Currency translation differences	-	2,173,980	132,914,593	135,088,573
Other	38,182,067	(414,158)	(51,336,196)	(13,568,287)
December 31, 2019	**1,083,402,487**	**274,892,757**	**2,278,678,486**	**3,636,973,730**
Receipts	1,225,011,144	16,311,909	-	1,241,323,053
Payments	(226,677,585)	(50,722,069)	(245,986,517)	(523,386,171)
New lease agreements	-	248,238,399	159,316,917	407,555,316
Currency translation differences	270,102	(39,493,270)	(160,876,996)	(200,100,164)
Other	69,803,106	(10,648,735)	7,508,462	66,662,833
December 31, 2020	**2,151,809,254**	**438,578,991**	**2,038,640,352**	**4,629,028,597**

The contractual assignment of lease contracts results from the new fleet contracts, in which TAP S.A. has fully assigned its contractual position to the lessor. There will therefore be no outflow in the future.

20 Other accounts payable

On 31 December 2020 and 2019 the detail of "Other payables" item is as follows:

	2020	2019
Accrued expenses	185,162,637	267,846,567
Suppliers	69,627,086	159,050,253
Swaps jet fuel (Note 23)	42,896,210	-
Advances from customers	548,038	780,485
Other	88,281,828	144,041,311
	386,515,799	**571,718,616**

✈ Suppliers

On 31 December 2020 and 2019, the Suppliers item shows the following composition:

	2020	2019
Suppliers - pending invoices	32,613,419	91,653,315
Suppliers - current account	30,461,814	43,124,554
Suppliers - related parties (Note 38)	6,551,853	24,272,384
	69,627,086	**159,050,253**

The decrease in this heading is mainly due to the reduction in the hiring of the provision of services as a consequence of the impact of COVID-19 on the Group's activity, complemented by the cash management measures negotiated with the suppliers.

✈ Accrued expenses

In 31 December 2020 and 2019, the expense accruals item is broken down as follows:

	2020	2019
Remunerations	99,823,149	104,486,573
Aircraft fuels and licenses and CO2 emissions	25,784,370	55,014,529
Insurance to be settled	12,442,894	4,828,488
Specialized w ork	8,278,771	7,877,443
Related parties (Note 38)	6,839,784	2,152,649
Handling services	6,146,494	5,200,894
Navigation fees	5,546,989	13,777,851
Special sales charge	3,661,684	11,340,873
Remuneration - air crew	2,857,144	23,985,431
Other accrued expenses	13,781,358	39,181,836
	185,162,637	**267,846,567**

The decrease in most items is linked to the fall in activity as a result of the COVID-19 pandemic.

The special sales charges refer to commissions granted to agents according to the flight revenue for the period obtained through this sale channel.

✈ Others

As of 31 December 2020 and 2019, the Others item is detailed as follows:

	2020	2019
Taxes and fees	63,835,545	116,644,678
Fixed assets suppliers	4,577,042	12,648,319
Compensation for accidents at w ork	859,724	936,699
Personal	359,685	831,461
Related Parties (Note 38)	13,551	929,836
Other	18,636,281	12,050,318
	88,281,828	**144,041,311**

The fees and taxes to be paid item relates essentially to amounts payable to various entities concerning fees charged to customers on tickets issued. The change from 31 December 2019 is due to the reduction in activity in the fiscal year 2020 resulting from COVID-19.

21 Other current liabilities

As of 31 December 2020 and 2019, the other current liabilities item mainly relates to:

	2020	2019
Deferred income	53,523,983	55,823,690
State	20,514,616	38,989,195
	74,038,599	**94,812,885**

✈ Deferred gains

On 31 December 2020 and 2019, the deferred gains line is broken down as follows:

	2020	2019
Customer loyalty program	52,619,203	46,664,431
Investment grants	586,194	276,787
Related Parties (Note 38)	317,066	359,021
Other deferred income	1,520	8,523,451
	53,523,983	**55,823,690**

In the scope of application of IFRS 15 - Revenue from contracts with customers, in the allocation of air miles to customers participating in the loyalty program called "TAP Miles&Go", a contractual obligation is recognised based on the unit value of the air mile. The increase in this item is the result of the reduced use of air miles after March 2020 as well as the fact that the Group has extended the validity of miles awarded to customers by 12 months, as a result of the COVID-19 pandemic.

✈ State

On 31 December 2020 and 2019, this item's balances are detailed as follows:

	2020	2019
Personal income tax	10,680,153	18,162,559
Social security contribution	9,447,787	20,791,154
Others	386,676	35,482
	20,514,616	**38,989,195**

The variation in the balance to be paid to the State results, on the one hand, from the reduction of the workforce and, on the other hand, from the impact of the fact that the payment of Christmas allowance for the year 2020 was made in December 2020, while the payment of the Christmas allowance for the year 2019 was made in January 2020.

22 Unused flight tickets

As at 31 December 2020 and 2019, the item for the Group's liabilities relating to unused flight tickets issued and unused was as follows:

	2020	2019
Passengers	319,340,615	470,833,484
Voucher	282,488,168	9,497,376
Cargo	160,500	431,617
	601,989,283	**480,762,477**

As a result of the significant reduction in activity after April 2020 and the cancellation of flights imposed on the aviation sector and the Group, the unused tickets on 31 December 2020 include significant amounts relating to flights not completed by that date, while the Group remains responsible for providing the service in the future or for refunds as the contractual terms. It should also be pointed out that the amounts included in the unused flight tickets item include vouchers and unused tickets for cancelled flights.

23 Derivatives

On 31 December 2020 and 2019, the Group had negotiated financial derivatives relating to jet fuel swaps.

The Group's risk coverage policy aims to cover about 50% of the estimated jet fuel consumption for the next 12 months, and may cover its exposure for up to 24 months, depending on market conditions. However, as a result of the COVID-19 pandemic, which began in March 2020, the Group's activity was abruptly interrupted, significantly changing jet fuel consumption estimates for the following months. In this context, the requirements for the coverage of jet fuel derivatives have been revised, and it was concluded that there is an excess of coverage.

As of 31 December 2020, approximately EUR 165 million of costs relating of derivatives that do not meet the coverage accounting requirements were recorded in financial results, of which EUR 151.4 million relate to contracts that have already finished (EUR 145.0 million have already been settled). The remaining EUR 13.6 million refer to the fair value of the derivatives still open at 31 December 2020 with no expectation of consumption during 2021.

For contracts in which it was possible to ensure compliance with the hedge accounting requirements, an amount of approximately EUR 29 million was recorded on December 31, 2020, under the caption "Equity reserves", related to the variation in the fair value of derivatives still open to this date.

On 31 December 2020, the Group had contracted derivatives on 405,000 tons of jet fuel, whose market value at that time was negative of EUR 42,896 thousand, with maturities between January and December 2021.

24 Segment Reporting

The following operational segments have been identified: air transport and maintenance. The results of each segment correspond to those directly attributable to them and those that can be reasonably assigned to them. The activities aggregated in "Others" do not qualify to be reported separately.

Financial information by business segments on 31 December 2020 and 2019 is as follows:

	2020				2019			
	Air Transport	Maintenance and engeneering	Other	Total	Air Transport	Maintenance and engeneering	Other	Total
Operating Income	978,937,275	72,174,412	9,072,679	1,060,184,366	3,070,330,492	218,915,522	9,507,512	3,298,753,526
Operating results	(890,957,336)	(1,751,838)	(72,053,297)	(964,762,471)	15,679,547	44,783,638	(13,281,660)	47,181,525
External net financial results	(210,058,959)	(5,375,876)	-	(215,434,835)	(174,516,441)	1,621,983	-	(172,894,458)
Income tax	(49,795,708)	(23,654)	(239,108)	(50,058,470)	37,304,221	(10,127,209)	2,898,488	30,075,500
Net Income	**(1,150,812,003)**	**(7,151,368)**	**(72,292,405)**	**(1,230,255,776)**	**(121,532,673)**	**36,278,412**	**(10,383,172)**	**(95,637,433)**

The Group does not present segmental assets and liabilities, since this information is not presented to the chief operational decision maker.

The Operating income and gains item for the year ending 31 December 2020 and 2019 is as follows:

	2020				
	Passenger	Maintenance	Cargo and Mail	Other	Total
Revenue					
Sales	-	1,704,737	-	39,642	1,744,379
Services provided	848,373,665	66,173,742	125,689,785	6,589,277	1,046,826,469
Other income	-	-	-	11,613,518	11,613,518
	848,373,665	**67,878,479**	**125,689,785**	**18,242,437**	**1,060,184,366**

	2019				
	Passenger	Maintenance	Cargo and Mail	Other	Total
Revenue					
Sales	-	1,788,321	-	103,196	1,891,517
Services provided	2,914,005,095	209,500,930	137,392,757	9,582,392	3,270,481,174
Other income	-	-	-	26,380,835	26,380,835
	2,914,005,095	**211,289,251**	**137,392,757**	**36,066,423**	**3,298,753,526**

The sales and services provided by market and geographical area in the fiscal year ending 31 December 2020 and 2019 are as follows:

	2020					2019				
	Air Transport	Maintenance	Cargo and Mail	Other	Total	Air Transport	Maintenance	Cargo and Mail	Other	Total
Mainland and islands	72,971,361	10,713,779	5,327,783	5,638,591	94,651,514	226,759,827	18,589,560	8,414,999	6,421,420	260,185,806
Europe	305,647,595	47,764,393	5,660,041	637,291	359,709,320	1,190,760,336	140,237,733	12,641,723	2,265,914	1,345,905,706
South Atlantic	228,176,751	7,999,118	62,259,383	168,900	298,604,152	743,871,104	637,436	73,612,870	443,699	818,565,109
North Atlantic	117,282,054	124,641	26,767,305	71,325	144,245,325	403,933,173	45,985,248	25,087,134	239,344	475,244,899
Mid Atlantic	2,639,897	-	949,238	1,067	3,590,202	15,268,757	5	1,349,884	8,982	16,627,628
Africa	119,006,915	133,803	17,439,852	109,402	136,689,972	314,705,283	650,141	16,214,388	287,559	331,857,371
Other	2,649,092	1,142,745	7,286,183	2,343	11,080,363	18,706,615	5,189,128	71,759	18,670	23,986,172
	848,373,665	**67,878,479**	**125,689,785**	**6,628,919**	**1,048,570,848**	**2,914,005,095**	**211,289,251**	**137,392,757**	**9,685,588**	**3,272,372,691**

25 Other income

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

	2020	2019
Shared Services	6,589,277	9,582,392
Rents and Subleases	2,691,928	3,596,659
Recovered w arehouse material	2,226,856	4,554,793
Operating government grants	1,302,392	2,188,306
Publicity	439,481	2,190,204
Gains from tangible fixed assets	132,470	7,686,635
Commissions	-	674,222
Other supplemental operating income	4,860,033	5,593,212
	18,242,437	**36,066,423**

26 Expenses by nature

During the financial years 2020 and 2019, operational expenditure by nature is as follows:

	2020	2019
Traffic operating costs	350,750,131	807,340,162
Aircraft fuel	260,455,413	789,677,244
Comercial, communication and marketing costs	69,204,310	153,171,796
Cost of materials consumed	40,283,352	141,326,887
Aircraft maintenance costs	24,426,407	56,127,269
	745,119,613	**1,947,643,358**

✈ Aircraft fuel

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

	2020	2019
Aircraft fuel		
Consumption	209,187,470	767,805,180
Jetfuel hedge	51,031,791	(511,413)
CO2 emission licences	236,152	22,383,477
	260,455,413	**789,677,244**

The reduction in aircraft fuel costs is due to the combined effect of the reduction in the quantities consumed and the decrease in the average price of fuel.

The reduction in CO2 emission licenses is mainly due to the drop in the price of CO2, accompanied by a decrease in the quantities emitted.

✈ Traffic operating costs

In the fiscal year ending on 31 December 2020 and 2019, the Traffic operating costs item is as follows:

	2020	2019
Handling services	80,528,273	203,686,746
Operational irregularities	74,037,705	70,319,848
Navigation fees	56,350,714	166,324,400
Landing charges	37,961,801	107,348,423
In-flight expenses	37,788,230	107,359,237
Accommodation and meals during stopovers	15,217,039	35,503,538
Baggage, cargo and mail charges	13,715,246	23,246,687
Facilities at airports	11,989,507	31,431,922
Air traffic control charges	10,819,392	27,960,894
Aircraft charters	4,884,267	10,189,737
Ground costs related to executive class passengers	3,095,602	13,428,385
Other traffic operating costs	4,362,355	10,540,345
	350,750,131	**807,340,162**

The reduction in most items is mainly due to the reduction in Group activity during the COVID-19 pandemic.

It should be noted that in the item of operational irregularities, EUR 37.8 million are considered, referring to the increase attributed when issuing vouchers as a form of compensation for non-flown and non-reimbursed tickets (Note 22).

✈ Aircraft maintenance costs

In the fiscal year ending 31 December 2020 and 2019, the line Aircraft maintenance costs item is detailed as follows:

	2020	2019
Maintenance subcontracting of TAP flight equipment	15,761,623	27,984,663
Consumed inventories	8,664,784	28,142,606
	24,426,407	**56,127,269**

The aircraft maintenance costs item relates to the recurring maintenance costs, including line costs, of the TAP fleet. The variation seen is a consequence of the significant reduction in maintenance activity.

✈ Cost of materials consumed

As of 31 December 2020 and 2019, the Cost of materials consumed item is as follows:

	2020	2019
Sold and consumed inventories	27,445,756	112,524,874
Maintenance subcontracting for third parties flight equipment	12,837,596	28,802,013
	40,283,352	**141,326,887**

The variation is a consequence of the significant reduction in the maintenance activity for third parties during the COVID-19 pandemic.

✈ Business, marketing and communication costs

The Commercial, marketing and communication costs item for the financial year ending 31 December 2020 and 2019 contains the following composition:

	2020	2019
Commissions	22,641,245	44,737,219
Booking fees	19,602,077	45,394,158
Publicity	13,443,651	24,085,053
Special sales charges - air transport	9,496,200	29,180,723
Specialised w ork	3,935,475	9,322,059
Other comercial, communication and marketing expeses	85,662	452,584
	69,204,310	**153,171,796**

The reduction in most items is mainly due to the reduction in Group activity during the COVID-19 pandemic.

27 Personnel costs

The Personnel costs item for the year ending 31 December 2020 and 2019 had the following detail:

	2020	2019
Fixed remuneration	252,698,644	339,380,013
Social security contributions	64,823,282	111,154,146
Variable remuneration	54,267,178	176,259,664
Insurance	17,583,045	13,492,936
Social action costs	8,615,083	11,193,138
Work accident insurance	8,268,406	8,536,803
Meals allowance	4,704,525	6,022,685
Post-employment benefits (Note 17)	3,693,285	6,751,678
Training and recruitment	3,073,878	3,231,638
Uniform and work clothes	815,192	1,738,801
Other expenses with employees	1,177,445	874,198
	419,719,963	**678,635,700**

The decrease in personnel costs on 31 December 2020 compared to 2019 is mainly due to the reduction in the group's activity as a result of the COVID-19 pandemic, especially with regard to the reduction in the level of variable remunerations in the of around EUR 121 million and adherence to the lay-off regime with impacts in terms of the reduction of fixed remunerations and social charges on remunerations in the amount of approximately EUR 127 million (Note 1.1.4).

The remuneration attributed to the Governing Bodies, in 2020 and 2019, was as follows:

	2020	2019
Remunerations		
Employees	419,685,792	678,593,700
Statutory Bodies (*)	34,171	42,000
	419,719,963	**678,635,700**

(*) This item includes only the remuneration for the Tax Council, and the remainder of the Governing bodies security are being paid at TAP SGPS.

During 2020 and 2019 respectively, the average number of employees serving the Group and all its subsidiaries was 8,869 and 8,939:

	2020	2019
Head office		
Cabin Crew employees	3,411	3,561
Maintenance and engineering employees	1,844	1,848
Ground employees	1,902	1,880
Technical flight employees	1,355	1,274
Representations		
Brazil	103	99
USA	41	42
Spain	35	33
France	22	29
Angola	23	27
Germany	20	24
Italy	25	25
UK / Ireland	21	21
Venezuela	7	8
Switzerland	4	4
Belgium / Luxembourg	1	3
Other	55	61
	8,869	**8,939**

28 Impairment losses in inventories, receivables and provisions

In the fiscal years ending 31 December 2020 and 2019, the Impairment losses in inventories, receivables and provisions had the following detail:

	2020	2019
Inventory impairment (Note 11)	(5,263,395)	430,351
Receivables impairment (Note 10)	(26,576,051)	(3,384,029)
Provisions (Note 18)	(12,234,448)	2,958,327
	(44,073,894)	**4,649**

29 Other expenses

The Other expenses item, in the financial year ending 31 December 2020 and 2019, had the following detail:

	2020	2019
Specialised w ork and subcontracts	69,267,498	77,264,939
Rents	11,237,787	7,407,952
Comunication	8,617,367	11,261,956
Conservation and repair of other assets	8,274,834	13,394,138
Insurance	3,821,607	3,470,673
Transportation	3,256,629	5,131,519
Fees	3,243,105	3,599,154
Surveillance and security	2,746,389	3,571,487
Travel costs	2,045,027	4,015,568
Cleaning, hygiene and comfort	1,995,621	1,635,589
Electricity	1,761,900	2,070,798
Books and technical documentation	1,735,101	2,038,435
Taxes	677,044	1,712,864
Other operating expenses	6,315,670	7,493,160
	124,995,579	**144,068,232**

The Rents item includes short-term lease contracts for offices and software to the sum of EUR 9.4 million.

30 Restructuring

The restructuring item for the financial year ending 31 December 2020 and 2019 had the following detail:

	2020	2019
Restructuring provision (Note 18)	93,197,493	-
Employee indemnities	1,956,480	2,947,281
Early retirements (Note 17)	932,552	2,035,816
	96,086,525	**4,983,097**

The amount of EUR 93 million results from the Restructuring Plan in progress in the Group (see Note 1.1.3 and Introductory Note).

31 Other non-recurring items

In the fiscal year ending 31 December 2020 and 2019, Other non-recurring items reads as follows:

	2020	2019
Seniority - compensatory benefits to crew employees	136,058	501,098
Aircraft preservation costs	10,143,144	-
	10,279,202	**501,098**

✈ Aircraft preservation costs

As of December 31, 2020, aircraft preservation expenses refer to non-recurring expenses incurred as a result of the maintenance of aircraft that are stopped due to the COVID-19 pandemic.

Given their context and nature, these situations were considered by the Board of Directors as non-recurring in the context of these financial statements.

32 Depreciation, amortisation and impairment losses

In the fiscal year ending 31 December 2020 and 2019, the item depreciation, amortisation and impairment losses is broken down as follows:

	2020	2019
Depreciation of Tangible Fixed Assets (Note 4)		
Buildings and other constructions	5,522,652	5,431,247
Basic equipment	74,527,228	62,424,035
Transport equipment	45,302	54,293
Tools and utensils	796,512	697,722
Administrative equipment	1,330,473	1,544,262
Other tangible fixed assets	282,060	342,795
	82,504,227	**70,494,354**
Depreciation of Right-of-use (Note 4)		
Buildings and other constructions	710,226	714,284
Basic equipment	485,670,496	393,181,811
Transport equipment	277,953	254,838
	486,658,675	**394,150,933**
Amortisation of Intangible Assets (Note 6)		
Computer Programs	12,785,212	8,359,097
	12,785,212	**8,359,097**
Impairment losses in Tangible Assets (Note 4)		
Basic equipment	2,723,947	2,740,781
Total	**584,672,061**	**475,745,165**

Taking into account the anticipated delivery to lessors of 2 aircraft under a lease with no purchase option, contracted at the end of 2020 under the impact of the pandemic COVID-19, depreciations were recognized in the year ended December 31, 2020 unforeseen losses due to impairment losses, in the amount of EUR 37,588 thousand, broken down into depreciation of rents, maintenance, maintenance reserves and redelivery.

33 Financial results

The financial results item for the year ending 31 December 2020 and 2019 is as follows:

	2020	2019
Interest expenses	(74,730,846)	(39,523,075)
Lease interests related w ith contracts w ithout purchase option	(157,927,401)	(119,769,279)
Other financial expenses	(13,170,305)	(26,138,790)
Interests and similar expenses	**(245,828,552)**	**(185,431,144)**
Interest income	33,566,552	33,820,521
Interests and similar income	**33,566,552**	**33,820,521**
Net foreign exchange differences	162,108,338	(21,283,835)
Net currency exchange	**162,108,338**	**(21,283,835)**
Overhedge cost (Note 23)	(165,281,173)	-
Overhedge cost	**(165,281,173)**	**-**
Total	**(215,434,835)**	**(172,894,458)**

The favourable exchange rate differences that occurred in the fiscal year ending 31 December 2020 were essentially due to the depreciation of the dollar and the real.

The increase in the interest paid on 31 December 2020 is mainly due to the increase in debt, particularly as a result of the state aid loan and the lease agreements.

34 Income tax

The income tax item at 31 December 2020 and 2019 is detailed as follows:

	2020	2019
Deferred taxes (Note 9)	49,961,866	(30,335,538)
Current taxes (Note 12)	146,212	354,236
Differences from tax estimates	(49,608)	(94,198)
	50,058,470	**(30,075,500)**

The tax assessment is made in the sphere of individual accounts of TAP SA prepared in accordance with the provisions of the Accounting Standardization System (SNC).

The income tax rate reconciliation in the fiscal year ending 31 December 2020 and 2019 is as follows:

	2020	2019
Net income/(loss) before income tax	(1,180,197,306)	(125,712,933)
Nominal tax rate	21.0%	21.0%
Expected tax	(247,841,434)	(26,399,716)
Permanent differences	47,077,024	(3,935,822)
Tax loss without associated deferred tax	250,726,276	-
Autonomous taxation	146,212	354,236
Differences from tax estimates for the previous year	(49,608)	(94,198)
	50,058,470	**(30,075,500)**
Effective tax rate	(4%)	24%

As of December 31, 2020, the permanent differences essentially result from provisions and impairments that were added for the purposes of calculating the tax result, namely, the provision for restructuring (Note 18), the provision for compensation to passengers that are being processed by the Group (Note 18) and impairment losses on accounts receivable related to TAP ME Brasil (Note 10), taking into account the fact that the Group does not have a perspective of its future recovery.

35 Earnings per share

There are no convertible financial instruments on the shares of TAP S.A., therefore, there is no dilution of earnings. The detail of earnings per share for the fiscal year ending 31 December 2020 and 2019 is as follows:

	2020	2019
Net income/(loss) attributable to owners of TAP SA	(1,230,255,776)	(95,637,433)
Wheighted average number of shares	8,300,000	8,300,000
Basic and diluted earnings per share	(148.2)	(11.5)

36 Commitments

✈ Purchase commitments

The aircraft purchase agreement with Airbus S.A.S. ("Airbus") for the purchase of 53 aircraft (39 A320 NEO Family and 14 A330 NEO), initially planned to be received between 2018 and 2025, was renegotiated with a view to delaying delivery of some of the aircraft given the impacts of the COVID pandemic on the commercial aviation sector. The 2 A330NEO aircraft not delivered to date have been rescheduled from 2022 to 2024. For the A320NEO Family aircraft, 13 aircraft initially planned for delivery in 2021-2022 were rescheduled for 2025-2027. This purchase agreement results from the novation to TAP S.A. of the previously negotiated acquisition agreement signed between Airbus and DGN Corporation. To date, contracts have been concluded for the assignment of a contractual position with subsequent leaseback and sale and leaseback contracts for 16 aircraft and 3 lease contracts with option to purchase, fully received at the time.

A contract is also in force with CFM International Inc., S.A., for the purchase of 83 LEAP-A1 engines, including 5 reserve engines, which will equip and serve the new fleet of A320 NEO Family aircraft. It should be noted that these engines will be purchased directly by Airbus, with the exception of standby engines. As regards the reserve engine, 3 of the 5 planned have already been purchased.

It also follows from the commitments assumed in the contract with CFM, the acquisition of a LEAP spare reactor during 2021, currently scheduled for delivery in December 2021, which results in the payment of a pre-delivery payment during the year.

Contract signed with Rolls-Royce that includes maintenance support for all TRENT 7000 reactors that equip A330 NEO aircraft. For 2021 there will be no acquisition of reserve reactors as all 3 were acquired by 2020.

It also follows from the commitments assumed in the contract with Airbus, regarding the future entry of aircraft, the payment of USD 53.3 million in pre-delivery payments during the year of 2021.

✈ **Other commitments**

Lease agreements without purchase option are signed for 3 aircraft, with a minimum value of future non-cancellable rents of approximately EUR 93 million on 31 December 2020.

Also from the commitments made in the contract with CFM, the purchase of a spare LEAP engine in the course of 2022, which is currently scheduled for delivery in December 2022, resulting in a pre-delivery payment commitment during 2022.

37 Contingencies

As at 31 December 2020 and 2019, the Group had no contingent assets. The contingent liabilities were as follows:

	2020	2019
Tax contingencies	864,894	7,574
Civil contingencies	8,985,071	7,704,097
Regulatory contingencies	7,636,358	9,291,545
Total	**17,486,323**	**17,003,216**

Regulatory contingencies include essentially cases brought by customers regarding operational irregularities. The Group, supported by the opinion of its legal advisors, considers that an unfavourable outcome in these cases is unlikely.

Guarantees provided

On 31 December 2020 and 2019, the group's guarantees are broken down as follows:

	2020	2019
Bank guarantees provided by Head Office		
Aircraft	42,683,205	93,241,143
Fuel	814,930	1,540,155
Portuguese State - Operation of the Azores routes	1,653,985	1,653,985
Airports	942,643	1,028,088
Labour Court	540,622	521,842
Other	6,228,452	6,098,452
Bank guarantees provided by Representations	2,107,124	2,145,382
	54,970,960	**106,229,046**

38 Related parties

During the year of 2020, as disclosed in the Introductory Note, the shareholder structure of TAP SGPS suffer changes, with an impact on the identification of related entities on December 31, 2020.

As a result of the changes made in the 2020 financial year, on 31 December 2020, the related parties identify are as follows:

Aeropar	Laso Transportes, SA	Rodoviária do Tejo, S.A.
Atlantic Cargo-Soc.Transportes, S.A.	MTS - Metro Transportes do Sul, S.A.	SPdH - Serviços Portugueses de Handling, S.A.
Atlantic Gatew ay, SGPS	Parpública - Participações Públicas, SGPS, S.A.	TAP ME Brasil
Barraqueiro Transportes, S.A.	PGA	TAP SGPS
Cateringpor	RDL - Rodoviária do Lis, Lda.	TAPGER
Cityrama - Viagens e Turismo, S.A.	RDO – Rodoviária do Oeste, Lda	UCS
Estado Português	RNE - Rede Nac. Expressos, Lda	
Eva Transportes, S.A.	Rodo Cargo - Transp. Rodoviário de Mercadorias,S.A.	
Fertagus-Travessia do Tejo Transportes, S.A.	Rodoviária de Lisboa, S.A.	
Frota Azul (Algarve), Lda.	Rodoviária do Alentejo, S.A.	

Within the scope of the identification of related parties, for the purposes of financial reporting, the members of the Board of Directors and other Governing Bodies were also assessed as related parties. See Management Report.

The balances and transactions with related entities as of 31 December 2020 and 2019 are as follows:

✈ **Balances**

	2020 - Assets								
	Customers (Note 10)	Advances to suppliers (Note 10)	Accrued income (Note 10)	Deferred expenses (Note 13)	Income tax receivable (Note 12)	Right-of-use assets	Other receivables current (Note 10)	Impairment of accounts receivable (Note 10)	Total
TAP SGPS	70,812	-	810,885	-	291,037	-	874,123,772	-	**875,296,506**
Azul S.A.	-	-	-	-	-	-	-	-	**-**
TAPGER	-	-	-	-	-	-	-	-	**-**
PGA	1,194,164	-	850,961	1,092,006	-	116,796,416	91,282	-	**120,024,829**
SPdH	563,580	3,300,000	-	1,471,775	-	-	391,006	-	**5,726,361**
TAP ME Brasil	14,034,564	39,117	-	6,047,685	-	-	6,686,434	(18,877,760)	**7,930,040**
Cateringpor	617,784	-	-	-	-	-	1,326,501	-	**1,944,285**
UCS	732,394	1,000	-	-	-	-	47,371	-	**780,765**
Barraqueiro Group	3,233	-	-	-	-	-	-	-	**3,233**
	17,216,531	**3,340,117**	**1,661,846**	**8,611,466**	**291,037**	**116,796,416**	**882,666,366**	**(18,877,760)**	**1,011,706,019**

	2019 - Assets							
	Customers (Note 10)	Advances to suppliers (Note 10)	Accrued income (Note 10)	Deferred expenses (Note 13)	Income tax receivable (Note 12)	Right-of-use assets	Other receivables current (Note 10)	Total
TAP SGPS	9,082	-	1,563,885	-	539,123	-	835,105,332	**837,217,422**
Azul S.A.	309,669	-	-	-	-	-	1,562	**311,231**
TAPGER	615,000	-	-	-	-	-	-	**615,000**
PGA	-	-	841,051	-	-	211,066,341	22,351	**211,929,743**
SPdH	966,959	-	3,619,421	1,471,775	-	-	334,512	**6,392,667**
TAP ME Brasil	14,974,994	2,742,637	-	-	-	-	7,904,991	**25,622,622**
Cateringpor	268,260	-	-	-	-	-	276,776	**545,036**
UCS	111,211	1,000	-	1,408,651	-	-	37,544	**1,558,406**
Aigle Azur Compagnie de Transport Aérien	595,467	-	-	-	-	-	380,096	**975,563**
Barraqueiro Group	2,411	-	-	-	-	-	-	**2,411**
	17,853,053	**2,743,637**	**6,024,357**	**2,880,426**	**539,123**	**211,066,341**	**844,063,164**	**1,085,170,101**

	2020 - Liabilities						
	Suppliers (Note 20)	Accrued expenses (Note 20)	Deferred income (Note 21)	Borrowings non-current (Note 19)	Borrowings current (Note 19)	Other payables current (Note 20)	Total
Estado Português	-	-	-	-	(1,210,825,439)	-	**(1,210,825,439)**
TAP SGPS	(164,851)	-	-	-	-	-	**(164,851)**
TAPGER	-	-	-	-	-	-	**-**
PGA	(3,726,749)	(285,272)	-	(60,475,742)	(70,240,234)	-	**(134,727,997)**
SPdH	545,840	(1,358,392)	(82,636)	-	-	(82)	**(895,270)**
TAP ME Brasil	(1,869,803)	(12,552)	-	-	-	-	**(1,882,355)**
Cateringpor	(876,421)	(5,183,568)	(205,447)	-	-	-	**(6,265,436)**
UCS	(457,472)	-	(28,983)	-	-	(13,469)	**(499,924)**
Barraqueiro Group	(2,397)	-	-	-	-	-	**(2,397)**
	(6,551,853)	**(6,839,784)**	**(317,066)**	**(60,475,742)**	**(1,281,065,673)**	**(13,551)**	**(1,355,263,669)**

	2019 - Liabilities						
	Suppliers (Note 20)	Accrued expenses (Note 20)	Deferred income (Note 21)	Borrowings non-current (Note 19)	Borrowings current (Note 19)	Other payables current (Note 20)	Total
TAP SGPS	(613,561)	-	-	-	-	-	**(613,561)**
Azul S.A.	(35,298)	(32,046)	-	-	-	-	**(67,344)**
PGA	(7,351,988)	(28,254)	-	(121,685,681)	(101,131,623)	(908,189)	**(231,105,735)**
SPdH	(9,220,206)	(926,001)	(126,510)	-	-	(82)	**(10,272,799)**
TAP ME Brasil	(1,385,147)	(17,716)	-	-	-	-	**(1,402,863)**
Cateringpor	(3,550,531)	(995,837)	(203,675)	-	-	-	**(4,750,043)**
UCS	(1,742,097)	(152,795)	(28,836)	-	-	(21,565)	**(1,945,293)**
Aigle Azur Compagnie de Transport Aérien	(315,925)	-	-		-	-	**(315,925)**
Barraqueiro Group	(57,631)	-	-	-	-	-	**(57,631)**
	(24,272,384)	**(2,152,649)**	**(359,021)**	**(121,685,681)**	**(101,131,623)**	**(929,836)**	**(250,531,194)**

✈ Transactions

	2020						
	Operating income	Operating expenses	Depreciation right-of-use	Interest income	Interest expenses and exchange differences	Consolidated tax	Total
TAP SGPS	-	(1,689,519)	-	32,354,967	-	49,606	30,715,054
Azul S.A.	202,044	(24,437)	-	-	-	-	177,607
TAPGER	-	(133,425)	-	-	-	-	(133,425)
PGA	2,888,762	1,931,163	(78,986,913)	-	(10,725,788)	-	(84,892,776)
SPdH	5,502,691	(43,027,968)	-	-	-	-	(37,525,277)
TAP ME Brasil	576,426	(605,328)	-	-	-	-	(28,902)
Cateringpor	1,420,334	(20,314,928)	-	-	-	-	(18,894,594)
UCS	976,408	(3,978,266)	-	-	-	-	(3,001,858)
Barraqueiro Group	1,896	(13,863)	-	-	-	-	(11,967)
	11,568,561	**(67,856,571)**	**(78,986,913)**	**32,354,967**	**(10,725,788)**	**49,606**	**(113,607,301)**

	2019						
	Operating income	Operating expenses	Depreciation right-of-use	Interest income	Interest expenses and exchange differences	Consolidated tax	Total
TAP SGPS	-	(4,921,060)	-	30,666,784	(4,734)	(554,450)	25,186,540
Azul S.A.	1,004,782	(302,289)	-	-	-	-	702,493
TAPGER	500,000	-	-	-	-	-	500,000
PGA	2,855,756	(14,099,325)	(92,733,424)	-	(22,386,558)	-	(126,363,551)
SPdH	7,360,975	(104,232,556)	-	-	-	-	(96,871,581)
TAP ME Brasil	455,370	(10,834,815)	-	-	-	-	(10,379,445)
Cateringpor	1,670,672	(54,347,920)	-	-	-	-	(52,677,248)
UCS	988,212	(5,087,905)	-	-	-	-	(4,099,693)
Aigle Azur Compagnie de Transport Aérien	204,614	(741,945)	(6,555,381)	-	(125,485)	-	(7,218,197)
Barraqueiro Group	1,759	(154,625)	-	-	-	-	(152,866)
	15,042,140	**(194,722,440)**	**(92,733,424)**	**30,666,784**	**(22,516,777)**	**(554,450)**	**(271,373,548)**

The transactions with SPdH refers to ground handling services provided by SPdH to support aircraft, passengers, baggage, cargo and mail.

In addition to the aforementioned operations, the Group, within the scope of the normal development of its air transport activity, maintains commercial relations, essentially code-share, with Azul and Aigle Azur. These transactions are carried out on terms and conditions similar to those practiced in commercial agreements usually concluded with other airlines. Due to the aforementioned change in the shareholding structure of the Group's parent company, the transactions disclosed with these entities are only for the period from January to August 2020. As of December 31, 2020, said Companies are not considered related parties.

These transactions are carried out under terms and conditions similar to those practiced in commercial agreements usually concluded with other airlines. As of December 31, 2020, said Companies are not considered related parties.

39 Financial assets and liabilities

The accounting policy described in Note 2.11 was applied according to the categories shown below:

	2020			
	Financial assets and liabilities at amortised cost	**Financial assets and liabilities at fair value through other comprehensive income**	**Financial assets and liabilities out of IFRS 9 scope**	**Total**
Assets				
Other financial assets	488,730	-	-	488,730
Other receivables	1,198,129,068	-	9,603,494	1,207,732,562
Cash and cash equivalents	518,756,607	-	-	518,756,607
Total Assets	**1,717,374,405**	**-**	**9,603,494**	**1,726,977,899**
Liabilities				
Borrowings and Lease liabilities with purchase option	-	-	(2,590,388,245)	(2,590,388,245)
Lease liabilities without purchase option	-	-	(2,038,640,352)	(2,038,640,352)
Other payables	(356,953,596)	(29,014,165)	(548,038)	(386,515,799)
Total Liabilities	**(356,953,596)**	**(29,014,165)**	**(4,629,576,635)**	**(5,015,544,396)**

	2019			
	Financial assets and liabilities at amortised cost	**Financial assets and liabilities at fair value through other comprehensive income**	**Financial assets and liabilities out of IFRS 9 scope**	**Total**
Assets				
Other financial assets	5,361,386	-	-	5,361,386
Other receivables	1,327,860,319	23,966,714	52,558,098	1,404,385,131
Cash and cash equivalents	426,290,329	-	-	426,290,329
Total Assets	**1,759,512,034**	**23,966,714**	**52,558,098**	**1,836,036,846**
Liabillities				
Borrowings and Lease liabilities with purchase option	-	-	(1,358,295,244)	(1,358,295,244)
Lease liabilities without purchase option	-	-	(2,278,678,486)	(2,278,678,486)
Other payables	(570,938,131)	-	(780,485)	(571,718,616)
Total Liabilities	**(570,938,131)**	**-**	**(3,637,754,215)**	**(4,208,692,346)**

The following tables present the assets and liabilities measured at fair value as at 31 December 2020 and 2019, according to the following fair value hierarchical levels established in IFRS 13:

	2020		
	Level 1	Level 2	Level 3
Non-financial assets			
Investment Properties	-	1,543,825	-
Financial liability			
Derivate financial instruments	-	(29,014,165)	-

	2019		
	Level 1	Level 2	Level 3
Non-financial assets			
Investment Properties	-	2,148,564	-
Financial assets			
Derivate financial instruments	-	23,966,714	-

Level 1: the fair value of financial instruments is based on prices available on active, liquid markets at the date of the financial position;

Level 2: the fair value of financial instruments is not determined based on active market prices, but rather through valuation models. The main inputs of these models are observable on the market; and

Level 3: the fair value of financial instruments is not determined based on active market prices, but rather through valuation models, whose main inputs are not observable on the market.

Derivative financial instruments

The fair value of derivative financial instruments is recorded under Other payables when negative and under Other receivables when positive.

During 2020 and 2019, the variation in the fair value of derivative financial instruments was recognized in equity or results, taking into account the over hedge situation verified in 2020 resulting from the reduction in activity caused by the pandemic COVID-19 (Note 1.1.3).

The breakdown of the derivative financial instruments fair value is detailed in Note 15.

40 Statutory audit of accounts

Following the resolution of the General Meeting of December 17, 2019, TAP SA changed its Statutory Auditor, with reference to the year starting in 2019, for PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda.

During the years ended December 31, 2020 and 2019, the fees for the services provided by the Statutory Auditor and by other entities belonging to the same network, are detailed as follows:

	2020	2019 (*)
Audit and statutory audit	105,750	80,750
Limited Review Services	75,000	-
Reliability assurance services and agreed procedures	135,500	-
	316,250	**80,750**

(*) reporting fees issued since your appointment date

The Limited Review services were performed with reference to the months of March and June 2020.

The reliability assurance services and agreed procedures relate to expenditure / payment validation work in the scope of State aid and application for subsidies from the European Union, as well as validation of financial ratios under financing contracts.

41 Subsequent events

Emergency agreements with the trade unions representing workers at TAP, programme of labour measures for voluntary redundancy and classic layoffs

On 14 January 2021, Council of Ministers' Resolution 3/2021 was published. It declared TAP, as well as Portugália – Companhia Portuguesa de Transportes Aéreos, S.A. ("Portugália") and Cateringpor – Catering de Portugal, S.A. ("Cateringpor"), to be in a difficult economic situation. This Council of Ministers Resolution was regulated by Order 818-A/2021 of 14 January 2021 (published in the Official Gazette on 19 January 2021), which determined, *inter alia*, that TAP, Portugália and Cateringpor should, in the first quarter of 2021, begin the negotiating process for the revision or repeal and replacement of collective labour regulation instruments to which they were party, and adapt those instruments to the new competitive reality of the companies and the sector in which they operate. This negotiation process could be preceded by temporary emergency arrangements to be adjusted with the trade unions party to such agreements, as an alternative to the substitute regime for setting working conditions.

In accordance with this determination, a joint negotiation process between trade unions, the administration and the Portuguese Government has been developed with a view to concluding these emergency agreements, seeking an agreed solution on the path to the restructuring and recovery of TAP. On 28 February 2021, TAP informed the market and the general public that this process had been concluded favourably, with all trade unions representing a vast majority of TAP workers ratifying the negotiated emergency agreements ("Emergency Agreements").

The Emergency Agreements came into force on March 1, 2021, allowing, without prejudice to the metrics proposed in the scope of the Restructuring Plan, to protect a greater number of jobs, when compared to the substitute regime. It was also announced that non-unionized TAP employees benefit from a substitute regime that is exactly the same as the Emergency Agreements in force in the respective professional group. Thus, the wage reduction applied to land personnel and commercial navigational personnel (PNC) is 25% over 4 years and for technical navigational personnel (PNT) is 50%, decreasing progressively to 35% over 4 years, both reductions only applicable income above EUR 1,330.

In parallel, TAP has developed a set of voluntary employment measures for its employees, which include terminations by mutual agreement, early retirements, pre-retirements, part-time work, unpaid leave and applications to Portugália. On this date, although some cases remain under analysis, there were about 690 adherences to the voluntary labor measures program, 70% of which were terminated by mutual agreement, 14% were part-time work, 8% were retired, 6% for pre-retirement and 3% for non-remunerated leave. These measures represent a resizing of about 630 jobs, considering part-time workers

The program is still in progress with the option of the voluntary measures mentioned above, and also with the option for the Group to adopt other types of measures to resize the Group, in order to achieve the cost reduction provided for in the Restructuring Plan.

TAP has also announced that it will use the classic layoff scheme, in accordance with Articles 298 *et seq.* of the Labour Code. In this respect, measures to reduce normal working hours or to suspend employment contracts have started on 1 March 2021 and may be extended for a period of up to 12 months, in accordance with and for the purposes of Article 300(3) of the Labour Code. Participation in this scheme will be assessed monthly and individually to identify whether it should be maintained, changed or terminated as required by the Company.

SPdH Agreement

Based on a cash shortage situation at SPdH – Serviços Portugueses de Handling, S.A. and in order to avoid a disruption scenario in the continuity of the ground handling services provided to TAP SA, on 19 March 2021 TAP SA purchased certain equipment from SPdH for a total price of EUR 6.97 million , and simultaneously leased the same equipment to the SPdH until 26 July 2022. In certain circumstances, SPdH may exercise a purchase option on such equipment until 30 May 2021.

42 Note added for translation

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

CERTIFIED ACCOUNTANT

João Carlos da Silva Bernardes

BOARD OF DIRECTORS

Miguel Jorge Reis Antunes Frasquilho
Chairman

Ramiro José Oliveira Sequeira
Director

Alexandra Margarida Vieira Reis
Director

José Manuel Silva Rodrigues
Director

Statutory Audit Report and Auditors' Report

(Free translation from the original in Portuguese)

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Transportes Aéreos Portugueses, S.A. (the Group), which comprise the consolidated statement of financial position as at December 31, 2020 (which shows total assets of Euros 4,957,102 thousand and total negative shareholders' equity of Euros 1,154,252 thousand including a net loss of Euros 1,230,256 thousand), the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Transportes Aéreos Portugueses, S.A. as at December 31, 2020, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. In accordance with the law we are independent of the entities that are included in the Group and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Material uncertainty relating to going concern

We draw attention to the disclosure contained in note 1.1.5 of the consolidated financial statements containing the accompanying notes, in which the Board of Directors reports that the financial statements for the year ended on December 31, 2020 were prepared on a going concern basis, based on (i) the approval by the European Commission, on June 10, 2020, of a State Aid to be granted by the Portuguese State to TAP Group, in the form of a loan in the amount of up to Euros 1,2 thousand million, (ii) the Restructuring Plan approved by TAP SGPS Board of Directors, on December 2, 2020, which presents a perspective of gradual growth of its activity, despite the significant reduction embedded in the projections in relation of its COVID-19 pre-pandemic activity, combined with a strategy of fleet reducing, operating costs reducing and reducing investment, (iii) shareholder financial support and / or ability to obtain financial resources (iv) as well as ongoing interactions with the European Commission on the adequacy of the Restructuring Plan.

As also disclosed in note 1.1.5 of the consolidated financial statements containing the accompanying notes, it is important to emphasize that the continuity of operations is dependent on (i) the approval of the Restructuring Plan by the European Commission, (ii) as well as the evolution of the COVID-19 pandemic, namely in a possible scenario of worsening it beyond what is estimated in the Restructuring Plan that may be approved.

Taking into account the potential impacts on the air transport sector and in the operational and financial future activity of the Group, the factors described above may give rise to the need to obtain additional financial resources compared to those currently estimated, which represents an uncertainty material that may raise doubts about the Group's ability to operate on a going concern basis.

However, taking into account the base scenario considered in the projections embedded in the Restructuring Plan approved by TAP SGPS Board of Directors and the expectation regarding its approval by the European Commission, the Board of Directors believes that the continuity of the Group's operations and its liquidity are granted, based on the financing of the estimated cash requirements, at this date, for a period of twelve months.

The consolidated financial statements do not include the adjustments that would result if the Group was unable to continue on a going concern basis.

Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the “Material uncertainty relating to going concern” section we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	*Summary of the Audit Approach*
Revenue recognition, including liabilities from unused flight documents and customer loyalty program *Disclosures related to revenue are presented in notes 1.1.3, 2.27, 2.33, 21 and 22 to the consolidated financial statements.* As of 31 December 2020, the operating income amounts to Euros 1,060 million, which correspond, mainly, to passenger transportation. As disclosed in note 2.27 to the consolidated financial statements, when the sale is made, the amount is recorded as a liability in the caption Liabilities from unused flight documents, which, as at December 31, 2020, amounts to Euros 602 million, being the respective revenue recognized when the transport is carried out or the ticket expires, for which case are considered the commercial conditions and respective estimate regarding the likelihood for the passenger to request the reimbursement or claim the issuance of a new ticket. As disclosed in note 2.27 and 2.33 to the consolidated financial statements, the caption Liabilities from unused flight documents, refers to the balance of flights not carried out until that date, corresponding to an obligation to provide the service in the future or an obligation to refund the ticket value, as defined in the contractual terms. Thus, the Board of Directors has reviewed the policy used on unused flight documents, as regards to the possibility of rebooking tickets with no additional cost and reimbursing passengers in cash or with vouchers with mark-up and extended validity periods. Regarding "TAP Miles&Go" program, as disclosed in notes 2.27 and 2.33 to the consolidated financial statements, the Group recognizes a performance obligation based on the historical miles awarded and not claimed or expired, adjusted by the estimate of miles that	Our audit procedures included, among others, the understanding and evaluation of the several information technology systems related to the revenue recognition of passenger transportation, the identification and evaluation of the operational effectiveness of the Group's internal control framework related to the IT systems management process, having for this purpose resorted to our specialists in audit of IT systems, as well as the evaluation of the respective key controls that insure the correct, complete and timely revenue recognition of passenger transportation. We also carried out specific substantive tests on revenue recognition of passenger transportation and on the balance of Liabilities from unused flight documents, namely the reconciliation of information extracted from several support systems to the accounting records, validation, on a sample basis, of the several inputs considered in the unused flight documents listing and analysis of bank reconciliations. We have also carried out some analytical procedures for the several revenue of passenger transportation types, namely, fares, fees and commissions. We have also validated the percentage of expired tickets for which the respective revenue was recognized based on the historical of documents not reimbursed or reissued. Regarding "TAP Miles&Go" program, the audit procedures that we have applied included, among others, the assessment of the model, internally developed, for the measurement of the liabilities with unused miles, as well as the reasonableness of the assumptions embodied in it, and the validation of the respective calculations considered in the determination of the stand-alone price. We have challenged the Board of Directors on the reasonableness of the assumptions considered, and performed sensitivity analyses to assess the potential impacts on the liabilities with customer loyalty program arising from

Key Audit Matter	Summary of the Audit Approach
will expire without being used. The miles are valued based on the stand-alone price considering the historical redemption of miles. The liability related to the customer loyalty program, as at December 31, 2020, amounts to Euros 53 million. As a result of the COVID-19 pandemic in the air transportation activity, the Group extended by 12 months the validity of the miles awarded, having the Group updated the assumptions associated with this estimate, accordingly. The Board of Directors carries out a periodic analysis, either of the caption Liabilities from unused flight documents, in order to evaluate if the tickets were already used or have expired, either of the caption Customer loyalty program, in order to evaluate the utilization and the validity of the miles. Given the amounts involved and the degree of judgment inherent to the revenue recognition, this issue was considered to be a relevant matter for the purposes of our audit.	variations on the unitary value of the mile and estimated rate of miles that will expire. We also reviewed the adequacy of the disclosures presented in the consolidated financial statements, based on the applicable accounting standards and in what we considered relevant.
IFRS 16 –modifications on aircrafts and engines leasing contracts *Disclosures related to IFRS 16 and modifications on aircrafts and engines leasing contracts without purchase option are presented in notes 1.1.3, 2.7, 2.25, 2.33, 4 and 19 to the consolidated financial statements.* The Group recognizes right-of-use assets and lease liabilities without purchase option which, as at December 31, 2020, amounts to Euros 2,126 million and Euros 2,039 million, respectively, considering the estimate of non-cancellable payments to be incurred until the end of the lease agreement, which cash flows are discounted based on the implicit rate, if available, or on the incremental rate in the other circumstances.	Our audit procedures included, among others, obtaining the calculation for IFRS 16 adoption prepared by the Group's Board of Directors, in order to assess the alignment of the methodology and adequacy of the assumptions considered with the respective standard. We have tested the fleet considered in the above-mentioned calculation based on the confirmation obtained by the lessors in order to guarantee the completeness of the fleet, considering the lease definition foreseen in the standard. Regarding contractual changes that occurred during 2020, we have obtained and analysed the modifications made to the relevant lease contracts and we have assessed the adequacy of its accounting records under the IFRS 16 requirements, taking into consideration the

Key Audit Matter	***Summary of the Audit Approach***
As a result of the COVID-19 pandemic, in 2020 the Group has negotiated modifications to aircraft and engines leasing contracts registered under IFRS 16. The negotiations with lessors relate with reducing the monthly value of equipment rents, obtaining consent for non-payment of rents and the extension of contractual time periods. These modifications led to a decrease in the right-of-use assets and lease liabilities without purchase option, in the amount of Euros 101 million. Given the amounts involved and the degree of judgment inherent to the assumptions and estimates considered in the IFRS 16 application, this issue was considered to be a relevant matter for the purposes of our audit.	contractual clauses, the amounts and charges to be incurred, as well as the lease term. We have also tested the calculation of the implicit rate, using our team of specialists, based on the information available at each modification date. We have reperformed the calculation of the right-of-use assets and lease liabilities without purchase option amounts in each modification date and as at December 31, 2020, as well as the respective impacts in the income for 2020. We also reviewed the adequacy of the disclosures presented in the consolidated financial statements, based on the applicable accounting standards and in what we considered relevant.
Estimate for maintenance and redelivery works *Disclosures related to maintenance works are presented in notes 1.1.3, 2.7, 2.21, 2.33, 4, 10 and 18 to the consolidated financial statements.* As disclosed in note 2.33 to the consolidated financial statements, the estimates for maintenance works and redelivery require a definition of several significant assumptions by the Group, based on forecasts with a significant level of judgement, namely, the use and condition of the aircraft, intervention costs, contractual conditions and possible renegotiations of the lease agreements. These estimates impact the accounting records of the maintenances performed immediately before the delivery of aircraft under lease without purchase option agreements, designated by redelivery works, as well as the determination of the useful life of the structural maintenance and the recoverability of the maintenance reserves delivered to the lessors.	We have developed several auditing procedures to evaluate the reasonableness of the maintenance and redelivery works estimates for the fleet, namely the understanding and assessment of the internal control processes and procedures followed by the Group for the establishment of these estimates. We have obtained the data supporting to the calculation of the maintenance and redelivery works estimates and evaluated the reasonableness of the assumptions considered, as well as its consistency with the estimates embedded in the Restructuring Plan approved by the Board of Directors of TAP SGPS Group on December 2, 2020. We have questioned the internal technicians of the maintenance department and the Board of Directors on the reasonableness of the assumptions and verified the adequacy of the calculations made. We have also assessed the timeline considered in the estimates, as well as the specific characteristics of each aircraft, and the respective future expenses to be incurred, as well as the reasonableness of the discount rate

Key Audit Matter	Summary of the Audit Approach
The expenses for redelivery works are recognized, provided they can be reliably estimated, as provisions, through the respective right-of-use asset, which is depreciated on a straight-line basis over the lease term. With regards to the structural maintenances, that increase the useful life of the related assets, are included as a complement to the right-of-use assets and are subsequently depreciated until the new maintenance event. The estimate for the timeline until the next maintenance is defined based on the Group's best judgment and it is reassessed at each year end. The timeline for the structural maintenances for the aircrafts under lease without purchase option agreements, as well as the estimate for the respective expenses, also influence the recoverability of the maintenance reserves delivered to the lessors, which are recovered through maintenance works. Given the amounts involved and the degree of judgment inherent to the assumptions considered in the estimate for maintenance and redelivery works, this issue was considered to be a relevant matter for the purposes of our audit.	used, based on the contractual conditions and the information provided by the internal engineers with expertise on this matter. We have revised the historical consistency on the maintenance estimates compared to the events that have actually occurred, and the reasonableness of the evolution of the maintenance and redelivery works estimates as at December 31, 2020 compared with December 31, 2029, taking into account the impacts of the COVID-19 pandemic on aircraft maintenance management and on the estimated evolution of the air fleet, as evidenced in the Restructuring Plan. We also reviewed the adequacy of the disclosures presented in the consolidated financial statements, based on the applicable accounting standards and in what we considered relevant.
Recoverability of tangible and intangible assets related with air transport *Disclosures related to tangible and intangible assets related with air transport in notes 1.1.3, 2.10, 2.33, 4 and 32 to the consolidated financial statements.* As at December 31, 2020, tangible and intangible assets related with air transport presented in the consolidated financial statements amounts to Euros 2,845 million. In accordance with IAS 36 – Impairment of assets, and as disclosed in the notes of the consolidated financial statements, the Group performs impairment testes on tangible and	Our audit procedures included, among others, evaluating the adequacy of the impairment models used by the Board of Directors and testing the mathematical accuracy of the calculations. We assessed the reasonableness of the assumptions used and reconciled the future cash flows with the Restructuring Plan approved by TAP SGPS Board of Directors on December 2, 2020. We also assessed the reasonableness of the defined cash-generating unit subject to the impairment test. We challenged the Management regarding the appropriateness of the assumptions with greatest sensitivity in determining the value in

Key Audit Matter	Summary of the Audit Approach
intangible assets related with air transport whenever there are facts or circumstances that may indicate that the net book value may not be recoverable, what was verified in the current year taking into account the impacts of the COVID-19 pandemic in the air transport activity. The recoverable amount of the mentioned assets is determined based on discounted cash flow models, which require the use of estimates and assumptions defined by the Board of Directors, based on economic and market projections, namely with regard to cash flows associated with the Group's operating activity, exchange rates, growth rates and discount rates. As disclosed in note 4 of the consolidated financial statements, on December 2, 2020, the Board of Directors of the TAP SGPS Group approved a Restructuring Plan for the years 2021-2025, based on medium and long-term assumptions related to the fleet evolution and level of activity and operational performance, taking into account the current situation resulting from the uncertainty associated with the future evolution of the COVID-19 pandemic and its impacts on air transport activity. The assumptions embedded in the Restructuring Plan were the basis for the Board of Directors' analysis on the recoverable amount of tangible and intangible fixed assets related with air transport. As disclosed in notes 1.1.3 and 4 of the consolidated financial statements, without prejudice the fact that the Restructuring Plan is, at this date, under analysis by the European Commission and subject to the ongoing interactions with the Portuguese State and the TAP SGPS Board of Directors and, consequently, has not been yet approved by the European Commission, the Board of Directors believes that the best estimate, as at December 31, 2020, is reflected in the projections embedded in the approved Restructuring Plan	use, namely revenues growth for the relevant geographies considered and EBITDA margin. An analysis of the discounted and growth rate was carried out, using peer information and other information available in the market. Sensitivity analysis were also carried out on the main assumptions in order to determine the level of variations that, individually or together, could lead to impairment losses on the assets tested for impairment. The procedures described above, aimed at evaluating the assumptions and the methodology associated with the impairment models used by the Group, were carried out with the support of our team of specialists. We also reviewed the adequacy of the disclosures presented in the consolidated financial statements, in particular the ones related to estimates and assumptions that present higher sensitivity in the value in use calculation, based on the applicable accounting standards and in what we considered relevant.

Key Audit Matter	***Summary of the Audit Approach***
by the TAP SGPS Board of Directors on December 2, 2020. As disclosed in notes 1.1.3 and 4 of the consolidated financial statements, it should be noted that any changes to the Restructuring Plan that may be approved by the European Commission, in the context of ongoing interactions, may have significant impacts on the tangible and intangible assets related with air transport recoverable amount and consequently significantly affect , the Group's financial and economic position. Given the amounts involved, the complexity of the valuation models and the degree of judgment inherent to the assumptions, and taking into account the uncertainty of the future evolution of the COVID-19 pandemic and its impacts on the air transport activity, as well as the fact that TAP SGPS Group's Restructuring Plan 2021-2025 is not, at this date, approved by the Commission European, this issue was considered to be a relevant matter for the purposes of our audit.	
Recoverability of TAP SGPS Group entities accounts receivable *Disclosures related to TAP SGPS Group entities accounts receivable in notes 1.1.3, 2.11, 2.33, 10 and 38 to the consolidated financial statements.* As disclosed in note 38 of the consolidated financial statements, the amount recorded in other accounts receivable (customers, advances to suppliers, accrued income and other debtors) from TAP SGPS Group companies amounts to Euros 905 million, which correspond, essentially, to Euros 875 million from TAP SGPS and Euros 21 million from TAP ME Brazil, which an impairment of Euros 19 million was recorded, as a result of the current outlook for that company within the ongoing TAP SGPS Group's Restructuring Plan.	Our audit procedures included, among others, the confirmation of balances based on the accounting records of the respective counterparties and the reconciliation of the accounts receivable balance sheet with the trial balance of TAP SA. We inquired the TAP SA Board of Directors regarding the recoverability of these balances and analysed the TAP SA and TAP SGPS Boards of Directors minutes. Inquirimos o Conselho de Administração da TAP SA quanto à recuperabilidade dos saldos e analisámos as atas dos Conselhos de Administração da TAP SA e da TAP SGPS. We also reviewed the adequacy of the disclosures presented in the consolidated financial statements, based on the applicable

Key Audit Matter	Summary of the Audit Approach
As disclosed in note 1.1.3 of the consolidated financial statements, in relation to the amount receivable from TAP SGPS, its recoverability was assessed by the Group's Board of Directors, based on the information available at this date, within the scope of the in progress TAP SGPS Group's Restructuring Plan. Given the amounts involved, the uncertainty of the future evolution of the COVID-19 pandemic and its impacts on the air transport activity, as well as the fact that TAP SGPS Group's Restructuring Plan 2021-2025 is not, at this date, approved by the Commission European, this issue was considered to be a relevant matter for the purposes of our audit.	accounting standards and in what we considered relevant.
Valuation of restructuring provision *Disclosures related to restructuring provision in notes 1.1.3, 2.21, 2.33, 18 and 30 to the consolidated financial statements.* As at December 31, 2020, the Group has recorded a provision of Euros 93 million in respect of its estimate of restructuring costs to be incurred. In accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, a restructuring provision must be recorded when there is a formal plan of that restructuring and there is a valid expectation established in those impacted by the plan. The restructuring plan approved by TAP SGPS Board of Directors on December 2, 2020, defined organizational restructuring and operational efficiency measures, including a reduction in the number of employees, in order to guarantee the financial and economic sustainability of the Group. The restructuring provision essentially refers to estimated costs to be incurred with the reduction	Our audit procedures included, among others, the verification of compliance with the requirements for the recognition of the restructuring provision on December 31, 2020. To this end, we analysed the formal plan developed by the Board of Directors, prepared based on the Restructuring Plan approved by TAP SGPS Board of Directors, we obtained the governmental decisions made and the communications made by TAP SGPS and TAP SA Boards of Directors to the affected entities. For the purposes of assessing the reasonableness of the recorded provision, were considered the impacts arising from developments in the first quarter of 2021, in particular, the Emergency Agreements signed with the unions representing the employees of TAP Group, the minutes of TAP SA and TAP SGPS Board of Directors, the voluntary adherence labour measures programs promoted among employees and, whenever applicable, the termination agreements signed. We evaluated the calculation model of the provision estimate approved by the Board of Directors and proceeded to it mathematical re-execution. The reasonableness of the

Key Audit Matter	***Summary of the Audit Approach***
of employees, being this process still in progress on December 31, 2020. Given the amounts involved and the degree of judgment inherent to the assumptions considered in the estimate for restructuring provision, this issue was considered to be a relevant matter for the purposes of our audit.	assumptions used was also assessed, based on the documentation inherent in the restructuring process. On a sample basis we reperformed the underlying calculations and tested the inputs, including employee information, back to supporting evidence in order to validate its accuracy. We also reviewed the adequacy of the disclosures presented in the consolidated financial statements, based on the applicable accounting standards and in what we considered relevant.

Recoverability of deferred tax assets related with reportable tax losses *Disclosures related deferred tax assets related with reportable tax losses in notes 1.1.3, 2.14, 2.33, 9 and 34 to the consolidated financial statements.* As at December 31, 2020, the Group has Euros 129 million of deferred tax assets in its consolidated statement of financial position, of which Euros 77 million relate to tax losses generated in 2015, 2018 and 2019. As disclosed in note 1.1.3 and 9 of the consolidated financial statements, deferred tax assets were not recognized, relating to the tax loss generated in 2020, in the estimated amount of Euros 251 million. In accordance with IAS 12 – Income taxes, deferred tax assets are recognized to the extent that the Group's Board of Directors expects their future recoverability, based on the ability to generate future taxable profits, combined with the recoverability time horizon of the respective tax losses.	Our audit procedures included, among others, evaluating the adequacy of the impairment models used by the Board of Directors and testing the mathematical accuracy of the calculations. We reconciled the pre-tax results used in the model with the Restructuring Plan, covering the years from 2021 to 2025, approved by TAP SGPS Board of Directors on December 2, 2020. We challenged the Management regarding the appropriateness of the assumptions, namely periods used, pre-tax results used in the projected periods and tax adjustments that contribute to the determination of the estimate of future taxable profits. This assessment also considered the reporting period for the use of tax losses in force on December 31, 2020. We also reviewed the adequacy of the disclosures presented in the consolidated financial statements, based on the applicable accounting standards and in what we considered relevant.

Key Audit Matter	*Summary of the Audit Approach*
The estimated recovery of the mentioned deferred tax assets was based on pre-tax results projections embedded in the Restructuring Plan, covering the years from 2021 to 2025, adjusted for the respective tax effects, taking into account that the individual financial statements of the Company are prepared in accordance with generally accepted accounting principles in Portugal (SNC). As disclosed in note 1.1.3 of the consolidated financial statements, it should be noted that any changes to the Restructuring Plan that may be approved by the European Commission, in the context of ongoing interactions, may have significant impacts on the recoverability of the deferred tax assets and consequently significantly affect, the Group's financial and economic position. Given the amounts involved, the degree of judgment inherent to the assumptions, and taking into account the uncertainty of the future evolution of the COVID-19 pandemic and its impacts on the air transport activity, as well as the fact that TAP SGPS Group's Restructuring Plan 2021-2025 is not, at this date, approved by the Commission European, this issue was considered to be a relevant matter for the purposes of our audit.	

Responsibilities of management and supervisory board for the consolidated financial statements

Management is responsible for:

a) the preparation of the consolidated financial statements, which present fairly the consolidated financial position, the consolidated financial performance and cash flows of the Group in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the consolidated Directors' report and the non-financial statement in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Group's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Group's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Group's financial information.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion;

g) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

h) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one’s were the most important in the audit of the consolidated financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

i) confirm to the supervisory board that we comply with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Our responsibility also includes verifying that the information included in the consolidated Directors’ report is consistent with the consolidated financial statements, and verifying that the consolidated non-financial statement was presented.

Report on other legal and regulatory requirements

Consolidated Directors’ report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our opinion that the consolidated Directors’ report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the consolidated Directors’ report is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified. As set forth in paragraph 7 of article No. 451 of the Portuguese Company Law, this opinion is not applicable to the consolidated non-financial statement included in the consolidated Directors’ report.

Consolidated non-financial statement

In compliance with paragraph 6 of article No. 451 of the Portuguese Company Law, we hereby inform that the Group included in its consolidated Directors' report the consolidated non-financial statement set forth in article No. 508-G of the Portuguese Company Law.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of Transportes Aéreos Portugueses, S.A. in the Shareholders' General Meeting of December 17, 2019 for the period from 2019 to 2020.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the consolidated financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Group's supervisory board as of April 23, 2021.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Group in conducting our audit.

April 23, 2021

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

António Joaquim Brochado Correia, R.O.C.