AIR PORTUGAL

TRANSPORTES AÉREOS PORTUGUESES, S.A.

First Half 2020

MANAGEMENT REPORT AND CONSOLIDATED ACCOUNTS

A STAR ALLIANCE MEMBER

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

CONSOLIDATED MANAGEMENT REPORT

FIRST HALF 2020

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

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1. EVOLUTION OF ACTIVITY IN THE FIRST HALF OF 2020

1.1. Introduction

- **Operation and results of 1H20 were significantly impacted by the decrease in activity since March, as a result of the COVID-19 pandemic**, which had an enormous impact in the world economy and affected the global civil aviation sector in an unprecedented way, as a consequence of the strong containment measures adopted by national and international authorities.
- **Significant improvement in the main operational and financial indicators for the months of January and February 2020**, which evidenced the positive path and of operational profitability improvement that was being followed by TAP AIR PORTUGAL. The operational and commercial indicators available prior to the start of the pandemic, namely the forward bookings curve, pointed to a very positive year for TAP AIR PORTUGAL in 2020. Also, at the end of February, TAP AIR PORTUGAL's listed bonds were trading at levels close to the issue price, reflecting this environment. In the first two months of the year, the number of passengers carried increased 13.4% YoY and the load factor 1.9 p.p. YoY, reaching an EBITDA margin of 5.1%, an improvement of 12.9 p.p. YoY.
- **In close collaboration with the Portuguese Government, embassies and ANAC, TAP AIR PORTUGAL maintained Portugal's territorial continuity, ensured repatriation flights and invested in the humanitarian transport of medical cargo, essential for the fight against COVID-19,** in a prove of great flexibility and effort by TAP AIR PORTUGAL's employees. TAP AIR PORTUGAL also faced the challenge of coordinating the grounding of over 90 aircraft in domestic territory, in a major work from the operational areas, in conjunction with the airport infrastructure.
- **TAP AIR PORTUGAL was fast and agile to act, at the first signs of the impact of the pandemic**, adjusting capacity to the new demand scenario, thus minimizing operating costs, with the goal of preserving cash. The capacity cut of 33.9% YoY in terms of ASKs already in March, was key to decrease variable costs, considering that these represented approximately 60% of TAP AIR PORTUGAL's total operating costs in 2019. It should also be mentioned that TAP AIR PORTUGAL was able to scale back its operation in a very short time frame, while maintaining its excellent track record in terms of safety, a fundamental value for the Company, despite the new and increased challenges during this period, of which the unanticipated closure of airspace with short notices are an example, naturally putting additional pressure at an organizational level.
- **Several additional measures were taken in order to preserve the Company's liquidity**, including the suspension or delay of noncritical investments, the renegotiation of commercial agreements and respective payment schedules, cuts on incidental expenses, the suspension of staff recruitment and promotions, the non-renewal of fixed term employment contracts, as well as the adherence to the simplified layoff regime and the implementation of temporary unpaid leave programs.
- **These measures allowed TAP AIR PORTUGAL to maintain sufficient liquidity until the formalization of the State Aid**, in the form of a financing granted by the Portuguese State to TAP AIR PORTUGAL, with the first tranche of this financing received on July 17, 2020.

- **TAP AIR PORTUGAL is committed to guaranteeing the ramp-up of its operation in a safe and sustainable way.** Measures to protect the health and safety of its clients and crew were implemented from the start, in line with the guidelines from the relevant authorities and in close coordination with UCS (Group TAP's Health Care Unit). Simultaneously, TAP AIR PORTUGAL has been closely monitoring the evolution of demand, as well as of the pandemic, adapting its network and operations accordingly.
- **The restructuring plan to be submitted to the European Commission until December 10, 2020, is currently in preparation**. This plan aims to ensure the sustainability and profitability of TAP AIR PORTUGAL, through an adequate planning of routes and fleet, the adaptation of TAP AIR PORTUGAL's product to the current reality and post COVID-19, and the increase of effectiveness and efficiency of central services and of Group TAP SA's units.

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

1.2. Sector Environment

According to the revised estimates from IATA (as of June 2020), the decrease in capacity (ASK) in Europe in 2020 should be 42.9%, above the decrease at a global level (-40.4%). In what concerns the estimated decrease in passenger traffic measured by RPK in 2020, this is of -56.4% in Europe and -54.7% globally. The steep decrease in capacity and traffic is common across all regions.

As of July 30, 2020, IATA estimated in its base scenario, that demand (measured in RPKs) would only recover to pre-pandemic levels (2019) in 2024.

	Passenger Capacity (ASK) %YoY					Passenger Traffic (RPK) %YoY				
	2018	2019	2020E	2019 vs 2018	2020E vs 2019	2018	2019	2020E	2019 vs 2018	2020E vs 2019
Global	**6.9%**	**3.4%**	**-40.4%**	**-3.5p.p.**	**-43.8p.p.**	**7.4%**	**4.2%**	**-54.7%**	**-3.2p.p.**	**-58.9p.p.**
Regions										
North America	4.9%	2.9%	-35.2%	-2.0p.p.	-38.1p.p.	5.3%	3.9%	-52.6%	-1.4p.p.	-56.5p.p.
Europe	6.5%	3.6%	-42.9%	-2.9p.p.	-46.5p.p.	7.5%	4.3%	-56.4%	-3.2p.p.	-60.7p.p.
Asia-Pacific	8.7%	4.5%	-39.2%	-4.2p.p.	-43.7p.p.	9.3%	4.8%	-53.8%	-4.5p.p.	-58.6p.p.
Middle East	5.8%	0.1%	-46.1%	-5.7p.p.	-46.2p.p.	5.0%	2.3%	-56.1%	-2.7p.p.	-58.4p.p.
Latin America	7.8%	3.0%	-43.3%	-4.8p.p.	-46.3p.p.	7.4%	4.1%	-57.4%	-3.3p.p.	-61.5p.p.
Africa	4.3%	4.2%	-50.4%	-0.1p.p.	-54.6p.p.	6.1%	4.5%	-58.5%	-1.6p.p.	-63.0p.p.

Source: IATA (June 2020)

IATA estimated for 2020 a value of USD 419 billion in global air transport revenues, which represents a 50% decrease YoY, with passenger revenues decreasing by 60.6% and cargo revenues by 8.2%, in comparison with 2019.

	System-wide Global Commercial Airlines Revenues (USD billion)				
	2018	2019E	2020E	2019 vs 2018	2019E vs 2020
Total Revenues	**812**	**838**	**419**	**3.2%**	**-50.0%**
Passenger Revenues	610	612	241	0.3%	-60.6%
Cargo Revenues	111	102	111	-8.0%	8.2%
Other Revenues	91	124	67	36.3%	-45.6%

Source: IATA (June 2020)

1.3. Operational and Economic-Financial Performance

Note: *As a result of the impacts of the COVID-19 pandemic in the operational activity of Transportes Aéreos Portugueses, S.A. ("TAP AIR PORTUGAL" or "Company"), the impairment tests of some of the non-current assets carried out in December 2019 should be reviewed. Due to the uncertainty on the evolution of the Company's activity in the long run, resulting from factors beyond its control, as well as the approval by the European Commission of a State Aid, through a loan, which requires the presentation of restructuring plan within 6 months (if the financing is not reimbursed within that period), a long term business plan still has not been approved by the Company, being its preparation currently ongoing.*

In this context, the unaudited financial statements of the first half of 2020, do not reflect potential impacts from the recoverability analysis of non-current assets, that would be carried out, would there be a long-term business plan.

Notwithstanding, the Company considers that given the approval by the European Commission of the State Aid by the Portuguese State and the formalization of that State Aid through the signing of a financing agreement, namely between TAP AIR PORTUGAL (as borrower) and the Republic of Portugal (as lender), on 17th July 2020, for the granting by the Portuguese State of an interest-bearing loan of up to EUR 946 million (to which an additional amount of EUR 254 million can be added, although the Portuguese State is not bound to make such additional amount available), it is possible to conclude for the preparation of the financial statements based on the principle of business continuity. See additional information on Note 1.1. of the Notes to the Financial Statements of June 30, 2020.

Operational Performance

TAP, S.A. Consolidated Main Operational Indicators	Jan-Feb 2020	Jan-Feb 2019	Change		1H20	1H19	Change	
			Abs.	%			Abs.	%
Passenger ('000)	2,376	2,096	280	+13.4%	3,001	7,900	-4,900	-62.0%
RPK (million)	6,124	5,185	939	+18.1%	7,863	19,119	-11,257	-58.9%
ASK (million)	8,197	7,125	1,071	+15.0%	10,957	23,986	-13,029	-54.3%
Load Factor	74.7%	72.8%	+1.9p.p.		71.8%	79.7%	-8.0p.p.	
Block Hours	62,649	57,512	5,137	+8.9%	84,137	191,102	-106,965	-56.0%
Number of Departures	20,528	19,632	896	+4.6%	27,096	64,870	-37,774	-58.2%
Average Stage Length (km)	1,981	1,904	77	+4.0%	2,035	1,917	118	+6.2%
Staff (end of period)[1)]	9,153	8,237	916	+11.1%	8,593	8,800	-207	-2.4%

1) Includes active staff and staff in simplified layoff.

In the first two months of 2020, the main operational indicators maintained the positive trend observed during 2H19, registering a significant increase in the number of passengers carried (+13.4% YoY), with demand expressed in RPKs increasing by 18.1% YoY. Capacity (measured in ASKs) increased 15.0% YoY, with an improvement in the load factor of 1.9 p.p. YoY.

However, the decrease in activity since March 2020, as a result of the COVID-19 pandemic, more than offset the good performance observed in the first two months of the year, severely impacting the performance of 1H20. The month of March was already significantly impacted by the containment measures adopted by domestic and international authorities which also resulted in a sharp decrease in demand and led TAP AIR PORTUGAL to reduce its operating capacity, translating into a progressive reduction of activity throughout the month and an almost temporary full suspension of activity in the following months. In the months from March to June 2020, the decrease in capacity (measured in ASKs) was -34%, -99%, -98% and -97% YoY, respectively.

Consequently, in the 1H20, the number of passengers carried decreased 62.0% YoY, with demand in terms of RPKs registering a decrease of 58.9% YoY. Capacity (measured in ASKs) decreased 54.3%, with a deterioration of the load factor in 8 p.p. YoY.

Economic-Financial Performance

The main financial indicators of TAP AIR PORTUGAL for 1H20 and the first two months of 2020 are presented below:

TAP, S.A. Consolidated Main Financial Indicators	Jan-Feb 2020	Jan-Feb 2019	Change		1H20	1H19	Change	
			Abs.	%			Abs.	%
Total Operating Income (million €)	466.6	390.8	75.8	+19.4%	646.1	1,448.9	-802.8	-55.4%
Passenger Income (million €)	410.9	340.1	70.8	+20.8%	545.4	1,275.1	-729.7	-57.2%
EBITDA (million €) [1)]	23.7	-30.7	54.4	n.m.	-128.8	127.6	-256.4	n.m.
EBITDA margin	*5.1%*	*-7.9%*	*+12.9p.p.*		*-19.9%*	*8.8%*	*-28.7p.p.*	
Operating Result (EBIT) (million €)	-62.6	-98.4	35.7	n.m.	-427.6	-85.0	-342.6	n.m.
EBIT margin	*-13.4%*	*-25.2%*	*+11.7p.p.*		*-66.2%*	*-5.9%*	*-60.3p.p.*	

EBITDA = Operating Result + Depreciation, amortization and impairment losses.

Regarding the main financial indicators, two different periods could also be clearly observed. In the first two months of 2020, there was an increase in total operating income of 19.4% YoY and of passenger revenues of 20.8% YoY, above the increase in capacity, as a result of the increase in average passenger revenue per ASK (PRASK) of 7.1% YoY.

EBITDA in the first two months of the year increased EUR 54.4 million YoY, corresponding to an EBITDA margin of 5.1%, which represented a YoY improvement of 12.9 p.p. in the margin, evidencing the positive path of growth and revenue increase that TAP AIR PORTUGAL had been following.

Also in this two month period Operating Result (EBIT) increased by EUR 35.7 million YoY, with EBIT margin increasing in 11.7 p.p. YoY to -13.4% (negative margin explained by the seasonality of the business, where the first two months of the year are traditionally those that present lower revenues and margins), with a decrease in operating unit costs per ASK (CASK) of 4.1% YoY.

However, since March 2020 the financial performance for 1H20 was severely impacted by the contraction of demand and reduction in activity as a result of the COVID-19 pandemic, registering a decrease in total operating income in 1H20 of 55.4% YoY and of passenger revenues of 57.2% YoY. EBITDA decreased EUR 256.4 million YoY in 1H20 to EUR -128.8 million and Operating Result (EBIT) EUR 342.6 million YoY to EUR -427.6 million.

Financial Statement

TAP, S.A. Consolidated EUR million	**1H20**	**1H19**	**Change**	
			Abs.	**%**
Operating Income	**646.1**	**1,448.9**	**-802.8**	**-55.4%**
Passenger	545.4	1,275.1	-729.7	-57.2%
Maintenance	38.5	92.5	-54.1	-58.4%
Cargo and mail	53.2	65.8	-12.6	-19.1%
Other operating income	9.0	15.4	-6.5	-41.9%
Operating Costs	**1,073.6**	**1,533.8**	**-460.2**	**-30.0%**
Aircraft fuel	163.0	360.3	-197.3	-54.8%
Traffic operating costs	217.9	374.3	-156.4	-41.8%
Employee costs	221.2	332.9	-111.7	-33.5%
Aircraft maintenance costs	15.0	28.4	-13.4	-47.2%
Cost of materials consumed	29.3	64.7	-35.3	-54.7%
Commercial, communication and marketing costs	49.0	84.1	-35.0	-41.7%
Impair. losses in inventories, receiv. and provisions	9.7	0.3	9.4	n.m.
Other operating expenses	65.1	71.6	-6.5	-9.0%
Restructuring	1.8	3.6	-1.9	-50.9%
Other non recurrent items	2.8	0.9	1.9	+201.4%
Depreciation, amortisation and impairment losses	298.8	212.6	86.2	+40.6%
EBIT (Operating Result)	**-427.6**	**-85.0**	**-342.6**	**n.m.**
EBIT margin	***-66.2%***	***-5.9%***	**-60.3p.p.**	
Interest and similar income	16.9	16.6	0.3	+1.9%
Interests and similar expenses	-119.2	-71.9	-47.3	+65.7%
Overhedge Costs - Covid Effect	-136.3	0.0	-136.3	n.m.
Net currency exchange	-58.0	-2.1	-55.9	n.m.
Earnings before taxes	**-724.1**	**-142.4**	**-581.7**	**n.m.**
Income tax	142.1	30.4	111.7	n.m.
Net income/ (loss)	**-582.0**	**-112.0**	**-470.0**	**n.m.**
EBITDA [1)]	**-128.8**	**127.6**	**-256.4**	**n.m.**
EBITDA margin	***-19.9%***	***+8.8%***	**-28.7p.p.**	

EBITDA = Operating Result + Depreciation, amortization and impairment losses.

During the 1H20 total operating income reached EUR 646.1 million, a YoY decrease of EUR 802.8 million (-55.4%), mainly due to the decrease in passenger income of EUR 729.7 million (-57.2%) and in the activity of maintenance to third parties which registered a YoY decrease of EUR 54.1 million (-58.4%).

Revenues from Cargo and mail activity did not experience such a sharp decrease as passenger revenues, as a result of flights exclusively of cargo transport, having registered a decrease of EUR 12.6 million YoY (-19.1%).

Total Operating Costs were EUR 1,073.6 million in the 1H20, a decrease of EUR -460.2 million YoY (-30%) compared to the same period last year, mainly explained by the significant reduction in variable costs, as a result of the Company's swift decision to adjust capacity. It should be highlighted the decrease in Aircraft fuel costs (EUR -197.3 million YoY), in Traffic operating costs (EUR -156.4 million YoY) and in Employee costs (EUR -111.7 million YoY), as a result of the reduction in activity since March 2020 and by the application of the measure of simplified *layoff*.

Aircraft Maintenance Costs decreased in EUR -13.4 million YoY in the 1H20, as a result of the grounding of a large part of TAP AIR PORTUGAL's fleet, mainly during the second quarter, and consequently of the reduction of the associated maintenance needs.

The decrease in the Cost of Materials Consumed in EUR -35.3 million YoY (-54.7%), results essentially of the decrease in the activity of maintenance to third parties, when compared to the first half of the previous year.

The decrease in Commercial, Communication and Marketing costs in EUR -35.0 million YoY (-41.7%), mainly results from the effect of reduction in the fees associated with the sale of tickets.

The increase in Depreciation, Amortization and Impairment costs in EUR 86.2 million YoY, is mostly due to the fleet renewal effort, primarily carried out throughout 2019.

The factors above mentioned, resulted in a decrease in EBITDA of EUR 256.4 million YoY in the first half to EUR -128.8 million, and in Operating Result (EBIT) of EUR 342.6 million YoY to EUR -427.6 million.

The increase in interest and similar expenses in EUR 47.3 million YoY in the first half (+65.7%), was mainly due to the increase in the interest component associated with operating leases (lease liabilities without purchase option), as a result of the strong investment in the renewal of the fleet in the last years.

First half net income was negative in EUR 582.0 million, impacted by events related to the COVID-19 pandemic, namely the recognition of jet fuel overhedging of EUR 136.3 million, with net income being also impacted by negative net currency exchange differences of EUR 58.0 million. Excluding these two effects, 1H20 net income would have been negative in EUR 429.1 million. In 1H19 net income was negative in EUR 112.0 million.

Financial Position

TAP, S.A. Consolidated EUR million	30-Jun-20	31-Dec-19	Change	
			Abs.	%
Total Assets	**5,014.5**	**5,152.8**	**-138.3**	**-2.7%**
Non-current Assets	3,641.2	3,298.0	343.3	10.4%
Current Assets	1,373.3	1,854.8	-481.5	-26.0%
Equity	**-564.2**	**134.5**	**-698.7**	**n.m.**
Total Liabilities	**5,578.7**	**5,018.3**	**560.5**	**11.2%**
Non-current Liabilities	3,360.0	3,282.9	77.1	2.3%
Current Liabilities	2,218.7	1,735.3	483.4	27.9%

The negative change in Equity during 1H20 (EUR -698.7 million) is essentially explained by the negative net income during the period (EUR -582.0 million) and by the change in hedge reserves of EUR -107.9 million, resulting from the negative change observed in the market value of jet fuel hedging derivatives.

Financing and Lease Liabilities

TAP, S.A. Consolidated EUR million	30-Jun-20	31-Dec-19	Change	
			Abs.	%
Financial Debt	**1,424.2**	**1,358.3**	**65.9**	**+4.9%**
Bank Loans & Bonds	937.0	1,083.4	-146.4	-13.5%
Lease liabilities with purchase option	487.2	274.9	212.3	+77.2%
Cash and cash equivalents	**136.9**	**426.3**	**-289.4**	**-67.9%**
Net Financial Debt	**1,287.3**	**932.0**	**355.3**	**+38.1%**
Lease liabilities without purchase option	**2,320.0**	**2,278.7**	**41.4**	**+1.8%**

Gross Financial Debt (which excludes lease liabilities without purchase option) increased in EUR 65.9 million during 1H20, due to the increase in lease liabilities with purchase option, as a result of the financing of new aircraft that entered the fleet in 2020 with recourse to this source of financing.

It should be highlighted the decrease in debt associated with bank loans and bonds in EUR 146.4 million during the 1H20, mainly explained by the amortization made in February 2020 in the amount of EUR 158.6 million, in relation to a financing from a syndicate of Portuguese Banks (with extension of the maturity for the remaining amount of that financing).

The average maturity of TAP AIR PORTUGAL's financial debt (which excludes lease liabilities without purchase option) at the end of 1H20, was 4.0 years.

The cash and equivalents position as of 30 June 2020 was EUR 136.9 million. In addition to cash and equivalents on the Balance Sheet, TAP AIR PORTUGAL held as of the same date, available credit card receivables from Brazil in the amount of EUR 45.7 million (considering the EUR-BRL exchange rate on that date). It should be highlighted that the preservation of liquidity resulted from the swift adoption of the cash management initiatives identified above.

The Debt and liquidity position at the end of 1H20 still does not reflect the interest-bearing loan of up to EUR 946 million granted to TAP AIR PORTUGAL (to which can be added an additional amount of EUR 254 million, although the Portuguese State is not bound to make such additional amount available), since the first tranche of this loan in the amount of EUR 250 million was only received in 17 July 2020.

The long-term issuer credit rating of TAP AIR PORTUGAL currently assigned by S&P Global Ratings Europe Limited ("S&P") is B- (CreditWatch negative) and the Corporate Family ratings assigned by Moody's Investors Service ("Moody's") is Caa2 (negative outlook).

1.4. Fleet

Following the reduction in activity as a result of the sanitary crisis of COVID-19, and within the context of the preparation of the restructuring plan, the short and medium-term fleet plan is currently under revision, already encompassing the renegotiations that have been closed with Airbus and some Lessors.

The agreement already reached with Airbus changes the acquisition agreements of the A320neo and A330neo aircraft family, reducing CAPEX in the years 2020-2022 in approximately USD 1 billion, in order to attain a better alignment with the current market momentum and the outlook for the next 18-24 months.

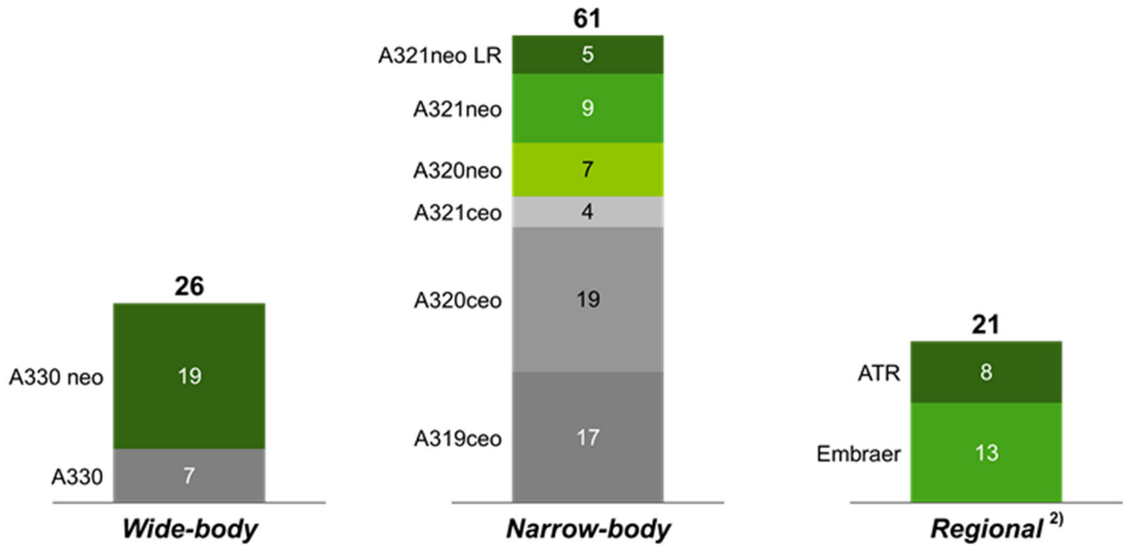
In relation to the agreement for acquisition of the A320neo family aircraft, there was a decrease in the number of aircraft to be delivered in 2020, postponing some of the deliveries to 2021. Additionally, the agreement allowed to postpone most deliveries originally planned for 2021 and 2022 for the period between 2025 and 2027. In what concerns the agreement for the acquisition of A330neo aircraft, the 2 aircraft originally planned for delivery in 2022 were postponed to 2024, with the possibility of TAP AIR PORTUGAL exchanging these aircraft by other models, to be evaluated in light of the market rebound and TAP AIR PORTUGAL's needs at such time.

Due to the slowdown of operating and commercial activity, discussions with Lessors were also initiated to renegotiate some contractual conditions pertaining to aircraft lease agreements of the fleet. These negotiations have been focusing mostly on the deferral of rent payments and maintenance reserves that would be due during 2020, as well as on the amount of future rents. The negotiations are progressing well, with approximately 60% of the fleet under operating lease agreements, already having the renegotiation concluded or with discussions finalized and in the phase of formalization of the respective documentation, as of the end of August. No impact of these renegotiations has been recognized yet on the balance sheet as of June 30, 2020.

During the 1H20, 3 new generation Airbus aircraft entered TAP AIR PORTUGAL's fleet (2 A330neo and 1 A321neo), with 1 additional A321neo LR in phase-in at the end of the first half of 2020. During this period, 6 aircraft left operation (3 A319, 1 A320, 1 A321 and 1 E190), with 5 of these aircraft still in phase-out process at the end of the first half of 2020. Therefore, at the end 1H20 TAP AIR PORTUGAL's total fleet was composed of 108 aircraft, of which 102 aircraft were available for commercial operation.

This way, during the 1H20, the modernization of TAP AIR PORTUGAL's fleet continued, increasing its efficiency in terms of fuel consumption and CO2 emissions. The percentage of block hours operated by NEO aircraft during the first half already reached 46%, with NEOs representing 36% of the average operating fleet during this period.

Composition of TAP AIR PORTUGAL's total fleet[1)] as of 30 June 2020



1) Total fleet differs from fleet operating commercially, as it includes aircraft in phase-in and phase-out process.

2) White and Portugália's fleet, operated under wet-lease agreements

In the 2H20, only 4 new aircraft out of those originally planned for 2020 are expected to enter into commercial operation (2 A321neo LR, 1 A320neo and 1 A321neo), being 1 of these A321neo LR already part of TAP AIR PORTUGAL's total fleet as of June 30, 2020, but still in *phase-in* process. In relation to the exit of aircraft from the fleet, the possible sale of 6 to 8 aircraft (6 A319 and 2 A320) is ongoing, being also under study the early return of aircraft under operating lease and the potential sale of aircraft under financial lease.

The future evolution of TAP AIR PORTUGAL's fleet will naturally be one of the structuring themes of the Restructuring Plan currently being prepared.

2. OUTLOOK FOR THE SECOND HALF OF 2020

The high uncertainty that subsists as to the duration of the Covid-19 pandemic and its long run impact in the civil aviation sector and in the economy as a whole, jeopardizes any accurate and reliable estimate of future effects of the pandemic in the Company's activity and results. The last months have been marked by an environment of uncertainty, which makes the preparation of projections and definition of actions, complex and subject to a lower degree of reliability.

Nevertheless, the effects of the pandemics should continue to be significant over the next quarters, and may be aggravated in the case of new significant outbreaks of the virus and the implementation of new restrictions to mobility (until a vaccine or an effective treatment is available) or simply by the incapacity of economies to recover significantly and rapidly from the adverse economic conditions caused by the pandemic until the moment, namely in terms of employment, available income and consumer confidence.

In terms of capacity (measured in ASKs), during the months of July and August 2020, TAP AIR PORTUGAL operated at 12% and 24%, respectively, of the 2019 capacity observed in these months, showing significant increases in operation when compared to the almost full suspension of activity observed in the previous months.

TAP AIR PORTUGAL has seeked to reestablish the maximum number of routes possible, although with reduced frequencies compared to the pre-pandemic period.

The routes and number of flights planned may always be adjusted when the circumstances so demand, due to the evolution of the requirements and restrictions of the several countries and Clients' demand evolution.

TAP AIR PORTUGAL's priority is currently to guarantee the ramp-up of operations in a safe and sustainable way, as well as the preparation of the restructuring plan to be submitted to the European Commission until December 10, 2020.

3. SUBSEQUENT EVENTS

Financing agreement with the Portuguese State and agreements with impacts on the shareholding structure of TAP Group

On June 10, 2020, the European Commission announced its decision to approve the granting of a State aid, by means of a loan, in favour of TAP AIR PORTUGAL's sole shareholder, TAP – Transportes Aéreos Portugueses, SGPS S.A. ("TAP SGPS"), in the amount of up to EUR 1.2 billion.

On July 2, 2020, by means of a joint press conference conducted by the Minister of State and Finance, the Minister for Infrastructure and Housing and the Secretary of State of the Treasury, announced that the Portuguese State reached an agreement in principle with TAP SGPS private shareholders which entailed a change to the indirect shareholding structure of TAP AIR PORTUGAL.

Following the above described announcements, the representatives of the Portuguese State, of TAP SGPS private shareholders (both direct and indirect) and of Group TAP SA, negotiated a set of contractual arrangements with a view to, in short:

(i) The granting of an interest-bearing loan of up to 946 million euros by the Portuguese State in favour of TAP Group (to which can be added an additional amount of 254 million euros, although the Portuguese State is not bound to make such additional amount available), as approved by the European Commission;

(ii) The acquisition by the Portuguese State, through the Directorate General of Treasury and Finance, of shareholdings, economic rights and part of the supplementary capital contributions held by the current shareholder of TAP SGPS, Atlantic Gateway SGPS, Lda., so that the Portuguese State becomes the holder of a total shareholding of 72.5% along with the economic rights pertaining thereto in TAP SGPS, by the amount of 55 million euros;

(iii) The conclusion of a memorandum of understanding under which Azul, S.A. (indirect shareholder of TAP SGPS) agreed to waive its conversion right as holder of convertible bonds issued by TAP SGPS with a nominal value of 90 million euros; and

(iv) The transfer to HPGB, SGPS, S.A. of shareholdings representing 22.5% of the share capital and voting rights of TAP SGPS, and the supplementary capital contributions in TAP SGPS, held by Atlantic Gateway Lda, whereby Atlantic Gateway, SGPS, Lda. ceases to be a shareholder of TAP SGPS.

In order to guarantee the fulfilment of the obligations for Group TAP arising from the loan granted by the Portuguese State, a financial pledge was granted over all shares representative of TAP AIR PORTUGAL and Portugália – Companhia Portuguesa de Transportes Aéreos, S.A. share capital in favour of the Portuguese State, which in case of execution will impact at the level of TAP AIR PORTUGAL shareholder structure. Additionally, the Portuguese State may use the shares it eventually comes to hold over TAP AIR PORTUGAL as a result of the credit conversion under the remunerated loan or the execution of the abovementioned pledge, to perform a share capital increase in kind at the level of TAP SGPS. To that effect, the Extraordinary General Assembly of TAP SGPS that took place on 3rd September 2020 has approved a resolution on the conditional capital increase of TAP SGPS in kind from EUR 15 million to up to EUR 1,200 million, made though one or more contributions in kind from the Portuguese Republic or an entity indicated by the Republic in the terms and for the effects of Article 87 of the Portuguese Companies Code.

On July 16, 2020 and following the respective approval at the level of TAP SGPS board of directors, a final agreement was reached among all parties involved within this negotiating process and by reference to the abovementioned key conditions, being met all required conditions to execute the contractual documents deemed necessary.

The completion of the operations described above is still subject to the fulfilment of a number of conditions precedent, including the applicable regulatory and internal approvals, which are expected to occur in the short term.

The first tranche of the interest-bearing loan by the Portuguese State above mentioned in the amount of EUR 250 million was received on 17th July 2020, the second tranche in the amount of EUR 224 million on 30th July 2020 and the third tranche of EUR 25 million on 31st August 2020.

Adoption of support measures for progressive recovery aimed at protecting and maintaining jobs

Considering the developments on the restrictions to citizens' mobility, as defined from time to time by the government authorities of the countries where TAP AIR PORTUGAL carries out its activity, and on the demand curve, a progressive and slow recovery of the activity is expected to occur, which may be adjusted when circumstances require. Hence, the assumptions which were the basis for the adherence to the package made available by the Portuguese Government to support the country and companies, as per Decree-Law no. 10-G/2020, of March 26, as amended ("Simplified Layoff Scheme") persisted.

As disclosed to the market and the general public on 29th July 2020, TAP AIR PORTUGAL's Board of Directors has decided that such assumptions should now be integrated within the new instrument that replaces the Simplified Layoff Scheme, referred to as extraordinary support for progressive recovery ("*apoio extraordinário à retoma progressiva*"), which is governed within the framework of the Economic and Social Stability Programme ("*Programa de Estabilização Económica e Social*"), approved by the Resolution of the Council of Ministers no. 41/2020, of June 6, namely in respect to the support measures for progressive recovery provided for in section 2.2.1 thereto ("Extraordinary Support for Progressive Recovery"), starting on August 1, 2020 and in force at TAP AIR PORTUGAL until at least September 30, 2020. These measures can be further extended for additional periods of 1 month until the end of 2020 (in case this mechanism continues to be applicable to TAP AIR PORTUGAL and TAP AIR PORTUGAL's Board of Directors takes that decision).

The Extraordinary Support for Progressive Recovery, only provides for a mechanism for reducing working hours for all workers, not allowing for work suspension, having TAP AIR PORTUGAL's Board of Directors decided that, for TAP AIR PORTUGAL's workers, the applicable reduction of normal work period will vary between 70% and 20%.

Rejection of the protective judicial proceeding by decision of the Supreme Administrative Court

As disclosed to the market and the general public on June 26, 2020, TAP AIR PORTUGAL and TAP SGPS were formally summoned by the Supreme Administrative Court (*Supremo Tribunal*

Administrativo), in the capacity of Interested Parties, in connection with Protective Judicial Proceeding nr. 55/20.1BALSB to inhibit the administrative act by which the Portuguese State intends to grant, or authorizes the grating, directly or through Parpública - Participações Públicas (SGPS), S.A., of the financial support to TAP SGPS or directly to its subsidiary TAP AIR PORTUGAL. Within the scope of the mentioned judicial proceeding. The Claimants were Oporto Trade Association (*Associação Comercial do Porto – Câmara de Comércio e Indústria do Porto*) and Mr. Nuno Luís Cameira de Sousa Botelho, while the Defendant was the Council of Ministers (*Conselho de Ministros*).

On July 29, 2020, the protective measure included in the above mentioned judicial proceeding requests was rejected by a decision of the Supreme Administrative Court ("Court"). In summary, the Court has considered that either a decision confirming the request on the non-execution of the granting or utilisation of the loan to TAP AIR PORTUGAL or, in case such act were to be executed, a decision confirming the opposition to such act were not likely to be taken.

General Ordinary Bondholders' Meeting "Obrigações TAP 2019-2023"

The General Ordinary Bondholders' Meeting, by reference to the bond issuance "OBRIGAÇÕES TAP 2019-2023", with ISIN PTTAPBOM0007 which took place on September 14, 2020, approved the proposal submitted by TAP AIR PORTUGAL's Board of Directors to resolve on the occasional waiver of the right to maintain the sole shareholder structure between TAP – Transportes Aéreos Portugueses, SGPS, S.A. and Transportes Aéreos Portugueses, S.A., as a result of the potential holding, directly through the Portuguese State, of shares representing Transportes Aéreos Portugueses, S.A.'s share capital.

Modification of the composition of the Board of Directors of TAP AIR PORTUGAL

Following the notice of resignation submitted by the member of TAP AIR PORTUGAL's Board of Directors, Mr. Antonoaldo Grangeon Trancoso Neves, and the acceptance, by the National Civil Aviation Authority (*Autoridade Nacional da Aviação Civil*) ("ANAC"), of the replacement of Mr. Antonoaldo Grangeon Trancoso Neves in the role of accountable manager (in accordance with Regulation no. 831/2010, of 8 November), TAP SGPS, in its capacity as TAP AIR PORTUGAL's sole shareholder, appointed on September 16, 2020, Mr. Ramiro José Oliveira Sequeira as member of the Board of Directors of TAP AIR PORTUGAL, for the remainder of the current term of office (three-year period 2018-2020), with effect from September 17, 2020. As of the same date, Mr. Ramiro José Oliveira Sequeira will also assume the role of President of TAP AIR PORTUGAL's Executive Committee and TAP AIR PORTUGAL's accountable manager.

The mentioned notice of resignation submitted by Mr. Antonoaldo Grangeon Trancoso Neves took effect on September 16, 2020.

Mr. Antonoaldo Grangeon Trancoso Neves also submitted notice of his resignation from all other positions held in the governance structure of each of the remaining companies comprising TAP Group, including TAP SGPS, being Mr. Antonoaldo Grangeon Trancoso Neves therefore replaced by Mr. Ramiro José Oliveira Sequeira, with effect from September 17, 2020.

Restructuring Plan to be submitted for the approval of the European Commission

TAP SGPS is currently preparing the restructuring plan ("Plan") to be submitted until December 10, 2020 to the European Commission. The Plan's main focus will be on ensuring the sustainability and profitability of TAP AIR PORTUGAL, through an adequate planning of routes and fleet, the adaptation of TAP's product to the current reality and post COVID-19, and in the increase of effectiveness and efficiency of central services and of Group TAP SA's units.

In the context of the preparation of the Plan which involves the key areas of the Company, a steering committee was created, led by the Chairman of the Board of Directors of TAP SGPS, Mr. Miguel Frasquilho, and a strategy consulting firm was hired (Boston Consulting Group) to assist in the preparation of the Plan.

4. RISK MANAGEMENT

TAP AIR PORTUGAL uses the methodology aligned with that proposed by COSO (Committee of Sponsoring Organization of Treadway Commission) with the goal of identifying, evaluating and monitoring the relevant indicators to management, of the main risks of the organization.

Once risks are identified, managing those risks involves:

- Acceptance - if the level of risk monitored is within the range of variation in accordance with that established by the organization;
- Sharing/ Transferring - through the arrangement of insurance contracts or outsourcing of functions;
- Mitigation - through procedures that allow minimizing the impact, as well as controlling the process at the level of risk considered acceptable for the organization;
- Refusal - no-go of the process or action, whenever the level of risk is not appropriate to the intended operation and to the risk profile of the organization.

The main risks applicable to TAP AIR PORTUGAL are identified in the Management Report of 2019.

The main internal risks identified were those related to: i) operational risk; ii) human resources; iii) data protection; iv) security; v) technical factors and vi) facilities.

The main external risks were those related to: i) legal framework, ii) cyber-attacks/ cybersecurity, iii) economic environment; iv) sector evolution, v) suppliers and vi) partnerships.

TAP AIR PORTUGAL also faces several financial risks, including jet fuel price and CO2 licenses' risk, foreign exchange rate fluctuations, interest rate risk, liquidity risk, credit risk and capital management.

It should also be highlighted, outbreaks or potential outbreaks of diseases, such as the recent COVID-19 pandemic, which had an extremely adverse effect on aviation globally. Outbreaks of disease could also result in staff quarantines or an inability to access facilities or TAP AIR PORTUGAL's aircraft, which could have a negative effect in TAP AIR PORTUGAL's reputation and financial position.

Additionally, in the current context, after the almost full suspension of operational activity as a consequence of the COVID-19 pandemic, the risks to the recovery of TAP AIR PORTUGAL's activity should be highlighted, which is dependent, among others, on the following factors:

1. Opening of borders or lifting of other restrictive measures in relation to the Portuguese territory;
2. Opening of borders or lifting of other restrictive measures in relation to countries where TAP AIR PORTUGAL flies to;
3. Evolution of demand and TAP AIR PORTUGAL's capacity to identify the main demand trends;
4. Evolution of the world economy, namely the capacity to recover from the economic crisis and recovery of purchase power and consumer confidence in the markets where TAP AIR PORTUGAL operates;
5. Evolution of TAP AIR PORTUGAL's main cost factors, including the price of *jet fuel*;
6. Evolution of the pandemic and sanitary conditions associated with COVID-19.

It should also be mentioned, the risks associated with the presentation and approval to the European Commission of a restructuring plan that guarantees the long term viability of TAP AIR PORTUGAL, not being at this moment defined the operational and financial measures that may be required by the European Commission for the approval of the mentioned plan, following the approval of a State Aid to TAP AIR PORTUGAL.

Lastly, also in what concerns the financing agreement between TAP AIR PORTUGAL (as borrower) and the Portuguese Republic (as lender), celebrated on 17th July 2020, for granting of an interest-bearing loan of up to 946 million euros by the Portuguese State (to which an additional amount of 254 million euros can be added, although the Portuguese State is not bound to make such additional amount available), there are precedent conditions for making available the financing tranches. The verification of some of these conditions does not depend exclusively of TAP AIR PORTUGAL. If some of these conditions were eventually not met, this could result in the financing granted to TAP AIR PORTUGAL not being made available in full, negatively impacting its liquidity position for the next six months.

The main risks identified above, are those identified as the most relevant for the second half of 2020.

APPENDIX

I - GOVERNING BODIES

Three-year period 2018-2020

The members of the governing bodies of TAP AIR PORTUGAL were elected by unanimous written resolution of 31st January 2018, of the sole shareholder TAP-Transportes Aéreos Portugueses, SGPS, S.A. As of June 30, 2020, the respective composition was the following:

General Meeting Committee

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

Board of Directors

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

Executive Committee

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

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

(*) As described in the "Subsequent Events" section, Antonoaldo Grangeon Trancoso Neves submitted the resignation in relation to his position as Member of the Board of Directors and Chairman of the Executive Committee of TAP AIR PORTUGAL, which took effect on September 16, 2020. Following the mentioned resignation, TAP – Transportes Aéreos Portugueses, SGPS, S.A., in its capacity of TAP AIR PORTUGAL's sole shareholder, appointed on September 16, 2020, Ramiro José Oliveira Sequeira as member of the Board of Directors of TAP AIR PORTUGAL, for the remainder of the current term of office (three-year period 2018-2020), with effect from September 17, 2020, assuming also the role of Chairman of TAP AIR PORTUGAL's Executive Committee.

Company Secretary

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

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

Supervisory Board

Transportes Aéreos Portugueses, S.A.

Mandate (Start - End)	Position	Name	Appointment Doc.	Mandates held in the Company: Number	Mandates held in the Company: Date of 1st appointment to the SB
2018-2020	Supervisory Board	Baker Tilly, PG & Associados, SROC, S.A, represented by Paulo Jorge Duarte Gil Galvão André. (**)	Unanimous written resolution	2	13.nov.15
		Susana Nereu de Oliveira Ribeiro	Unanimous written resolution	1	5.mar.2020
		Maria Susana da Mota Furtado e Almeida Rodrigues	Unanimous written resolution	2	13.nov.2015
	Deputy	João Miguel Guerreiro Aranha	Unanimous written resolution	1	31.jan.2018

(**) Sérgio Sambade Nunes Rodrigues has resigned to its office on January 29, 2020. On March 5, 2020, Baker Tilly, PG & Associados, SROC, S.A., represented by Paulo Jorge Duarte Gil Galvão André, has been elected for the office of chairman of TAP AIR PORTUGAL's Supervisory Board, whereas Susana Nereu de Oliveira Ribeiro has been elected for the office of Member of TAP AIR PORTUGAL's Supervisory Board, both for the remainder of the ongoing term office 2018/2020.

Certified Public Accountant

Permanent António Joaquim Brochado Correia or Hugo Miguel Patrício Dias, on behalf of Pricewaterhousecoopers & Associados, SROC, Lda. (***)

Deputy Carlos Figueiredo Rodrigues (***)

(***) Both appointed on 17th December 2019, through unanimous written resolution of the sole shareholder TAP-Transportes Aéreos Portugueses, SGPS, S.A.

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

1. Qualified shareholdings in the Company as of June 30, 2020*

Shareholders with Qualified Holdings	Capital/Voting Rights (%)	Number of Shares
TAP – Transportes Aéreos Portugueses, SGPS S.A.		
▪ Directly	100%	8,300,000
Which in turn has as shareholders with qualified holdings:		
▪ Parpública – Participações Públicas (SGPS), S.A. (Portuguese State, through the Directorate-General of Treasury and Finance, holds 100% of the share capital)	50%	750,000
▪ Others[1]	5%	75,000
▪ Atlantic Gateway, SGPS, Lda.	45%	675,000
Which in turn has as shareholders with qualified holdings:		
▪ HPGB, SGPS, S.A. (Humberto Manuel dos Santos Pedrosa holds 96.86% of the share capital)	50%	
▪ DGN Corporation (David Gary Neeleman holds 100% of the share capital)	40%	
▪ GLOBAL AZULAIR PROJECTS, SGPS, S.A. (Global Airline Ventures LLC holds 54.55% of the share capital; Azul Linhas Aéreas Brasileiras S.A. holds 45.45% of the share capital)	10%	

** Notwithstanding what is mentioned above in the "Subsequent Events" section (Financing agreement with the Portuguese State and agreements with impacts on the shareholding structure of TAP Group) in relation to changes with impacts on the shareholding structure of TAP SGPS and TAP AIR PORTUGAL, and which are expected to occur in the short term, in the terms described in that section, which are not yet duly registered at the present date.*

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

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

In accordance and for the purposes of article 447 of the Portuguese Companies Code, we inform that Mr. Antonoaldo Grangeon Trancoso Neves, Chairman of the Executive Committee and Member of the Board of Directors of TAP AIR PORTUGAL as of 30th June 2020, acquired on 24th June 2019, a total of 20 (twenty) bonds, in an aggregate amount corresponding to €20,000 (twenty thousand euros), in the public subscription offer of bonds issued by TAP AIR PORTUGAL ("Obrigações TAP 2019-2023"), maintaining this position as of 30th June 2020.

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

In accordance and for the purposes of article 246, number 1 c) of the Portuguese Securities Code, the members of the Board of Directors of Transportes Aéreos Portugueses, S.A. identified below declare that, to the best of their knowledge, the consolidated financial statements for the first half of 2020 have been prepared in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, financial position and results of the Company and the companies included in the consolidation perimeter, and that the interim management report faithfully describes the important events that occurred in such period and the impact on the respective financial statements, as well as a description of the main risks and uncertainties for the following six months.

Lisbon, 28th September 2020

BOARD OF DIRECTORS

____

Humberto Manuel dos Santos Pedrosa
Chairman of the Board of Directors

____

David Gary Neeleman
Member of the Board of Directors

____

Ramiro José Oliveira Sequeira
Member of the Board of Directors and Chairman of the Executive Committee

____

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

____

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

III - GLOSSARY

Adjusted for stage length: CASK, PRASK or Yield as adjusted for stage length is used to allow for comparisons across companies with different network profiles. For this purpose, CASK, PRASK or Yield are normalized for average stage length (flight distance) by multiplying by the square root of the division of the average stage length by the normalization value of 2,000 km.

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.

CASK: Operating cost per available seat kilometer (ASK), adjusted for stage length.

EBITDA: Operating Result + Depreciation, amortization and impairment losses.

IATA: International Air Transport Association.

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

PRASK: Passenger income divided by total number of Available seat kilometer (ASK), adjusted for stage length.

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

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.

YoY: Year over year.

IV – RESULTS CONFERENCE CALL

The conference call on First Half 2020 Results will take place on 29th September 2020, at 14:00 (Portugal/UK time). To attend the conference call, please register in advance through the following link:

www.incommuk.com/clients/tap1h20earningscall

V – CONSOLIDATED FINANCIAL STATEMENTS

TRANSPORTES AÉREOS PORTUGUESES, S.A.

CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED
30 JUNE 2020

INDEX

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amount stated in euros	Note	Jun 2020	Dec 2019
Assets			
Non-current assets			
Tangible fixed assets	3	3,182,083,380	3,026,328,568
Investment Properties	4	2,148,564	2,148,564
Intagible assets	5	25,934,229	25,376,777
Investments in associates		172,310	172,310
Other financial assets	6	488,740	481,040
Other non current assests	11	14,045,155	16,207,546
Deferred tax assets	7	305,116,483	110,977,269
Other receivables	8	111,229,304	116,269,240
		3,641,218,165	**3,297,961,314**
Current Assets			
Inventories	9	85,618,597	100,329,977
Other receivables	8	1,119,649,073	1,288,115,891
Income tax receivable	10	770,058	539,123
Other financial assets	6	4,896,036	4,880,346
Other current assests	11	25,485,547	34,683,915
Cash and cash equivalents	12	136,892,967	426,290,329
		1,373,312,278	**1,854,839,581**
Total Assets		**5,014,530,443**	**5,152,800,895**
EQUITY AND LIABILITIES			
Equity			
Share Capital	13	41,500,000	41,500,000
Supplementary capital contributions	14	154,353,400	154,353,400
Legal reserves	14	8,300,000	8,300,000
Hedge reserves	14	(91,473,443)	16,417,199
Other reserves	14	(200,588)	(200,588)
Retained earnings	14	(94,719,919)	9,804,345
Net income/(loss) for the year		(581,968,314)	(95,637,433)
Total equity of the Group		**(564,208,864)**	**134,536,923**
Non-controlling interests	14	-	-
Total equity		**(564,208,864)**	**134,536,923**
Non-current liabilities			
Deferred tax liabilities	7	78,019,456	59,837,627
Post-employment benefits obligations	15	104,437,061	96,356,353
Provisions	16	149,772,954	77,784,854
Borrowings	17	804,008,523	957,948,155
Lease liabilities with purchase option	17	439,818,052	239,007,723
Lease liabilities without purchase option	17	1,783,983,480	1,851,992,700
Other payables	18	-	-
		3,360,039,526	**3,282,927,412**
Current Liabilities			
Borrowings	17	132,991,115	125,454,332
Lease liabilities with purchase option	17	47,391,148	35,885,034
Lease liabilities without purchase option	17	536,061,292	426,685,786
Other payables	18	734,880,741	571,718,616
Income tax payable	10	17,430	17,430
Other current liabilities	19	97,950,757	94,812,885
Liabilities from unused flight documents	20	669,407,298	480,762,477
		2,218,699,781	**1,735,336,560**
Total liabilities		**5,578,739,307**	**5,018,263,972**
Total equity and liabilities		**5,014,530,443**	**5,152,800,895**

The accompanying notes from an integral part of the consolidated statement of financial position as at June 30, 2020.

CONSOLIDATED INCOME STATEMENT

Amounts stated in euros	Notes	Jun 2020	Jun 2019
Operating Income			
Revenue			
Passenger	22	545,443,436	1,275,122,771
Maintenance	22	38,467,302	92,523,080
Cargo and mail	22	53,224,795	65,789,589
Other operating income	22 and 23	8,956,773	15,420,002
		646,092,306	**1,448,855,442**
Operating costs			
Aircraft fuel	24	(162,959,351)	(360,281,462)
Traffic operating costs	24	(217,894,683)	(374,325,170)
Aircraft maintenance costs	24	(15,008,100)	(28,445,783)
Cost of materials consumed	24	(29,319,190)	(64,658,855)
Comercial, communication and marketing costs	24	(49,048,033)	(84,092,237)
Employee costs	25	(221,247,767)	(332,945,317)
Impairment losses in inventories, receivables and provisions	26	(9,700,833)	(330,505)
Other operating expenses	27	(65,122,234)	(71,602,086)
Restructuring	28	(1,783,836)	(3,635,472)
Other non recurrent items	29	(2,770,484)	(919,197)
Depreciation, amortisation and impairment losses	30	(298,787,956)	(212,582,968)
Operating income/(loss)		**(427,550,161)**	**(84,963,610)**
Interests and similar income	31	16,926,908	16,613,565
Interests and similar expenses	31	(119,188,768)	(71,921,097)
Overhedge cost	21 and 31	(136,288,148)	-
Net currency exchange	31	(57,968,435)	(2,087,137)
Net income/(loss) before income tax		**(724,068,604)**	**(142,358,279)**
Income tax for the year	32	142,100,290	30,376,485
Net income/(loss) for the year		**(581,968,314)**	**(111,981,794)**
Net income/(loss) attributable to owners of TAP SA		**(581,968,314)**	**(111,981,794)**
Net income/(loss) attributable to non-controlling interests		**-**	**-**
Results per share			
Basic and diluted earnings per share	33	(70.1)	(13.5)

The accompanying notes form an integral part of the consolidated income statement as at June 30, 2020.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts stated in euros	Notes	Jun 2020	Jun 2019
Net income/(loss) for the year		**(581,968,314)**	**(111,981,794)**
Items that may be reclassified to income statement:			
Gains and losses in derivate financial instruments - cash flow hedge	21	(139,755,882)	51,127,221
Deferred tax on derivative financial instruments - cash flow hedge	7	31,865,240	(15,082,530)
Items that will not be reclassified to income statement:			
Remeasurements of defined benefit plans	15	(10,798,587)	(17,824,911)
Deferred tax on remeasurements	7	1,911,756	5,258,349
Other comprehensive income/(loss) net of tax		**(116,777,473)**	**23,478,129**
Comprehensive income/(loss) for the year		**(698,745,787)**	**(88,503,665)**
Attributable to:			
Owners of TAP SA		(698,745,787)	(88,503,665)
Non-controlling interests		-	-
		(698,745,787)	**(88,503,665)**

The accompanying notes form an integral part of the consolidated statement of comprehensive income as at June 30, 2020.

CONSOLIDATED STATMENT 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*	7 and 15	-	-	-	-	-	(11,116,616)	-	(11,116,616)
Fair value of derivative financial instruments*	7 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*	7 and 15	-	-	-	-	-	(8,886,831)	-	(8,886,831)
Fair value of derivative financial instruments*	7 and 21	-	-	-	(107,890,642)	-	-	-	(107,890,642)
Net income/(loss) for the year		-	-	-	-	-	-	(581,968,314)	(581,968,314)
Equity as at June 30, 2020		**41,500,000**	**154,353,400**	**8,300,000**	**(91,473,443)**	**(200,588)**	**(94,719,919)**	**(581,968,314)**	**(564,208,864)**

*Amounts net of deferred taxes, when applicable

The accompanying notes form an integral part of the consolidated statement of changes in equity as June 30, 2020.

CONSOLIDATED STATMENT OF CASH FLOWS

	Notes	Jun 2020	Jun 2019
Operating activities:			
Receipts from customers		940,452,198	1,728,640,947
Payments to suppliers		(623,856,784)	(1,192,366,803)
Payments to employees		(227,247,651)	(312,648,129)
Payments of low value and short-term leases		(3,535,183)	(4,260,336)
Cash generated from operations		**85,812,580**	**219,365,679**
Income tax (payment)/receipt		(310,566)	574,281
Other receipts/payments relating to operating activities		4,745,440	49,408,312
Cash flow from operating activities (1)		**90,247,454**	**269,348,272**
Receipts from:			
Financial investments			
Other financial assets	6	10,070,217	-
Tangible fixed assets		-	18,139,709
Investment grants		459,301	-
Loans granted		316,750,000	318,790,000
Interests and similar income		14,376,706	14,431,134
		341,656,224	**351,360,843**
Payments relating to:			
Financial investments	6	(26,713,948)	(6,583,661)
Tangible fixed assets		(18,196,384)	(90,347,196)
Intangible assets		(1,861,088)	(2,955,544)
Loans granted		(343,520,000)	(325,190,000)
		(390,291,420)	**(425,076,401)**
Cash flow from investment activities (2)		**(48,635,196)**	**(73,715,558)**
Financing activities:			
Receipts from:			
Borrowings	17	41,323,053	327,045,778
		41,323,053	**327,045,778**
Payments relating to:			
Borrowings	17	(172,077,336)	(76,176,264)
Lease liabilities with purchase option	17	(17,933,144)	(19,067,333)
Lease liabilities without purchase option	17	(77,652,337)	(185,431,626)
Interests and similar costs		(33,611,451)	(15,950,215)
Interest elements of lease liabilities without purchase option		(11,775,216)	(52,031,178)
52/5000	21	(51,827,774)	-
		(364,877,258)	**(348,656,616)**
Cash flow from financing activities (3)		**(323,554,205)**	**(21,610,838)**
Net increase (decrease) in cash and cash equivalents (1)+(2)+(3)		(281,941,947)	174,021,876
Effects of currency exchange differences		(7,455,415)	(695,937)
Cash and cash equivalents at the beginning of the year	12	426,290,329	213,354,955
Megasis Merge		-	33,721
Cash and cash equivalents at the end of the year	12	**136,892,967**	**386,714,615**

The accompanying notes form an integral part of the consolidated statement of cash flows as at June 30, 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Introduction

The TAP Group, formed by Transportes Aéreos Portugueses, SA (“TAP Air Portugal”, “TAP SA” or “Company”) and its subsidiary, TAP Logistics Solutions, SA (“TAP Logistics”, and, together with TAP SA, referred to as “TAP SA Group ” or “Group”) is headquartered at Lisbon Airport and is dedicated to operating the passenger, cargo and mail air transport sector, carrying out maintenance and engineering work for its fleet and third parties, providing ground handling services for air transport.

The Group’s operating in Portugal, Mainland and its Autonomous Regions, Europe, Africa, North Atlantic, Mid-Atlantic, South Atlantic and Middle East. The Group has 20 representative offices in foreign countries and 4 in Portugal.

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

TAP S.A. is affiliated to the IATA - International Air Transport Association.

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

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

With the transmission of 61% of the share capital of TAP SGPS to Atlantic Gateway on November 12, 2015, among other contractual instruments, it should be noted the “Agreement on Economic and Financial Stability of TAP” (“Acordo Relativo À Estabilidade Económica-Financeira”), between Parpública, Atlantic

Gateway, TAP SGPS, TAP S.A. and Portugália, in which Atlantic Gateway, as buyer, and TAP S.A. and Portugália, as borrowers, assumed some obligations related to TAP Group financial debt and debt service.

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

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

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

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

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

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

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

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

In accordance with the Council of Ministers Resolution n.º 95/2017, from 4 July, approved in June 29, 2017, with effects from that date, Parpública and Atlantic Gateway concluded on June 30, 2017 the transfer of shares established in the Share Purchase Agreement, which was notified to ANAC under the terms and conditions legally foreseen. On September 20, 2018 it was decided, by resolution of the board of directors of ANAC, that the operation complied with the requirements of Regulation (EC) n.º 1008/2008 of the European Parliament and of the Council of September 24, 2008, related to common rules for the operation of air services in the Community.

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

Therefore, TAP SGPS' share capital is as follows:

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

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

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

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

On March 20, 2019, TAPGER and TAP S.A. signed a purchase and sale agreement of the share capital of Megasis for Euro 1,791 thousand. On May 2, 2019, the merger was registered, by incorporation of Megasis in TAP S.A., having the respective accounting and fiscal effects backdated to January 1, 2019. The statement of financial position of the merged company as at January 1, 2019, and the effects of the restatement are detailed in the financial statements of the company with reference at December 31, 2019.

On December 30, 2019, TAP SA constituted TAP Logistics Solutions, SA (“TAP Logistics”), as such, in June 2020 it is the first semester in which TAP SA presents consolidated financial statements, in accordance with that described in Article 7 of Decree-Law No. 158/2011, of July 13, republication of Decree-Law No. 98/2015, of June 2. The 2019 financial information presented for comparative purposes refers to the valuation of assets and liabilities considered in the financial statements of TAP SGPS, which has been in accordance with IFRS since 2004. TAP Logistics did not present any activity during the first half of 2020.

Within the scope of the “Acordo de Adaptação e Monitorização de Passivo Financeiro Relativo ao Grupo TAP”, the TAP Group proceeded to the early amortization of part of the credits due, having been signed, on February 28, 2020, between the various banking entities, TAP SGPS, TAP SA and Portugália, as lenders, and Parpública and Atlantic Gateway, as shareholders, the “First Amendment to the Financial Liability Adaptation and Monitoring Agreement Regarding the TAP Group”, through which the amendment of certain terms and conditions of that contract, including the extension of the respective term (Note 17).

Following the outbreak of the Covid-19 pandemic, and like most companies operating in the aviation sector, the TAP Group suffered, as of March 2020, a significant reduction in its services as a result of a sharp drop in demand , which resulted in high operating losses. These losses stem mainly from the imposition of travel restrictions in Portugal and by many destination countries to limit the spread of Covid-19.

On 9 June 2020, the Portuguese State notified the European Commission of its intention to grant State aid, in the form of a loan, in favor of TAP's sole shareholder, TAP SGPS, in the amount of € 1.2 thousand million of euros. On June 10, 2020, the European Commission announced its decision to approve the State aid to TAP SGPS, as it believes that it is compatible with the European Union rules on State aid. This support aims to provide enough resources so that TAP SGPS can meet its immediate liquidity needs, with a view to achieving a long-term viability plan for the Group.

The European Commission understood that TAP would not be eligible to receive support under the Commission's temporary framework on state aid, designed to support companies that would otherwise be viable. It therefore assessed this measure under its guidelines on State aid for rescuing and restructuring, which allow Member States to support firms in difficulty, provided that public support measures are limited in time and scope and contribute to an objective of common interest. In particular, the Portuguese State has committed itself to TAP repaying State aid or presenting a restructuring plan within six months, in order to ensure the Group's future viability. This financing has a term of 6 (six) months, unless this term is extended by agreement of the parties and with the approval of the European Commission or if, within that term, a Group restructuring plan is finalized and submitted to the European Commission. TAP approved by the Administration, in which case the referred financing will cease under the terms provided for in this Restructuring Plan or, if there is no decision by the European Commission approving this Restructuring Plan until September 1, 2021, on the same September 1, 2021.

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

These special purpose financial statements ("financial statements") for the period ended June 30, 2020, approved at a meeting of the Board of Directors on September 28, 2020 were prepared for the purpose of presentation to the various stakeholders. The Group's statutory financial statements are prepared in accordance with the Portuguese Generally Accepted Accounting Principles (“Sistema de Normalização Contabilística”).

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

1.1. COVID-19 pandemic impact

The World Health Organization declared, on March 11, 2020, the existence of a Pandemic related to the disease resulting from the new coronavirus (COVID-19), as a result of which it has been established, in the markets where the TAP SA Group operates , a set of exceptional and temporary measures related to the epidemiological situation of COVID-19, which have resulted in the imposition of additional restrictions on economic activity in these markets. The Group's consolidated financial position and results for the first half of 2020, especially after March, were significantly impacted by the effects of the COVID-19 pandemic.

1.1.1 Impact on operational indicators

The impacts of the COVID-19 pandemic verified at the level of the main operational indicators, in the first two months and in the first half of 2020 compared to 2019, are as follows:

Indicadores operacionais	jun/20	jun/19	Variação Abs.	Variação %
Passenger ('000)	3,001	7,900	-4,900	-62.0%
RPK (million)	7,863	19,119	-11,257	-58.9%
ASK (million)	10,957	23,986	-13,029	-54.3%
Load Factor	71.8%	79.7%	-8.0p.p.	
Block Hours	84,137	191,102	-106,965	-56.0%
Number of Departures	27,096	64,870	-37,774	-58.2%
Average Stage Length (km)	2,035	1,917	118	+6.2%
Staff (end of period)	8,593	8,800	-207	-2.4%

The drop-in activity observed since March 2020 as a result of the COVID-19 pandemic, eliminated the positive performance observed in the first two months of 2020, significantly impacting the Group's performance in the first half of 2020. The month of March was already significantly affected by the containment measures adopted by national and international authorities, which also reflected in a significant drop in demand and led the Group to decrease its operational capacity, resulting in a progressive deterioration of activity over the month and an almost total temporary stoppage activity in the following months. In the months from March to June, the decrease in capacity (measured in ASKs) was -34%, -99%, -98% and -97%, respectively, compared to the same months of 2019.

In the first half of 2020, the number of passengers carried decreased by 62%, capacity (measured in ASKs) decreased by 54.3% and demand in terms of passenger traffic (expressed in RPKs) decreased by 58.9%, resulting in a deterioration of the load factor by 8 pp.

1.1.2 Impact on the financial indicators

The impacts of the COVID-19 pandemic verified at the level of the main financial indicators, in the first two months and in the first half of 2020 compared to the same period, are as follows:

Financial indicators	jun/20	jun/19	Variation	
			Value	%
Income statement data				
Operating income	646,092,306	1,448,855,442	-802,763,136	-55.4%
Ticket revenue	545,443,436	1,275,122,771	-729,679,335	-57.2%
EBITDA *	-128,762,205	127,619,358	-256,381,563	n.a.
EBITDA Margin	*-19.9%*	*8.8%*	-28.7p.p.	n.a.
Operational result (EBIT)	-427,550,161	-84,963,610	-342,586,551	n.a.
EBIT margin	*-66.2%*	*-5.9%*	-60.3p.p.	n.a.
Cash flow statement data				
Cash flow from operating activity	90,247,454	269,348,272	-179,100,818	-66.5%
Cash flow from investment activities	-48,635,196	-73,715,558	25,080,362	-34.0%
Cash flow from financing activities	-323,554,205	-21,610,838	-301,943,367	+1397.2%

Financial position data	jun/20	dec/19	Variation	
			Value	%
Total assets	5,014,530,443	5,152,800,895	-138,270,452	-2.7%
Total liabilities	5,578,739,307	5,018,263,972	560,475,335	+11.2%
Total equity	-564,208,864	134,536,923	-698,745,787	-519.4%

* EBITDA = Operating Results + Depreciation, amortization and impairment losses.

Financial performance in the first half of 2020 was severely impacted by the reduction in activity from March 2020 as a result of the COVID-19 pandemic, with a 55.4% decrease in total operating income in the semester and in ticket revenues. by 57.2%. EBITDA fell from 256.4 million euros in the semester to -128.8 million euros and the Operating Result (EBIT) from 342.6 million euros to -427.6 million euros.

Due to the deterioration of EBITDAR with the drop in activity in recent months, the Group may eventually default on certain financial covenants, namely those related to the maintenance of Equity Capital and the compliance with the Adjusted Net Debt / EBITDAR ratio as fixed in certain financing. Regarding the syndicated Financing of Portuguese Banks in the outstanding amount of 141.4 million euros as at 30 June 2020, the banks' waiver was obtained on August 18, 2020, for compliance with the financial covenant referring to the consolidated minimum equity capital (adjusted) of TAP SGPS until the end of 2020, with the next verification carried out in relation to the reference date of March 31, 2021. Regarding the issue of bonds in the amount of 117 million euros at June 30, 2020, the covenant Adjusted Net Debt / EBITDAR ratio will be based on the ratio at 30 June 2020 and its compliance will be measured on 19 January 2021. Since the value of the ratio with reference to 30 June is higher than the accepted contractual limit, the Group reclassified the debt to Current Liabilities, and is making efforts to obtain the waiver by the date of measurement.

Regarding the variation presented in the consolidated statement of cash flows, there was a 66.5% reduction in operating cash flows, essentially resulting from the deterioration of the Group's revenue, due to the impacts of the pandemic. In investment cash flows, there is a reduction of 34.0% Euros as a result of the reduction in investment directly associated with the reduction in activity.

1.1.3 Impact on main estimates

Regarding the impact of the COVID-19 pandemic on the main management estimates, the impacts are as follows:

Provisions

The Group keeps provisions recorded for various contingencies (Note 2), with Management regularly evaluating the criteria used to measure them. In the first half of 2020, Management reinforced the provision to cover charges for the redelivery of used equipment under lease contracts with no purchase option by approximately 85 million euros, net of reversals, considering new information on the terms and costs associated with the process of phase-out (Note 16), without affecting to that described in the estimate of impairment losses on non-current assets.

Impairment losses of current assets

The Group has recorded provisions for impairment losses on some current assets (Note 2), with Management carrying out a regular assessment of the criteria used to measure them.

As a result of the declaration of the pandemic and the consequent effects on the level of economic activity, especially in the civil aviation sector, the Administration identified the need to reinforce impairment losses on accounts receivable in the amount of 6.7 million euros (Note 8), due to the increase in the risk of collectability identified in some customers, and inventories by 2.8 million euros (Note 9), due to the reduction in rotation and the expectation of using some items used in the repair of its own fleet and from third parties.

Impairment losses of non-current assets

As of June 30, 2020, total non-current consolidated assets subject to impairment tests under IAS 36 amount to 3,641 million euros. Under the terms of the accounting standards, annual impairment tests must be carried out or whenever there are strong indications that non-current assets may be impaired.

The World Health Organization’s declaration of a pandemic resulted in a set of limitations on the mobility of populations, in addition to the economic and social effects of the pandemic itself, resulting in a halt in the activities carried out by the Group, and the Administration believes that there is a need to review impairment of non-current assets realized on December 31, 2019.

In view of the uncertainty about the evolution of the Group's activity in the long term, due to factors that are not in its control, as well as the recent approval by the European Commission of State aid, which implies the presentation of a restructuring plan within a period of six months (in the event of non-repayment of the loan related to the aforementioned State aid in that same period of time), a long-term business plan has not yet been prepared and approved by management.

In this context, the financial statements for June 2020 do not reflect the possible impacts of the analysis of recoverability of non-current assets, which would be carried out if there was a long-term business plan.

Hedge accounting

The Group has a policy to reduce the risk of volatility in the price of fuel used in the air transport activity by making jet fuel derivatives, usually negotiating contracts for up to 12 months and covering between 50% to 60% of the estimated monthly consumption. The Group uses hedge accounting whenever the requirements of IFRS are met.

With the reduction in air transport activity resulting from the pandemic and based on the best information available, Management reviewed short-term fuel consumption assumptions, having identified that some of the existing contracts did not meet the requirements for coverage accounting. In accordance with IFRS 9, in accordance with the Group's accounting policy and in accordance with the option defined by Management in adopting hedge accounting, these contracts are remeasured at market value by net income, with losses or gains determined being recorded in financial results.

In the semester ended June 30, 2020, financial costs of 136,288,148 euros were recorded in relation to the fair value of derivatives under overedge, which may vary in the future due to the fluctuation of the jet fuel price and the assumptions regarding the fuel consumption.

Deferred Taxes

The Group recognizes deferred taxes under IAS 12, recording deferred tax assets on tax losses whenever it is possible to assess their recoverability under legal terms.

As a result of the pandemic and its effects on TAP's activity, an estimated tax loss of 754 million euros were recorded during the first half of 2020.

In June 2020, several amendments to tax legislation were approved within the scope of the Economic and Social Stabilization Plan, namely regarding the expiry date and percentage of deduction of tax losses generated in 2020 and 2021.

On June 30, 2020, the Group recognized 157 million euros (Note 7) of deferred tax assets on tax losses, which in Management's view are recoverable based on the new legal framework, without affecting to that described in the estimate of impairment losses on non-current assets.

Unused flight documents

As of June 30, 2020, and December 31, 2019, the total number of unused flight documents amounted to approximately 669.4 million euros and 480.8 million euros, respectively. In addition to the usual effects of the seasonality of the Group's business, the amount of pending flight documents was on 30 June 2020 significantly impacted by the effects of the pandemic COVID-19.

Due to the significant reduction in activity after April 2020 and the cancellation of flights imposed on the aviation sector and the Group, the pending flight documents as of June 30, 2020 include significant amounts referring to flights not performed until that date, maintaining the Group your responsibility for providing the service in the future or for reimbursement under contractual terms.

In this context, the Administration has revised the policy of using documents pending flights, namely regarding the possibility of rebooking tickets without additional costs and the reimbursement of tickets in vouchers with an increase and extended validity periods.

The criteria used to estimate the valuation of unused flight documents have been revised according to the policy, including, among other differentiated estimates, regarding the future use of refund vouchers and the future use of tickets. Any changes to the policy for the use of unused flight documents and new relevant information may result in changes in the estimates made by Management on the valuation of this responsibility.

1.1.4 Mitigating measures for the COVID-19 pandemic effect

Since the beginning of the COVID-19 pandemic, the Group has adopted cash protection measures, namely initiatives to control and reduce costs, including the suspension or postponement of non-critical investments, renegotiation of contracts and payment terms, cut of accessory expenses, suspension hiring new employees, progression and training, as well as implementing temporary unpaid leave programs.

Suppliers and lessors

The Group negotiated short-term payment plans with some of its current service providers until December 2020 and the extension of the payment term, which led to an increase in accounts payable compared to December 2019.

With regard to aircraft leasing contracts, the Group has been developing negotiations with lessors in order to reduce the monthly value of equipment rents, obtain consent for non-payment of rents and the extension of contractual terms, keeping present in these negotiations the possible future need for fleet reduction resulting from the restructuring plan. As of June 30, 2020, the number of unpaid rents due was less than 124 million euros and was classified under the caption "Liabilities with no purchase option" (Note 17).

Within the scope of the contractual renegotiations that the Group has conducted with Airbus, as well as other entities with which it had contracted the reception of new aircraft to integrate its fleet, at the end of July 2020, the renegotiation of delivery dates foreseen for the period between 2020 and 2022, the respective deliveries being deferred to a later date, with an impact on the level of deferral of commitments with the payment of Pre-Delivery Payments to Airbus, as well as obtaining other commercial advantages in terms of protecting the price of aircraft .

Lay-off

As an exceptional and temporary job protection measure, in the context of the COVID-19 pandemic, the Company adhered between April and June 2020 to the measure contained in Decree-Law no 10-G / 2020, of 26 March, in its current wording , translated into the temporary reduction of the normal working period or the suspension of the employment contract (simplified lay-off program). After August 1, 2020, the Company adhered to the new mechanism that follows the simplified lay-off, called extraordinary support for the progressive recovery, regulated under the terms of the Portuguese Government ("Programa de Estabilização Económica e Social"), approved by the Government Resolution 41/2020 of 6 June, in particular the measures to support the gradual recovery in section 2.2.1. ("Apoio Extraordinário à Retoma Progressiva").

In the first half of 2020, and as a result of adhering to the support schemes identified above, there was an estimated savings in personnel costs of 108 million euros, including the effect of non-payment of the Social Security Contributions, the financial support supported by Social Security and the reduction in wage costs due to the lay-off regime adopted for each employee.

Government supports to the economy

In addition to the financing obtained from the Portuguese Republic (Introductory Note), the Company joined a set of support to the economy that the Portuguese Government promoted in the context of the COVID-19 pandemic, namely: (i) the exceptional and temporary regime of compliance tax and social contributions, in the context of the COVID-19 disease pandemic, contained 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 protection regime of Company credits, in the context of the COVID-19 disease pandemic, contained in Decree-Law no. 10- J / 2020, of 26 March.

Pursuant to the approval by the European Commission, on June 10, of the granting of State Aid by the Portuguese State to the TAP Group, the Management, together with external advisers, is preparing a long-term Restructuring Plan with a view to demonstrating the viability of the Group. This plan will include a set of structural measures and implementation over a longer period with a view to mitigating the effects of the COVID-19 pandemic on the Group's operational activity and equity situation, which are yet to be defined.

1.1.5 Financial risks

In addition to the effects of the COVID-19 pandemic on the financial results of the first half of 2020 and on the equity situation on June 30, the financial risks to which the Group is subject in the development of its activity were also significantly affected, as well as their management.

Market risk

The civil aviation market was largely impacted by the COVID-19 pandemic as a result essentially of the abrupt reduction in demand, whether for economic reasons or for public health reasons, and the reduction in the number of flights due to limitations by different countries. According to the most recent advantages of IATA, the volume of the civil aviation market should only recover in 2024 to the levels observed in 2019.

TAP had been implementing a strategy of diversifying destinations based on the Lisbon Hub, with over 75% of its revenues coming from the main international markets: Brazil, the USA and European Union countries. These markets have imposed several limitations on the performance of flights, they are facing a strong economic crisis, which, together with the hope of reducing prices for the provision of services, may affect the Group's future results.

Fuel price risk

Fuel is one of the main costs supported by the Group, with a strong exposure to fluctuations in its price, which is usually reduced by contracting hedge derivatives.

As a result of the COVID-19 pandemic, the spot price of jet fuel has experienced strong volatility since March 2020, reaching lows of USD 111.00 per ton and peaks of USD 664.50 per ton during the first half of 2020. As a result of this fluctuation and a drop of 48.6% compared to the closing price of 31 December 2019, jet fuel derivatives started to show an unfavorable position reaching on March 31, 2020 a negative fair value of 277 million euros. Additionally, the volume of derivatives contracted is significantly higher than the estimated consumption.

As of June 30, 2020, the fair value of derivative contracts is unfavorable to the Group at 182 million euros, with total losses of 151 million euros having been recognized in the first half of 2020, of which 64,6 million euros have already been settled.

The eventual reduction in the price of jet fuel after June 30, 2020 may have a negative impact on the Group's financial capacity, essentially due to losses associated with hedging derivatives that more than offset a possible reduction in the cost of purchasing jet fuel effectively consumed.

Exchange risk

The Group acquires a significant part of the goods and services from third parties in USD, has assumed a set of responsibilities in USD (Note 17) with lease agreements, has some assets in BRL (accounts receivable) and its 53% revenues were generated in currencies other than the Euro in 2019 (essentially USD and BRL).

The economic instability currently experienced as a result of the COVID-19 pandemic resulted in increased volatility in the foreign exchange markets, since the beginning of 2020 the USD appreciated 0.3% and BRL devalued 26.1% against the Euro.

In the first half of 2020, net foreign exchange losses of 58 million Euros were recorded, including negative effects related to the impact of the USD appreciation on registered liabilities and negative effects related to the impact of the BRL devaluation on registered assets.

The volatility of foreign exchange markets may significantly affect the measurement of the Group's assets and liabilities and significantly impact the amounts of receipts and payments in foreign currency.

Liquidity risk and capital management

The Group managed until the end of February 2020 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 year of 2019, in addition to financing aircraft through lease contracts placed on the international market, the Group successfully managed to issue more than 700 million euros in the financial markets.

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

On June 10, the European Commission authorized State Aid to the TAP Group, through the granting of financing by the Portuguese State of up to 1.2 billion euros. On July 17, a financing contract of 946 million euros was signed between the Group and the Portuguese State, which includes an additional amount of 254 million euros to be granted at the Portuguese State discretion.

The resources from this financing have enabled the Group to ensure the fulfillment of its short-term obligations, however, there is an obligation to present a long-term Restructuring Plan that demonstrates the viability of the TAP Group, which must be submitted within the deadline six months after authorization of State Aid. In the event of failure to submit such a plan under the terms required by the European Commission, the Group will have to repay the financing obtained from the Portuguese State.

As a result of the COVID-19 pandemic, capital management was significantly changed, becoming largely dependent on the State aid obtained.

1.1.6 Going concern

The European Commission approved on June 10, 2020 a State Aid to be granted by the Portuguese State to the Group in the amount of 1.2 billion euros, formalized through a remunerated financing of 946 million euros to TAP, to which it may add an additional amount of 254 million euros (Introductory Note). This financing has a term of 6 (six) months, unless this term is extended by agreement of the parties and with the approval of the European Commission or if, within that term, a Group restructuring plan is finalized and submitted to the European Commission. TAP approved by the Administration, in which case the referred financing will cease under the terms provided for in this Restructuring Plan or, if there is no decision by the European Commission approving this Restructuring Plan until September 1, 2021, on the same September 1, 2021.

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

Management understands that the preparation of the financial statements for June 2020 should be carried out based on the continuity principle, considering, on the one hand, that although the restructuring plan has not yet been concluded on this date, its fundamental purpose is to ensure viability and continuity of the Group's operations and bearing in mind, on the other hand, that the risk of a possible worsening of the pandemic COVID-19 and its impacts on the air transport activity (and, consequently, on the Group's future operational activity) may represent the need obtaining additional financial resources to ensure greater protection of the Group's financial position in the next twelve months.

2 Summary of the significant accounting policies

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

2.1. Basis of preparation

The financial statements presented refer to the six months period comprised between 1 January to 30 June 2020, and have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS – formerly referred to as the International Accounting Standards - IAS) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or by the former Standing Interpretations Committee (SIC) in force on the date of preparation of the mentioned financial statements. The standards and interpretations previously mentioned are hereinafter referred to as “IFRS”.

The Board of Directors believes that these financial statements and the following notes ensure a fair presentation of the interim financial information prepared under IAS 34 - Interim Financial Reporting. Therefore, these interim financial statements do not include all information required to the annual financial statements and should be read together with the Group's financial statements for the year ended December 31, 2019.

Consequently, part of the notes to the financial statements for the year ended 31 December 2019 are not disclosed, either because they have not significantly changed or are not materially relevant to the understanding of these financial statements.

The presented condensed financial statements (hereinafter referred to as“financial statements “ or “consolidated financial statements”) have been prepared in accordance with the same accounting principles and policies, including the financial risk management policies adopted by the Group in the preparation of the special purpose annual financial statements for the ended December 31, 2019, which, essentially includes an explanation of the relevant events and changes occurred during this semester for the understanding of the changes in the Group’s financial position and operating performance since the last date of the annual report.

The accompanying financial statements were prepared on a going concern basis from the accounting books and records of the Group based on historic cost, except for derivative financial instruments and investment properties, which are recorded at fair value (note 1.1.6).

In the preparation of the financial statements, accordingly with IFRS, the Board of Directors used important estimates, assumptions and judgments in the application of the accounting policies, which have impact on the measurement of assets and liabilities and on the recognition of gains and expenses at each reporting date. Despite the estimates used being based on the best information available during the preparation of these financial statements and best knowledge available at the reporting date, we note that actual and future results may differ from these estimates. The principal assertions which involve a greater degree of judgment or complexity and the most significant assumptions and estimates used in the preparation of those financial statements are disclosed in Note 2.4.

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

2.2. New Standards and interpretations adopted by the Group

The application of the new standards, interpretations and amendments to the standards mentioned below, are mandatory for the financial years beginning on or after January 1, 2020:

Description	Changes	Effective Date
1. New standards, amendments and interpretations effective on January 1, 2020		
• IFRS 3 – Business combinations	Changing the business definition	January 1, 2020
• IFRS 9, IAS 39 and IFRS 7 – Reference interest rate reform	Introduction of exemptions to hedge accounting with the aim that the reform of the reference interest rates does not determine the cessation of hedge accounting	January 1, 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 standards to the financial statements as a whole	January 1, 2020
• Conceptual structure - Changes in the reference to other IFRS	Change to some IFRS regarding cross-references and clarifications on the application of the new definitions of assets / liabilities and expenses / income	January 1, 2020
2. Standards (new and amended) that become effective on or after 1 June 2020, not yet endorsed by the EU		
• IFRS 16 – Income subsidies related to COVID-19	Application of exemption in accounting for bonuses awarded by landlords related to COVID-19, such as modifications	June 1, 2020

Description	Changes	Effective Date
• IAS 1 – Presentation of financial statements - Classification of liabilities	Classification of a liability as current or non-current, depending on the right an entity must defer its payment. New definition of “settlement” of a liability	January 1, 2022
• IFRS 3 – References to the conceptual framework	Update to references to the Conceptual Framework and clarification on the registration of provisions and contingent liabilities within the scope of a concentration of business activities	January 1, 2022
• IAS 16 – Yields obtained before commissioning	Prohibition of deducting income obtained from the sale of items produced during the testing phase, at the cost of acquisition of tangible assets	January 1, 2022
• IAS 37 – Onerous contracts - costs of fulfilling a contract	Clarification on the nature of the expenses to be considered in determining whether a contract has become costly	January 1, 2022
• Improvements 2018 – 2020	Specific and specific changes to IFRS 1, IFRS 9, IFRS 16 and IAS 41	January 1, 2022
• IFRS 17 – Insurance contracts	New accounting for insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics.	January 1, 2023
• IFRS 7 – Insurance contracts (amendments)	Inclusion of changes to IFRS 17 in areas such as: i) scope; ii) level of aggregation 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	January 1, 2023

2.3. Comparability of the financial statements

The financial statements for December 31, 2019 and June 30, 2019, presented for comparative purposes, are fully comparable.

Seasonality

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

Despite the high seasonality inherent to the business, the semester ended on June 30, 2020 was also affected by the effect of Pandemic COVID-19.

2.4. Accounting estimates and judgements

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

These estimates are determined by the judgments of the management of TAP SA, based on: (i) the best information and knowledge of current events and, in some cases, reports by independent experts and (ii) the actions that the Group considers to be able to develop in the future . However, on the date of completion of the operations, its results may differ from these estimates. As provided for in IAS 8, changes to these estimates, which occur after the date of the financial statements, are corrected in profit or loss prospectively. As a result of the COVID-19 Pandemic, some of these estimates were materially affected as described in Note 1.1.3.

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

- **Deferred tax (Note 7)**

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

- **Post-employment benefits (Note 15)**

Liabilities relating to defined-benefit plans are calculated based on actuarial assumptions. Changes to those assumptions can have a material impact on the aforesaid liabilities. The key demographic and financial assumptions for pension obligations are detailed in Note 15. The Group's policy is to periodically review the main demographic and financial assumptions, when their impact on the financial statements is considered relevant.

✈ **Recognition of provisions and impairments (Notes 8, 9 and 16)**

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

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

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

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

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

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

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

✈ **Useful life and residual value of tangible fixed assets (Note 3)**

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

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

- **Lease liabilities with and without purchase option (Note 3 and 17)**

The Group assesses whether a contract is or contains a lease, at the beginning of the contract. The Group recognizes a right-of-use asset and the corresponding lease liability in relation to all lease agreements in which it is a lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases low-value assets (such as tablets and personal computers, small office furniture and phones).

For these leases, the Group recognizes lease payments as an operating expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern during which the economic benefits of the leased assets are generated.

The lease liability is initially measured at the present value of payments not made on the initial date of each lease, discounted based on the implicit rate of the lease. If this rate cannot be readily determined, the Group uses its incremental financing rate.

The lease payments included in the measurement of the lease liability include:

- Fixed lease payments (including fixed payments in substance), less any incentives to receive associated with the lease;
- Variable payments that depend on an index or a rate, initially measured based on the index or rate on the start date of the contract;
- Amounts relating to residual value guarantees expected to be paid;
- The exercise price of any call options, if the lessee considers their exercise to be reasonably certain; and
- Payments of penalties for early cancellation of the lease, if the term of the lease reflects the exercise of an option to terminate the lease early.

The lease liability is presented in two separate lines in the consolidated statement of financial position under the captions "Liabilities with option to purchase" and "Liabilities with option to purchase".

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

i) The lease term changes or there is a significant event or a change in circumstances, resulting in a change in the assessment of the exercise of a call 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 a change in the expected payment of a guaranteed residual value, in these cases, the lease liability is remeasured, discounting the revised lease payments using a rate of unchanged discount (unless in circumstances where a change in payments results from a change in the floating interest rate, in which case a revised discount rate is used).

A lease is modified and the lease modification 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 in the effective date of modification. The Group did not make any material adjustments of this nature during the years presented, this may be possible as a result of future negotiations with counterparties in contracts of this nature and changes in financing rate indicators.

The rights-of-use assets comprise the initial measurement of the corresponding liability, the payments made before or on the day the lease begins, less the incentives received, and any initial direct costs. They are subsequently measured at cost, less accumulated depreciation and impairment losses.

Whenever the Group incurs an expense obligation to dismantle and remove a leased asset, restore the location where it is located or restore the underlying asset to the condition required by the lease terms and conditions, a provision is recognized, measured in accordance with o IAS 37. To the extent that the expenses are related to an asset by right of use, the expenses will be included in the asset by related right of use, unless these expenses are incurred to produce inventories.

Fixed-use assets are depreciated over the shortest period between the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the value of the asset per use right reflects that the Group expects to exercise a call option, the related use right asset is depreciated over the useful life of the underlying asset. Depreciation starts on the lease start date. The assets for use rights are presented in the statement of financial position under the item “Tangible fixed assets”.

The Group applies IAS 36 to determine whether an asset due to use rights is impaired and accounts for any impairment losses identified, as described in the "Tangible fixed assets" accounting standards.

Leases of variable value that do not depend on an index or rate are not included in the measurement of the lease liability and the asset for use right. The respective payments are recognized as expenses in the period in which the event or condition that determines the occurrence of those payments occurs and are included in the “Other expenses” item in the consolidated income statement.

IFRS 16 allows the lessee not to separate non-lease components and to account for any lease and associated non-lease components as a single contract. The Group did not use this practical expedient. For contracts containing a rental component and one or more additional rental or non-rental components, the

Group allocates the consideration provided for in the contract to each rental component based on the price, regardless of the rental component, and the price independent of the non-lease components.

- ✈ **Redelivery provision (Notes 3 and 16)**

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

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

- ✈ **Recoverability of tangible and intangible fixed assets**

In accordance with IAS 36, annual impairment tests must be carried out or whenever there are strong indications that non-current assets may be impaired. As of June 30, 2020, the financial statements do not reflect the possible impacts of the analysis of recoverability of non-current assets within the scope of the restructuring plan referred to in Note 1.1.3.

3 Tangible fixed assets

During the periods ended 30 June 2020 and 31 December 2019, changes in tangible fixed assets, as well as the accumulated depreciation and impairment losses, were as follows:

	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Tools and utensils	Administrative equipment	Other tangible fixed assets	Other assets in progress	Advances to suppliers of tangible assets	Right-of-use assets	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	-	-	-	-	-	-	-	-	-	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	-	756,625	243,627,503	2,417	1,342,256	555,152	122,534	4,014,638	-	249,902,840	500,323,965
Disposals	-	-	-	(18,678)	-	-	-	-	-	-	(18,678)
Regularisation, transfer and write-off	-	-	24,941,300	-	(5,784)	(2,722,815)	(4,293)	(26,750,467)	(20,630,720)	(33,761,038)	(58,933,817)
June 30, 2020	**41,125,597**	**156,781,043**	**1,342,120,926**	**2,254,240**	**29,249,005**	**64,583,953**	**12,844,350**	**17,281,775**	**54,597,569**	**2,957,601,661**	**4,678,440,119**
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 30)	-	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 30)	-	-	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 30)	-	2,753,880	43,126,726	24,255	364,595	596,291	126,453	-	-	245,112,331	292,104,531
Impairment losses (Note 30)	-	-	1,339,200	-	-	-	-	-	-	-	1,339,200
Disposals	-	-	-	(18,678)	-	-	-	-	-	-	(18,678)
Regularisation, transfer and write-off	-	-	(5,001,836)	-	(5,494)	(2,796,771)	(4,293)	-	-	-	(7,808,394)
June 30, 2020	**-**	**86,951,505**	**707,818,507**	**2,151,842**	**17,835,857**	**61,374,045**	**11,344,029**	**-**	**-**	**608,880,955**	**1,496,356,740**
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 June 30, 2020	**41,125,597**	**69,829,538**	**634,302,419**	**102,398**	**11,413,148**	**3,209,908**	**1,500,321**	**17,281,775**	**54,597,569**	**2,348,720,706**	**3,182,083,380**

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

In order to guarantee the payment of the amounts due under a loan agreement with a national institution, in the initial amount of 75 million Euros, a mortgage was constituted on an urban building of the Group, consisting of twenty-nine office buildings, construction material and others, located at Lisbon Airport (Note 17). In addition, in February 2020, a second mortgage was made for a loan in the amount of 25 millions Euros. As of June 30, 2020, the amount owed amounts to 66.1 million Euros.

The main impacts occurred during 2020 are as follows:

- Additions of basic equipment in the amount of 243,627,503 Euros essentially refer to: (i) acquisition of two aircraft under lease with a purchase option in the amount of approximately 200,486,256 Euros, (ii) acquisition of two reactors under a lease with an option of approximately € 27,486,206, and (iii) capitalization of structural maintenance expenses for aircraft held or under a lease agreement in the amount of approximately 6,502,871 Euros.

- As of June 30, 2020, the additions to the "Right of use" heading essentially include: (i) new lease contracts with no purchase option in the amount of 68,335,658 Euros; (ii) increase in expenses with large maintenance capitalized in the amount of 26,134,507 euros, and (iii) increase in the provision for redelivery in the amount of 102,108,889 euros.

- The decrease in Transfer and write-off of other assets in progress includes the amount of 26,750,467 euros transferred in the merger of the two aircraft. Additionally, this item includes a reduction of 20,654,397 euros, essentially related to the reduction of lease liabilities without a purchase option.

Depreciation of tangible fixed assets is recognized in the item "Depreciation, amortization and impairment losses" in the income statement in its entirety (Note 30).

On June 30, 2020 and December 31, 2019, the caption “Right-of-use assets” 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	**-**	**249,902,840**	**-**	**249,902,840**
Write-off	**-**	**(33,761,038)**	**-**	**(33,761,038)**
Closing Balance June 30, 2020	**1,832,381**	**2,954,876,991**	**892,289**	**2,957,601,661**
Accumulated depreciations				
Depreciations (Note 30)	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 30)	357,142	244,627,770	127,419	**245,112,331**
Write-off	-	-	-	**-**
Closing Balance June 30, 2020	**1,071,426**	**607,427,272**	**382,257**	**608,880,955**
Carrying amount December 31, 2019	**1,118,097**	**2,375,935,687**	**637,451**	**2,377,691,235**
Carrying amount June 30, 2020	**760,955**	**2,347,449,719**	**510,032**	**2,348,720,706**

On June 30, 2020 and December 31, 2019, the item “Basic equipment” had the following composition:

	Jun 2020			**Dec 2019**		
	Acquisition cost	Accumulated depreciation	Carrying amount	Acquisition cost	Accumulated depreciation	Carrying amount
Flight equipment						
Aircraft	147,212,836	(86,008,660)	61,204,176	143,940,402	(82,274,713)	61,665,689
Spare engines	4,000,253	(2,457,764)	1,542,489	8,225,988	(2,255,574)	5,970,414
Spare parts	123,623,684	(78,573,777)	45,049,907	121,246,691	(77,138,480)	44,108,211
	274,836,773	(167,040,201)	107,796,572	273,413,081	(161,668,767)	111,744,314
Flight equipment under Leases w ith purcahse option						
Aircraft	865,152,597	(459,461,087)	405,691,510	634,912,162	(428,450,165)	206,461,997
Reserve engines	109,149,415	(9,463,580)	99,685,835	72,803,235	(7,429,895)	65,373,340
	974,302,012	(468,924,667)	505,377,345	707,715,397	(435,880,060)	271,835,337
Machinery and equipment	92,982,141	(71,853,639)	21,128,502	92,423,645	(70,805,590)	21,618,055
	1,342,120,926	**(707,818,507)**	**634,302,419**	**1,073,552,123**	**(668,354,417)**	**405,197,706**

On June 30, 2020 and December 31, 2019, the air fleet, operated by the Group, decomposes as follows:

	Jun 2020					**Dec 2019**				
	Owned by TAP Group	**Lease liabilities with purchase option**	**Lease liabilities without purchase option**	**ACMI**	**Total**	**Owned by TAP Group**	**Lease liabilities with purchase option**	**Lease liabilities without purchase option**	**ACMI**	**Total**
Airbus A340	-	-	-	-	**-**	-	-	-	-	**-**
Airbus A330	-	-	7	-	**7**	-	-	7	-	**7**
Airbus A330 NEO	-	3	16	-	**19**	-	1	16	-	**17**
Airbus A319	2	7	8	-	**17**	2	7	9	-	**18**
Airbus A320	-	5	14	-	**19**	-	5	14	-	**19**
Airbus A320 NEO	-	-	7	-	**7**	-	-	7	-	**7**
Airbus A321	-	2	2	-	**4**	-	2	2	-	**4**
Airbus A321 NEO	-	-	9	-	**9**	-	-	8	-	**8**
Airbus A321 NEO LR	-	-	5	-	**5**	-	-	4	-	**4**
Embraer 190	-	-	-	9	**9**	-	-	-	9	**9**
Embraer 195	-	-	-	4	**4**	-	-	-	4	**4**
ATR 72	-	-	-	8	**8**	-	-	-	8	**8**
	2	**17**	**68**	**21**	**108**	**2**	**15**	**67**	**21**	**105**

4 Investment properties

On June 30, 2020 and December 31, 2019, the movements recorded in investment properties were as follows:

	Jun 2020	Dec 2019
Opening Value	**2,148,564**	**1,925,764**
Transfers	-	-
Transfers - Megasis merger	-	1,205,000
Disposals	-	(1,000,000)
Fair value adjustments (Notes 22 e 23 and 27)	-	17,800
Closing Balance	**2,148,564**	**2,148,564**

The impact resulting from the merger of Megasis in 2019, in the amount of 1,205,000 Euros, refers to properties held by Megasis (Introductory Note).

5 Intangible assets

As of June 30, 2020, and 2019, the movements in the item "Intangible assets" 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	-	2,126,674	4,137,506	-	**6,264,180**
Regularization, transfer and write-off	-	508,524	(508,524)	(362,504)	**(362,504)**
Balance as at June 30, 2020	**11,951,704**	**40,195,085**	**7,338,895**	**1,129,158**	**60,614,842**
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 30)	-	(8,359,097)	-	-	(8,359,097)
Regularization and transfer					
Balance as at December 31, 2019	**(11,951,704)**	**(17,384,685)**	**-**	**-**	**(29,336,389)**
Amortisations and impairment losses (Note 30)	-	(5,344,225)	-	-	(5,344,225)
Balance as at June 30, 2020	**(11,951,704)**	**(22,728,910)**	**-**	**-**	**(34,680,614)**
Carrying amount as at December 31, 2019	**-**	**20,175,202**	**3,709,913**	**1,491,662**	**25,376,777**
Carrying amount as at June 30, 2020	**-**	**17,466,175**	**7,338,895**	**1,129,158**	**25,934,229**

The main movements that occurred during the first half of 2020 are as follows:

- The increase in the Computer programs item in the amount of approximately 2,126,674 Euros refers essentially to software sistems licensing.

- The increase in the Assets in progress item in the amount of 4,137,506 Euros refers to several projects of developments and implementations in progress, in the areas of operations, sales and maintenance.

6 Other financial assets

As of June 30, 2020, and December 31, 2019, the caption of other financial assets had the following composition:

	Jun 2020		Dec 2019	
	Current	Non-Current	Current	Non-Current
Angola's treasury bonds	4,896,036	-	4,880,346	-
Bank deposits in Guinea Bissau	-	1,749,863	-	1,746,631
SITA Group Foundation	-	455,915	-	455,915
Other	-	47,383	-	39,683
	4,896,036	**2,253,161**	**4,880,346**	**2,242,229**
Impairment losses	-	(1,764,421)	-	(1,761,189)
	4,896,036	**488,740**	**4,880,346**	**481,040**

The amount presented for the SITA Group Foundation refers, essentially, to 519,778 certificates (unquoted equity securities) of that Group, an entity founded by Société International de Télécommunications Aéronautiques.

The movement in this item, during the periods ended June 30, 2020 and December 31, 2019, was as follows:

	Jun 2020		Dec 2019	
	Current	Non-Current	Current	Non-Current
As at January 1	4,880,346	481,040	13,224,721	481,040
Increases	-	7,700	-	4,830,936
Decreases	-	-	(12,789,293)	-
Transfers	-	-	4,957,349	(4,957,349)
Currency translation differences	15,690	-	(512,431)	126,413
As at December 31	**4,896,036**	**488,740**	**4,880,346**	**481,040**

The increase in the period ended December 31, 2019 in the amount of 4,830,936 Euros, refers to the “Treasury bonds of Angola” subscribed in the amount of 1,737,479 thousand Kwanzas, corresponding to the original exchange rate of 316,909 Kwanzas per dollar, due on December 18, 2020 and indexed to the dollar.

The reduction in the period ended December 31, 2019, in the amount of 12,789,293 Euros, essentially refers to the sale of "Treasury Bonds of Angola" subscribed in 2018.

7 Deferred tax assets and liabilities

On June 30, 2020 and December 31, 2019, the tax rate used in Portugal, for the calculation of deferred tax assets related to reportable tax losses and fuel hedge, was 21%. In the case of temporary differences, the rate used was 29.5% and 31.5%, for 2020 and 2019, respectively.

Tax benefits, as they are deductions from collection, are considered 100%, and in some cases, their full acceptance is still dependent on the approval of the authorities granting such tax benefits. Deferred taxes arising from tax benefits are recorded when they are approved by the authorities granting such benefits.

The main temporary differences between the accounting and taxable amounts, as of June 30, 2020 and December 31, 2019, the corresponding deferred tax assets and liabilities and the respective effect on the results for the periods ended June 30, 2020 and on December 31, 2019, are as follows:

	Jun 2020				
	Opening balance	Effect in results (Note 32)	Effect in other comprehensive income	Reclassification	Closing balance
Deferred tax assets					
Tax losses carried forward	66,242,707	157,441,206	-	11,905,602	235,589,515
Post-employment benefits obligations	30,352,251	(1,455,074)	1,911,756	-	30,808,933
Impairment losses in inventories	7,158,124	367,506	-	-	7,525,630
Impairment losses of receivables	7,096,835	(337,607)	-	-	6,759,228
Other provisions and adjustments not accepted for tax purposes	127,352	(9,900)	-	-	117,452
Impairment losses in fixed assets	-	-	-	-	-
Derivative financial instruments (Note 15)	-	-	24,315,725	-	24,315,725
	110,977,269	**156,006,131**	**26,227,481**	**11,905,602**	**305,116,483**
Deferred tax liabilities					
Revaluation of tangible fixed assets	19,324,081	(1,582,676)	-	-	17,741,405
Instrumentos financeiros derivados	7,549,515	-	(7,549,515)	-	-
Adjustments from IFRS 16	32,964,031	15,408,418	-	11,905,602	60,278,051
	59,837,627	**13,825,742**	**(7,549,515)**	**11,905,602**	**78,019,456**
	51,139,642	**142,180,389**	**33,776,996**	**-**	**227,097,027**

	Dec 2019				
	Opening balance	Megasis merger	Effect in results (Note 32)	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**

✈ Tax losses carried forward

Under the legislation, in force in Portugal, tax losses generated in 2014 and 2015 are reportable over a period of twelve years, and tax losses generated after 2017 are reportable over a period of five years, after their occurrence, and are susceptible deducting tax profits generated during that period, up to a limit of 70% of taxable profit. During the first semester of 2020, the two-year increase in the period of expiry of each reporting period for periods prior to 2020 was published in the economic and social stabilization program, and the period of ten years for the expiry of losses generated in 2020, as well as how the deduction percentage was changed.

The Group considers that part of the reportable tax losses is recoverable, through their use to reduce future taxable income, and as such, it recorded the corresponding deferred tax asset. It should be noted that, although the Group has been exercising its legitimate right to contest, no deferred tax assets related to the reportable tax losses that resulted from the securitization operation in the years 2014 and 2015, in the amount of 99 million Euros, currently under discussion in a tax court.
As of 2017, the Group started to be taxed through the special taxation regime for groups of companies (“RETGS”), the tax result being calculated at TAP SGPS. However, your income tax estimate is recorded based on your tax results.

The detail of tax losses as of June 30, 2020 is detailed as follows:

	Without securitization	Securitization	Total	Deadline for deduction *
2014	-	31,071,000	31,071,000	2028
2015	96,780,010	67,927,000	164,707,010	2029
2018	78,541,247	-	78,541,247	2025
2019	192,497,861	-	192,497,861	2026
2020 (estimate)	754,035,714	-	754,035,714	2030
	1,121,854,832	**98,998,000**	**1,220,852,832**	

* According to the economic and social stabilization program.

As of June 30, 2020, and December 31, 2019, deferred tax assets are constituted for the totality of reportable tax losses without securitization.

8 Other receivables

As of June 30, 2020, and December 31, 2019, the detail of other accounts receivable is as follows:

	Jun 2020		Dec 2019	
	Current	Non-current	Current	Non-current
Customers	232,602,025	-	302,432,507	-
Swaps jet fuel (Note 21)	-	-	23,966,713	-
Security deposits of lease contracts	1,783,610	49,163,957	4,570,304	51,606,307
Recoverable maintenance reserves	-	61,829,821	12,361,581	64,428,164
Accrued income	15,145,338	-	52,558,097	-
Advances to suppliers	23,282,542	-	15,908,249	-
Other debtors	918,659,938	2,156,914	942,246,195	2,156,157
	1,191,473,453	**113,150,692**	**1,354,043,646**	**118,190,628**
Receivables impairment losses	(71,824,380)	(1,921,388)	(65,927,755)	(1,921,388)
	1,119,649,073	**111,229,304**	**1,288,115,891**	**116,269,240**

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

✈ Customers

As of June 30, 2020, and December 31, 2019, the customer account is broken down as follows:

	Jun 2020	Dec 2019
Private entities	96,132,579	138,601,024
Airline companies	28,696,230	18,886,632
Travel agency	18,372,445	66,570,860
Related parties (Note 36)	17,571,986	17,853,053
Other	11,572,473	5,782,117
Doubtful customers	60,256,312	54,738,821
	232,602,025	**302,432,507**
Impairment	(67,655,640)	(61,755,150)
	164,946,385	**240,677,357**

The variation in this item essentially consists of the effect of the reduction in activity in the first half of 2020.

The balances receivable from travel agencies and aviation companies are settled, essentially, through the IATA Billing and Settlement Plan ("BSP") and IATA Clearing House systems.

✈ Recoverable maintenance reserves

The caption Recoverable maintenance reserves refer to maintenance reserves paid in lease contracts with no purchase option, which will be realized during the period of the contracts.

✈ Security deposits of lease contracts

The security deposits are made under lease contracts for airplanes and reactors that will be returned, without interest, as these planes and reactors are returned to lessors. Additionally, at June 30, 2020, the caption “Deferred Expenses” includes an amount of 14 million Euros related to the financial effect of these accounts receivable, to be recognized in the period of the related lease agreements (Note 11).

This caption includes an amount of 381 thousand Euros related to Aigle Azur guarantee deposits (Note 36).

✈ Accrued income

As of June 30, 2020, and December 31, 2019, the item Earnings increases is detailed as follows:

	Jun 2020	Dec 2019
Airport facilities - incentives	3,161,073	3,524,855
Related parties (Note 36)	2,553,037	6,024,357
Insurance comparticipation	1,040,000	3,340,000
Work for aviation companies	742,632	32,291,173
Other	7,648,596	7,377,712
	15,145,338	**52,558,097**

The reduction in the amounts of work for aviation companies results from the reduction of activity in the maintenance of aircraft and third-party reactors, as a result of the pandemic COVID-19.

✈ Advances to suppliers

As of June 30, 2020 and December 31, 2019 the caption advances to suppliers is detailed as follows:

	Jun 2020	Dec 2019
Related parties (Note 36)	1,108,830	2,743,637
Others	22,173,712	13,164,612
	23,282,542	**15,908,249**

✈ Other current debtor

As of June 30, 2020, and December 31, 2019, the caption of other debtors is detailed as follows:

	Jun 2020		Dec 2019	
	Current	Non-current	Current	Non-current
Related parties (Note 36)	865,749,729	-	843,683,068	-
Advances related to lease contracts	14,299,149	-	22,710,579	-
Employees	11,510,089	-	18,892,199	-
Deposits and guarantees	8,098,296	-	2,565,631	-
Interline and other invoicing	4,366,414	-	11,638,094	-
Doubtful accounts	4,168,740	-	4,172,605	-
Representations VAT	2,085,120	-	1,697,080	-
Other	8,382,401	2,156,914	36,886,939	2,156,157
	918,659,938	**2,156,914**	**942,246,195**	**2,156,157**
Impairment	(6,090,128)	-	(6,093,993)	-
	912,569,810	**2,156,914**	**936,152,202**	**2,156,157**

The caption of advances related to lease agreements corresponds to amounts prepaid to the lessor, recoverable on the date of delivery of the aircraft.

✈ Impairment losses on other receivables

The movement in the accounts receivable impairment item, on June 30, 2020 and December 31, 2019, is as follows:

	Jun 2020	Dec 2019
Opening balance	67,849,143	67,304,371
Increases (Note 26)	6,701,641	8,049,354
Reversals (Note 26)	(46,167)	(4,665,324)
Utilisation	(758,849)	(2,839,258)
Closing balance	**73,745,768**	**67,849,143**

9 Inventories

The inventory details as of June 30, 2020 and December 31, 2019 are as follows:

	Jun 2020	Dec 2019
Raw materials and consumables	111,129,209	123,054,181
Inventory impairment losses	(25,510,612)	(22,724,204)
	85,618,597	**100,329,977**

Raw materials, subsidiaries and consumables refer to technical material for use in the maintenance and repair of own aircraft and in the works carried out for other aviation companies.

The movement in the inventory impairment losses item, in the periods ended June 30, 2020 and December 31, 2019, is as follows:

	Jun 2020	Dec 2019
Opening balance	22,724,204	23,158,930
Increases (Note 26)	2,833,319	48,341
Decreases (Note 26)	(25,067)	(478,692)
Utilisation	(21,844)	(4,375)
Closing balance	**25,510,612**	**22,724,204**

10 Income tax receivable/payable

As of 2017, the Group started to be taxed through the special taxation regime for groups of companies (“RETGS”), the tax result being calculated at TAP SGPS. However, the company's income tax estimate is recorded based on its tax results.

In the periods ended June 30, 2020 and December 31, 2019 the balances related to income tax receivable or payable are detailed as follows:

	Jun 2020		Dec 2019	
	Current assets	Current liabilities	Current assets	Current liabilities
RETGS: Related Parties (Note 36)				
Payments on account	122,893	-	122,893	-
Withholding taxes	1,081,500	-	770,466	-
Current income tax (Note 32)	(434,335)	-	(354,236)	-
	770,058	**-**	**539,123**	**-**
State and Other Public Entities				
Other	-	(17,430)	-	(17,430)
	-	**(17,430)**	**-**	**(17,430)**
	770,058	**(17,430)**	**539,123**	**(17,430)**

The caption Estimated IRC as at 30 June 2020 also includes the estimate as at 31 December 2019.

11 Other current and non-current assets

The other current and non-current assets as of June 30, 2020 and December 31, 2019 are detailed as follows:

	Jun 2020		Dec 2019	
	Current	Non-Current	Current	Non-Current
Deferred costs	24,085,804	14,045,155	30,553,073	16,207,546
State	1,399,743	-	4,130,842	-
	25,485,547	**14,045,155**	**34,683,915**	**16,207,546**

✈ Deferred costs

As of June 30, 2020 and December 31, 2019 deferred costs details as follows:

	Jun 2020		Dec 2019	
	Current	Non-Current	Current	Non-Current
Security deposits (Note 8)	-	14,045,155	-	16,207,546
Rental costs	367,245	-	833,740	-
Commissions	11,981,416	-	17,609,882	-
Related Parties (Note 36)	2,880,426	-	2,880,426	-
Other	8,856,717	-	9,229,025	-
	24,085,804	**14,045,155**	**30,553,073**	**16,207,546**

Commissions refer to amounts paid to agents for tickets sold, but not yet flown and not expired, on June 30, 2020 and December 31, 2019, respectively.

✈ State

In the periods ended June 30, 2020 and December 31, 2019 the balances of this caption are detailed as follows:

	Jun 2020	Dec 2019
VAT	3,732,369	3,932,987
Other	(2,332,626)	197,855
	1,399,743	**4,130,842**

As of June 30, 2020, and December 31, 2019, the outstanding VAT balance refers to refund requests, which have not yet been received.

12 Cash and cash equivalents

As of June 30, 2020, and December 31, 2019, the detail of cash and cash equivalents is as follows:

	Jun 2020	Dec 2019
Bank deposits available on demand	90,885,350	140,082,840
Term deposits	45,664,732	286,024,702
Other deposits	111,000	111,000
Cash	231,885	71,787
Cash and cash equivalents in the cash flow statement	**136,892,967**	**426,290,329**

13 Equity

As of June 30, 2020, and December 31, 2019, the share capital of TAP SA is fully subscribed and paid up, being represented by 8,300,000 shares with a nominal value of 5 Euros, fully owned by TAP - Transportes Aéreos Portugueses, SGPS, SA.

14 Supplementary capital contributions and Reserves

Supplementary capital contributions

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

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

Reserves

✈ Legal reserve

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

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

As at 30 June 2020 and 31 December 2019, the legal reserve was fully constituted in accordance with the commercial legislation in force.

✈ Hedge reserves

As at 30 June 2020, the positive amount of Euro 91,473,443, presented under the heading “Hedge reserves” corresponds to the fair value of financial instruments classified as hedging accounting (Euro 115,789,168), net of tax, in the amount of Euro 24,315,725 (Notes 7 and 21).

✈ Other reserves

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

Retained earnings

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

15 Post-employment benefits obligations

Assumptions used in the assessment of liabilities

The Group's liabilities were determined by actuarial studies, reported as of June 30, 2020 and December 31, 2019, prepared by independent entities, using the "Projected Credit Unit Method" and essentially using the following financial and demographic assumptions:

	Jun 2020		Dec 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	1.25%	1.25%	1.50%	1.50%
Fund yield rate	1.25%	1.25%	1.50%	1.50%
Growth rate				
Wages	[1,5%-5%]	2.00%	[1,5%-5%]	2.00%
Pensions	1.00%	1.00%	1.00%	1.00%
Trend of medical costs	1.50%	--	1.50%	--
Regular retirement age	66	65	66	65

The Group reviews periodically the actuarial assumptions, or whenever relevant events occur, based on market financial information and information related to the beneficiaries covered by these plans. At June 30, 2020, the discount rate if VIVA and Jublieu was reduced to 1.25%, following the decrease of the high-quality bonds interest rates.

Net liabilities as at 30 June 2020 and 31 December 2019 are detailed as follows:

	Jun 2020					
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Liabilities from past services						
- Active employees	679,165	3,369,818	-	105,563,302	-	109,612,285
- Early retirement	94,202	16,398,251	473,814	-	-	16,966,267
- Retired	9,793,996	27,728,549	2,762,093	-	16,919,499	57,204,137
Fair value of the fund	(14,869,055)	-	-	(48,979,049)	(15,497,524)	(79,345,628)
Defit/(surplus)	**(4,301,692)**	**47,496,618**	**3,235,907**	**56,584,253**	**1,421,975**	**104,437,061**

	Dec 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 actuarial study carried out by independent entities, the best estimate of contributions to pension benefit plans, for the subsequent year, is 6,000,000 Euros.

As of December 31, 2019, the Group's defined benefit plans in Portugal (excluding the UK Representation) covered 1,850 active beneficiaries. The total number of retired and pre-retired employees entitled to a retirement pension supplement as of December 31, 2019 was 689 beneficiaries.

On June 30, 2020 and December 31, 2019, the average maturity of the liabilities for the defined benefit plans “Fundo VIVA” is 12 years, and for the “Jubilee Awards” it is 12 years.

Sensitivity analysis

✈ **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 Jubileu Bonus would correspond to the following impacts on the Group's liabilities as at June 30, 2020 and December 31, 2019:

Jun 2020	Rate	VIVA Plan*	Jubileu Bonus
Annual discount rate of pensions	1.25%	58,063,981	105,563,302
0.25% increase in the discount rate	1.50%	57,026,503	101,785,612
0.25% decrease in the discount rate	1.00%	59,143,825	109,518,389

* Includes "VIVA Pensions" and "VIVA Fund"

Dec 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"

✈ **Growth rate of medical costs**

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 June 30, 2020 and December 31, 2019 is as follows:

	Rate	Jun 2020	Dec 2019
Annual growth rate of medical costs	1.50%	3,235,907	3,224,073
1% increase in the growth rate of medical costs	2.50%	3,494,295	3,481,516
1% decrease in the growth rate of medical costs	0.50%	3,007,385	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 June 30, 2020 and December 31, 2019 is as follows:

	Rate	Jun 2020	Dec 2019
Growth rate of VIVA Pension fund (*)	1.00%	58,063,981	57,705,494
0.25% increase in the Pension growth rate	1.25%	58,983,924	58,472,211
0.25% decrease in the Pension growth rate	0.75%	57,175,715	56,961,597

* Includes "VIVA Pensions" and "VIVA Fund"

Evolution of liabilities from past services

The movement of the liabilities from past services, reflected in the consolidated statement of financial position, as at June 30, 2020 and December 31, 2019, is as follows:

	Jun 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
Values recorded through profit or loss for the year:						
Current services	14,996	-	-	2,634,845	-	2,649,841
Net interest	77,345	355,446	24,180	748,351	-	1,205,322
Reestructuring - early retairment (Note 28)	-	713,461	-	-	-	713,461
Actuarial gain and losses	463,824	3,403,266	(12,346)	6,929,778	-	10,784,522
Benefits paid	(301,468)	(4,368,383)	-	(5,729,156)	-	(10,399,007)
Changes in plans	-	-	-	-	-	-
Liabilities at the end of the year	**10,567,363**	**47,496,618**	**3,235,907**	**105,563,302**	**16,919,499**	**183,782,689**

	Dec 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	-	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)
Changes in plans	-	-	-	-	-	-
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 pension benefit schemes

During the period from January 1, 2020 to June 30, 2020 and during the year 2019, the evolution of the funds' assets was as follows:

	Jun 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	-	3,000,000	-	3,000,000
Net interest	(566,663)	484,783	-	(81,880)
Benefits paid	(301,468)	(5,729,156)	-	(6,030,624)
Return of plan assets (excluding net interest)	-	(14,065)	-	(14,065)
Closing Balance	**14,869,055**	**48,979,049**	**15,497,524**	**79,345,628**

	Dec 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 its category as at June 30, 2020 and December 31, 2019 is as follows:

	Jun 2020				
	Fair value level	VIVA Fund	Jubileu Bonus	England Representation	Total
Shares	1	3,938,901	-	13,618,325	17,557,226
Bonds	1	5,953,125	47,509,677	1,666,797	55,129,599
Public debt	1	3,765,527	-	-	3,765,527
Real estate	2	304,157	-	-	304,157
Liquidity	1	907,345	1,469,372	-	2,376,716
Other current investments	1	-	-	212,402	212,402
		14,869,055	**48,979,049**	**15,497,524**	**79,345,628**

	Dec 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 relative to pensions and other post-employment benefits are detailed as follows:

	Jun 2020					
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Current Services	14,996	-	-	2,634,845	-	2,649,841
Net interest	644,008	355,446	24,180	263,568	-	1,287,202
Sub-total (note 25)	**659,004**	**355,446**	**24,180**	**2,898,413**	**-**	**3,937,043**
Reestructuring - early retairment (Note 28)	-	713,461	-	-	-	713,461
Total	**659,004**	**1,068,907**	**24,180**	**2,898,413**	**-**	**4,650,504**

	Jun 2019					
	VIVA Fund	VIVA Pensions	Health Care	Jubileu Bonus	England Representation	Total
Current Services	320	-	-	2,292,062	-	2,292,382
Net interest	(42,747)	510,317	-	382,578	-	850,148
Sub-total (note 25)	**(42,427)**	**510,317**	**-**	**2,674,640**	**-**	**3,142,530**
Reestructuring - early retairment (Note 28)	-	1,240,743	-	-	-	1,240,743
Total	**(42,427)**	**1,751,060**	**-**	**2,674,640**	**-**	**4,383,273**

As previously mentioned, the pilots of TAP S.A., admitted after 1 June 2007, benefit from a defined contribution plan. During the period from January 1, 2020 until June 30, 2020 a cost was recognized in the heading “Employee costs - expenses related to post-employment benefits obligation" in the amount of Euro 1,451 thousand (from January 1, 2019 until June 30, 2019: Euro 1,834 thousand), relative to the contributions made during the year in favour of its employees (Note 25).

The expenses relative to pensions and other post-employment benefits for 2020 and 2019 are recorded under the caption "Employee costs" (Note 25).

Remeasurement gains/losses

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

	Jun 2020					
	VIVA Fund	VIVA Pensons	Health Care	Jubileu Bonus	England Representation	Total
Remeasurements						
Return of assets, excluding amounts included in net income	-	-	-	14,065	-	14,065
	-	**-**	**-**	**14,065**	**-**	**14,065**
(Gains)/losses due to demographics	-	-	-	-	-	-
(Gains)/losses due to changes in financial assumptions	-	-	-	6,985,246	-	6,985,246
(Gains)/losses due to experience	463,824	3,403,266	(12,346)	-55,468	-	3,799,276
	463,824	**3,403,266**	**(12,346)**	**6,929,778**	**-**	**10,784,522**
Total remeasurements	**463,824**	**3,403,266**	**(12,346)**	**6,943,843**	**-**	**10,798,587**

	Dec 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 demographics	-	-	-	-	-	-
(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**

The actuarial gains / losses due to changes in financial assumptions recognized in 2020, amounting to Euro 10,798,587 result from the salary review and agreements established in 2018 with technical navigation personnel.

The remeasurement gains/losses were recognized directly in the Group comprehensive income.

16 Provisions

During the periods ended at June 30, 2020 and December 31, 2019, changes in provisions were as follows:

	Provision for legal claims	Other	Redelivery costs (Note 2)	Total
January 1, 2019	**11,797,878**	**416,777**	**-**	**12,214,655**
IFRS 16 adoption	-	-	26,082,076	26,082,076
Increases (Note 26)	-	-	62,616,178	62,616,178
Reversals (Note 26)	(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 26)	243,257	-	102,108,889	102,352,146
Reversals (Note 26)	-	(6,149)	(17,657,955)	(17,664,104)
Utilisation	-	-	(5,764,729)	(5,764,729)
Exchange variation	-	-	(224,133)	(224,133)
Exchanges and interests	-	-	(6,711,080)	(6,711,080)
June 30, 2020	**8,959,191**	**398,144**	**140,415,619**	**149,772,954**

✈ Provision for legal claims

Provisions for legal claims are recognized in accordance with the Group's and its legal advisors risk assessments, based on historical success rates by type of legal action and probability of unfavorable outcomes for the Group. As at June 30, 2020, the existing provision, amounting to Euro 8,959,191 is intended to cover the risk of several legal proceedings against the Group, in Portugal and foreign countries.

✈ Redelivery costs (note 1.1.3)

Increases in the provision for redelivery are recognized against the right to use and are subsequently subject to depreciation. The increase recognized compared to December 31, 2019 consists of the effect of updating the redelivery estimate made on June 30, 2020, considering the information available on that date.

17 Borrowings

✈ Borrowings

As at June 30, 2020 and December 31, 2019, Borrowings are detailed as follows:

	Jun 2020		Dec 2019	
	Current	Non-Current	Current	Non-Current
Bank loans	16,158,232	241,286,498	121,434,904	279,119,809
Interest accrued	1,454,898	-	2,562,446	-
Initial expenses	(687,974)	(3,143,568)	(1,922,791)	(2,081,336)
Remunerated bank debt	**16,925,156**	**238,142,930**	**122,074,559**	**277,038,473**
Bonds	124,478,607	575,000,000	2,588,428	698,172,098
Interest accrued	2,572,411	-	4,406,277	-
Initial expenses	(10,985,059)	(9,134,408)	(3,614,932)	(17,262,416)
Bond issuance	**116,065,959**	**565,865,592**	**3,379,773**	**680,909,682**
Lease liabilities w ith purchase option	45,868,557	443,138,802	35,896,286	242,325,894
Interest accrued	1,978,564	-	940,896	-
Initial expenses	(455,973)	(3,320,749)	(952,148)	(3,318,171)
Lease liabilities with purchase option	**47,391,148**	**439,818,053**	**35,885,034**	**239,007,723**
Lease liabilities without purchase option	**536,061,292**	**1,783,983,480**	**426,685,786**	**1,851,992,700**
Total Borrowings	**716,443,555**	**3,027,810,055**	**588,025,152**	**3,048,948,578**

✈ Net debt

As at June 30, 2020 and December 31, 2019, net debt is detailed as follows:

	Jun 2020	Dec 2019
Borrowings except Lease liabilities without purchase option		
Non-Current	1,243,826,575	1,196,955,878
Current	180,382,263	161,339,366
	1,424,208,838	**1,358,295,244**
Cash and Cash Equivalents (Note 12)		
Cash	231,885	71,787
Bank deposits available on demand	90,885,350	140,082,840
Other deposits	45,775,732	286,135,702
	136,892,967	**426,290,329**
Net debt	**1,287,315,871**	**932,004,915**

On June 30, 2020 and December 31, 2019, net debt, by maturity and by type of interest rate, breaks down as follows:

	Jun 2020	Dec 2019
Variable rate		
Up to 1 year	25,335,770	132,793,445
1 to 2 years	67,024,983	123,301,130
2 to 3 years	67,927,130	124,534,647
Over 3 years	159,338,081	80,684,039
	319,625,964	**461,313,261**
Fixed rate		
Up to 1 year	155,046,495	28,545,921
1 to 2 years	35,452,287	18,843,557
2 to 3 years	234,559,324	19,609,273
Over 3 years	679,524,768	829,983,232
	1,104,582,874	**896,981,983**
	1,424,208,838	**1,358,295,244**

✈ Remunerated bank debt

This item includes 141.4 million Euros referring to financing with a bank syndicate. In accordance with the conditions established in the Share Purchase Agreement, complemented by the TAP Group's debt restructuring and monitoring contract, referred to in Note 1, on June 30, 2017, the bank debt was restructured, the main changes being related to with the maturities and conditions of the financing, namely the applicable interest rate and spread.

On December 23, 2019 and February 12, 2020, TAP made a voluntary early repayment related to a financing with a Portuguese Banks syndicate in the amount of 47.5 million euros and 133.6 million euros, respectively. Following the first voluntary repayment referred to, it is no longer necessary to calculate the Net Debt / EBITDAR Ratio for the purposes of this financing.

In addition, the item bank loans include two loans from a national credit institution, in the amount of 90.6 million euros, and one loan from a Luxembourg financial institution, in the amount of 22.9 million euros.

✈ Bonds

The Group issued a bond issue of private subscription, fully subscribed on January 14, 2019, in the amount of 137.2 million Euros and maturing in 2034. Compliance with the payment of the subscribed value and the respective interest benefits from a guarantee of the depositary bank constituted by the issuer for a specific purpose (presented in the Balance Sheet as a deduction from the gross financial debt) and additional guarantees on contractual rights that do not affect any asset recognized in the issuer's balance sheet.

TAP SA made a public offer of 4-year bonds with a fixed interest rate of 4.375% per year, in the amount of 200 million Euros, called “TAP 2019-2023 Bonds”. The issuance, financial and physical settlement of the transaction, as well as the admission to trading of the bonds, took place on June 24, 2019 on Euronext

Lisbon. In December 2019, TAP SA also carried out a offer of 5-year bonds, with a fixed interest rate of 5.625% per annum, in the amount of 375 million Euros, called "TAP 2019-2024 Bonds". The issuance, financial and physical settlement of the transaction, as well as the admission to trading of the obligations, took place on December 2, 2019.

On June 30, 2020 and December 31, 2019 all loans other than leases are denominated in Euros.

✈ Lease liabilities with purchase option

At June 30, 2020 and December 31, 2019, the lease liabilities with purchase option (accrued of interests and deducted of initial charges), essentially related to airplanes and engines.

Financial leases liabilities, by currency, are detailed as follows:

	Jun 2020	Dec 2019
Lease liabilities in EUR	106,744,000	111,250,000
Lease liabilities in USD	380,465,200	163,642,757
	487,209,200	**274,892,757**

As of June 30, 2020, and December 31, 2019, lease liabilities with purchase option, by maturity, break down as follows:

	Jun 2020	Dec 2019
Up to 1 year	47,391,149	35,885,034
1 to 2 years	46,830,494	28,104,033
2 to 3 years	49,003,563	29,199,225
3 to 4 years	51,188,898	30,300,751
4 to 5 years	53,264,383	31,377,105
More than 5 years	239,530,713	120,026,609
	487,209,200	**274,892,757**

✈ Lease liabilities without purchase option

The caption Lease liabilities without purchase option refers essentially to the Group's non-cancellable payments under lease contracts, which vary in duration up to 12 years and may be extended at the express wish of the contracting parties, which are now recognized in the statement of financial position from January 1, 2019 with the adoption of IFRS 16.

As at June 30, 2020, there were 68 aircraft and 5 engines under lease contracts without purchase option and 21 aircraft under ACMI (Note 3).

As at June 30, 2020 and December, 31 2019 lease liabilities without purchase option, by maturity, break down as follows:

	Jun 2020	Dec 2019
Up to 1 year	536,061,293	426,685,786
1 to 2 years	348,950,232	366,503,715
2 to 3 years	269,742,365	284,950,720
3 to 4 years	199,041,419	214,759,116
4 to 5 years	185,071,912	178,078,585
Over 5 years	781,177,551	807,700,564
	2,320,044,772	**2,278,678,486**

These liabilities are mainly indexed to the US dollar.

✈ 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, operating duties relative to registrations at official entities, information relative to leased aircraft, strict compliance with all the regulations, and procedures defined by the authorities, amongst others.

In addition, 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, namely, with equity, EBITDAR, Net Debt / EBITDAR and net unsecured financial debt and minimum cash value and its unrestricted equivalents. These ratios are intended to monitor the financial situation of the TAP Group and measure its ability to guarantee debt service. With respect to one of the issues, the value of the ratio with reference to June 30 is higher than the accepted contractual limit, the Group reclassified the debt to Current Liabilities, efforts are being made to obtain the waiver by the date of verification (note 1.1.2).

Regarding the syndicated Financing of Portuguese Banks in the outstanding amount of 141.4 million euros as at 30 June 2020, the banks' waiver was obtained on August 18, 2020 regarding compliance with the financial covenant regarding the minimum amount of Equity consolidated (adjusted) of TAP SGPS until the end of 2020, with the next verification carried out in relation to the reference date of March 31, 2021 (Note 1.1.2).

✈ Reconciliation of cash flows borrowings and lease liabilities with purchase option

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	Lease liabilities with purchase option	Total
January 1, 2019	**643,970,125**	**131,969,705**	**775,939,830**
Receipts	702,045,778	77,014,133	779,059,911
Payments	(249,816,467)	(38,795,503)	(288,611,970)
New lease agreements	-	110,096,089	110,096,089
Currency translation differences	-	2,173,980	2,173,980
Other	(12,796,949)	(7,565,647)	(20,362,596)
31 December 31, 2019	**1,083,402,487**	**274,892,757**	**1,358,295,244**
Receipts	25,011,144	16,311,909	41,323,053
Payments	(172,077,336)	(17,933,144)	(190,010,480)
New lease agreements	-	215,449,474	215,449,474
Currency translation differences	(51,919)	3,048,003	2,996,084
Other	715,261	(4,559,798)	(3,844,537)
June 30, 2020	**936,999,637**	**487,209,201**	**1,424,208,838**

The contractual assignment of lease contracts results from the new fleet contracts, in which TAP has fully assigned its contractual position to the lessor. Therefore, no financial outflow will occur in the future.

18 Other payables

As at June 30, 2020 and December 31, 2019, the caption "Other payables" is detailed as follows:

	Jun 2020	Dec 2019
Suppliers	220,959,103	159,050,253
Accrued expenses	201,008,404	267,846,567
Swaps jet fuel (Note 21)	181,763,766	-
Advances from customers	752,305	780,485
Other	130,397,163	144,041,311
	734,880,741	**571,718,616**

✈ Suppliers

As at June 30, 2020 and December 31, 2019, the caption "Suppliers" is detailed as follows:

	Jun 2020	Dec 2019
Suppliers - current account	152,689,412	43,124,554
Suppliers - related parties (Note 36)	35,561,735	24,272,384
Suppliers - pending invoices	32,707,956	91,653,315
	220,959,103	**159,050,253**

The increase in this item is essentially the result of treasury management measures negotiated with counterparties as a result of the pandemic COVID-19, which correspond essentially to short-term payment plans and payment term increases.

✈ Accrued expenses

As at June 30, 2020 and December 31, 2019, the caption "Accrued expenses" is detailed as follows:

	Jun 2020	Dec 2019
Remunerations	97,933,125	104,486,573
Aircraft fuels and licenses and CO2 emissions	38,635,850	55,014,529
Insurance to be settled	21,921,596	4,828,488
Remuneration - air crew	7,689,707	23,985,431
Specialized w ork	6,218,854	7,877,443
Special sales charge	4,146,952	11,340,873
Handling services	3,048,940	5,200,894
Related parties (Note 36)	2,245,231	2,152,649
Navigation fees	2,001,759	13,777,851
Other accrued expenses	17,166,390	39,181,836
	201,008,404	**267,846,567**

The decrease in the payable item to be settled is associated with the fall in activity, as a result of the COVID-19 pendant.

Special charges for sales activities refer to commissions attributed to agents based on the revenue flown in the period obtained by this channel.

✈ Others

As of June 30, 2020, and December 31, 2019, the caption other payables current is detailed as follows:

	Jun 2020	Dec 2019
Taxes and fees	83,491,416	116,644,678
Fixed assets suppliers	22,898,658	12,648,319
Personal	747,528	831,461
Compensation for accidents at w ork	869,683	936,699
Related Parties (Note 36)	4,669	929,836
Other	22,385,209	12,050,318
	130,397,163	**144,041,311**

The heading of fees and taxes payable refers essentially to amounts payable to various entities, related to fees charged to customers on tickets issued. The variation compared to December 31, 2019 is due to the seasonality of the activity and its reduction in the first half of 2020.

19 Other current liabilities

As at June 30, 2020 and December 31, 2019, the caption other current liabilities are detailed as follows:

	Jun 2020	Dec 2019
Deferred income	59,707,772	55,823,690
State	38,242,985	38,989,195
	97,950,757	**94,812,885**

✈ Deferred income

As of June 30, 2020, and December 31, 2019, the caption deferred income is detailed as follows:

	Jun 2020	Dec 2019
Customer loyalty program	52,129,844	46,664,431
Investment grants	276,787	276,787
Related Parties (Note 34)	231,309	359,021
Other deferred income	7,069,832	8,523,451
	59,707,772	**55,823,690**

Within the scope of IFRS 15 - Revenue from contracts with customers, in the award of miles to customers adhering to the loyalty program called “TAP Miles & Go”, a contractual obligation is recognized based on the unit value of the mile. The increase in this item results from the lower use of miles that occurred after March 2020 as a result of the COVID-19 pandemic.

As of June 30, 2020 and December 31, 2019, the caption Other deferred gains essentially includes gains to be recognized associated with work for aviation companies, as provided for in IFRS 15.

✈ State

For the years ended June 30, 2020 and December 31, 2019, the balance of this caption is detailed as follows:

	Jun 2020	Dec 2019
Social security contribution	15,522,608	20,791,154
Personal income tax	22,720,377	18,162,559
Others	-	35,482
	38,242,985	**38,989,195**

As of 30 June 2020, the social security caption includes an amount of 7.2 million Euros referring to moratorium obtained under State benefits (Note 1.1), to be paid in installments of 1.2 million Euros during the months of July and December 2020. In addition, the Personal income tax caption also includes a moratorium of 15 million Euros, payable as follows: 4 million Euros from July to September 2020, 2 million Euros in October 2020 and 0.9 million Euros in November.

20 Liabilities from unused flight documents

As at June 30, 2020 and December 31, 2019, the Group's liabilities relative to unused flight documents were as follows:

	Jun 2020	Dec 2019
Passengers	669,293,424	480,330,860
Cargo	113,874	431,617
	669,407,298	**480,762,477**

Due to the significant reduction in activity after April 2020 and the cancellation of flights imposed on the aviation sector and the Group, the pending flight documents as of June 30, 2020 include significant amounts referring to flights not performed until that date, maintaining the Group your responsibility for providing the service in the future or for reimbursement under contractual terms. It should also be noted that the amounts included in the pending flight heading include vouchers and non-flown tickets for canceled flights.

21 Derivative financial instruments

As of June 30, 2020, and December 31, 2019, the Group had traded financial derivative instruments related to jet fuel swaps.

The Group has a policy of covering 50% to 60% of its jet fuel consumption needs for periods of up to 18 months. As a result of the COVID-19 pandemic, which started in March 2020, the Group's activity was abruptly interrupted, significantly changing jet fuel consumption estimates for the following months. In this context, the assumptions for the purposes of hedge accounting for jet fuel derivatives entered into were reviewed, concluding that there was an excess of coverage. In the first half of 2020, approximately 136 million euros of costs related to the negative fair value of derivatives that do not meet the hedge accounting requirements were recorded in financial results, of which 70.3 million euros refer to contracts that have already been ended (51.8 million Euros are already settled). For contracts in which it was possible to ensure compliance with the hedge accounting requirements, costs related to changes in fair value were recorded in the same period under the caption "Reserves in Equity" derivatives still outstanding in the amount of approximately 115.7 million euros.

On December 31, 2019, the Group had contracted derivatives on 687,000 tons of jet fuel, whose market value at that date was 23,966,713 Euros and with maturities between January 2020 and December 2020, covering approximately 55% of the estimated consumption.

22 Segment reporting

The following business segments were identified: air transport and maintenance. The results of each segment correspond to those that are directly attributable to it, as well as those that, on a reasonable basis, can be attributed to them. Activities aggregated under “Others” do not qualify to report separately.

The financial information, by business segment, as of June 30, 2020 and 2019, is analyzed as follows:

	Jun 2020				Jun 2019			
	Air Transport	Maintenance and engeneering	Other	Total	Air Transport	Maintenance and engeneering	Other	Total
Operating Income	601,797,694	40,350,366	3,944,246	646,092,306	1,348,768,553	95,248,766	4,838,123	1,448,855,442
Operating results	(384,566,985)	(8,605,374)	(34,377,802)	(427,550,161)	(96,864,771)	19,175,506	(7,274,345)	(84,963,610)
External net financial results	(292,676,184)	(3,842,259)	-	(296,518,443)	(54,739,738)	(2,654,931)	-	(57,394,669)
Income tax	132,317,714	2,600,508	7,182,068	142,100,290	32,335,374	(3,500,020)	1,541,131	30,376,485
Net Income	**(544,932,377)**	**(9,847,589)**	**(27,188,348)**	**(581,968,314)**	**(119,269,135)**	**13,020,555**	**(5,733,214)**	**(111,981,794)**

The Group does not present segmental assets and liabilities considering that this information is not presented to the main person responsible for making operational decisions.

The caption Operating income and gains for the semester ended June 30, 2020 and 2019 is as follows:

	Jun 2020				
	Passenger	Maintenance	Cargo and Mail	Other	Total
Revenue					
Sales	-	611,198	-	19,168	630,366
Services provided	545,443,436	37,856,104	53,224,795	2,900,073	639,424,408
Other income	-	-	-	6,037,532	6,037,532
	545,443,436	**38,467,302**	**53,224,795**	**8,956,773**	**646,092,306**

	Jun 2019				
	Passenger	Maintenance	Cargo and Mail	Other	Total
Revenue					
Sales	-	755,900	-	47,087	802,987
Services provided	1,275,122,771	91,767,180	65,789,589	4,534,981	1,437,214,521
Other income	-	-	-	10,837,934	10,837,934
	1,275,122,771	**92,523,080**	**65,789,589**	**15,420,002**	**1,448,855,442**

Sales and services provided by market by geographic area in the first half of 2020 and 2019 are as follows:

	Jun 2020					Jun 2019				
	Air Transport	Maintenance	Cargo and Mail	Other	Total	Air Transport	Maintenance	Cargo and Mail	Other	Total
Mainland and islands	42,561,367	3,113,381	2,635,574	2,334,186	50,644,508	98,636,024	7,047,117	3,852,336	3,262,007	112,797,484
Europe	190,954,935	28,526,335	2,661,022	346,045	222,488,337	529,595,851	78,802,573	6,374,642	953,671	615,726,737
South Atlantic	156,948,228	6,333,814	24,140,679	108,563	187,531,284	338,042,725	3,657,300	35,682,744	160,805	377,543,574
North Atlantic	77,305,646	121,087	8,175,559	61,666	85,663,958	158,662,059	817,437	11,411,475	84,192	170,975,163
Mid Atlantic	2,035,574	-	102,056	923	2,138,553	6,833,798	-	627,199	3,482	7,464,479
Africa	72,971,587	102,415	7,430,034	64,999	80,569,035	137,189,796	490,506	7,838,273	111,057	145,629,632
Other	2,666,099	270,270	8,079,871	2,859	11,019,099	6,162,518	1,708,147	2,920	6,854	7,880,439
	545,443,436	**38,467,302**	**53,224,795**	**2,919,241**	**640,054,774**	**1,275,122,771**	**92,523,080**	**65,789,589**	**4,582,068**	**1,438,017,508**

23 Other operating income

As of June 30, 2020, and 2019, the caption Other income is detailed as follows:

	Jun 2020	Jun 2019
Shared Services	2,900,073	4,534,981
Rents and Subleases	1,463,554	1,932,236
Recovered w arehouse material	1,284,598	2,121,836
Operating government grants	770,830	1,008,232
Publicity	406,182	890,184
Gains from tangible fixed assets	400	1,815,205
Commissions	-	440,815
Other supplemental operating income	2,131,136	2,676,513
	8,956,773	**15,420,002**

24 Expenses by nature

✈ Aircraft fuel

As of June 30, 2020, and 2019 the item Fuel for aircraft has the following detail:

	Jun 2020	Jun 2019
Aircraft fuel		
Jetfuel hedge	14,342,890	(14,030,568)
Consumption	146,035,117	368,727,744
CO_2 emission licences	2,581,344	5,584,286
	162,959,351	**360,281,462**

✈ Traffic operating costs

In the semester ended June 30, 2020 and 2019, the caption Traffic operating costs has the following detail:

	Jun 2020	Jun 2019
Handling services	44,691,677	96,154,767
Operational irregularities	43,806,432	30,122,356
Navigation fees	32,764,105	81,332,584
Landing charges	30,483,886	50,213,601
In-flight expenses	21,837,918	48,067,173
Accommodation and meals during stopovers	9,439,606	15,631,053
Aircraft charters	8,293,912	6,853,255
Baggage, cargo and mail charges	7,950,943	10,464,857
Facilities at airports	6,717,085	15,195,579
Air traffic control charges	6,341,274	10,582,119
Ground costs related to executive class passengers	2,378,283	5,990,023
Other traffic operating costs	3,189,562	3,717,803
	217,894,683	**374,325,170**

The reduction in most items is essentially the result of a reduction in the Group's activity during the Pandemic COVID-19.

✈ Aircraft maintenance costs

In the semester ended June 30, 2020 and 2019, the caption Aircraft maintenance costs has the following detail:

	Jun 2020	Jun 2019
Consumed inventories	4,416,123	13,969,691
Maintenance subcontracting of TAP flight equipment	10,591,977	14,476,092
	15,008,100	**28,445,783**

The aircraft maintenance expenses item refers to structural and recurring maintenance expenses, including line, for the TAP fleet. The variation observed is a consequence of the significant reduction in maintenance activity.

✈ Costs of materials consumed

On June 30, 2020 and 2019 the caption Costs of materials consumed has the following detail:

	Jun 2020	Jun 2019
Sold and consumed inventories	21,467,856	49,446,401
Maintenance subcontracting for third parties flight equipment	7,851,334	15,212,454
	29,319,190	**64,658,855**

The variation observed is a consequence of the significant reduction in maintenance activity.

✈ Commercial, communication and marketing costs

The caption Commercial, marketing and communication costs, in the semester ended on June 30, 2020 and 2019, has the following composition:

	Jun 2020	Jun 2019
Commissions	16,163,176	22,027,531
Booking fees	14,260,773	34,038,251
Publicity	8,933,144	12,147,967
Special sales charges - air transport	6,736,466	11,653,946
Specialised w ork	2,856,915	4,029,752
Other comercial, communication and marketing expeses	97,559	194,790
	49,048,033	**84,092,237**

The reduction in most items is essentially the result of a reduction in the Group's activity during the Pandemic COVID-19.

25 Employee costs

The caption Personnel costs, in the semester ended June 30, 2020 and 2019, had the following detail:

	Jun 2020	Jun 2019
Fixed remuneration	133,339,129	163,148,134
Variable remuneration	32,199,529	84,978,910
Social security contributions	28,102,617	54,130,001
Insurance	9,791,213	9,185,721
Social action costs	4,917,051	6,369,861
Post-employment benefits (Note 15)	5,387,584	4,460,485
Work accident insurance	2,408,074	2,977,671
Meals allowance	2,124,271	2,954,017
Training and recruitment	1,876,836	3,128,338
Uniform and work clothes	477,672	1,005,241
Other expenses with employees	623,791	606,938
	221,247,767	**332,945,317**

The decrease verified on June 30, 2020 compared to 2019 in the caption Employee costs is essentially due to the reduction in the Group's activity as a result of Pandemic COVID-19, especially with regard to variable remuneration, and adherence to the Lay-off with impacts in terms of the reduction of fixed remuneration and social charges on remuneration.

26 Impairment losses in inventories, receivables and provisions

In the semester ended June 30, 2020 and 2019, the caption Impairments of accounts receivable, inventories and provisions had the following detail:

	Jun 2020	Jun 2019
Inventory impairment (Note 9)	(2,808,251)	(792,367)
Receivables impairment (Note 8)	(6,655,474)	1,616,039
Provisions (Nota 16)	(237,108)	(493,167)
	(9,700,833)	**330,505**

27 Other expenses

The caption Other expenses, in the half-ended June 30, 2020 and 2019, had the following detail:

	Jun 2020	Jun 2019
Specialised w ork and subcontracts	36,002,670	39,463,395
Comunication	5,145,689	5,082,571
Conservation and repair of other assets	4,468,700	5,790,443
Rents	4,407,956	4,817,291
Transportation	2,124,219	3,551,413
Insurance	2,014,445	1,614,102
Fees	1,490,922	1,430,506
Surveillance and security	1,368,941	1,570,214
Travel costs	1,305,953	1,955,900
Books and technical documentation	1,109,670	672,455
Electricity	890,074	1,002,792
Cleaning, hygiene and comfort	708,463	763,039
Taxes	318,732	927,639
Other operating expenses	3,765,800	2,960,326
	65,122,234	**71,602,086**

Rent and rental expenses essentially refer to leases exempt under IFRS 16 for their low value, or rental contracts that do not contain an associated asset.

28 Restructuring

The caption Restructuring, in the semester ended June 30, 2020 and 2019, had the following detail:

	Jun 2020	Jun 2019
Early retirements (Note 15)	713,461	1,240,743
Employee indemnities	1,070,375	2,394,729
	1,783,836	**3,635,472**

29 Other non-recurring items

In the semester ended June 30, 2020 and 2019, the caption Other non-recurring items, in addition to restructuring expenses (Note 28), arises, essentially, from the various agreements with the union and consists of Annuities - Compensatory installments for Navegante and expenses associated with COVID-19 with aircraft preservation.

	Jun 2020	Jun 2019
Seniority - compensatory benefits to crew employees	46,035	919,197
Aircraft preservation costs	2,724,449	-
	2,770,484	**919,197**

✈ Annuities

On May 17, 2016, a memorandum of understanding was signed on the Group's seniority attribution model. Within the scope of this memorandum, it was defined that seniorities for the years 2011 to 2016, included in the scope of the prohibition on remunerative valuations, imposed by the budgetary regimes in force at the time would be restored until 2019, without any retroactive effects.

✈ Aircraft preservation costs

In the first half of 2020, this caption includes aircraft preservation expenses incurred as a result of the non-operation of the respective equipment.

Given their context and nature, these situations were considered by the Board of Directors as non-recurring in the context of these financial statements.

30 Depreciation, amortization and impairment losses

In the semester ended June 30, 2020 and 2019, the caption depreciation, amortization and impairment losses is broken down as follows:

	Jun 2020	Jun 2019
Depreciation of Tangible Fixed Assets (Note 3)		
Buildings and other constructions	2,753,880	2,707,912
Basic equipment	43,126,726	27,669,475
Transport equipment	24,255	28,429
Tools and utensils	364,595	315,873
Administrative equipment	596,291	516,911
Other tangible fixed assets	126,453	139,501
	46,992,200	**31,378,101**
Depreciation of Right-of-use (Note 3)		
Buildings and other constructions	357,142	357,142
Basic equipment	244,627,770	176,990,317
Transport equipment	127,419	143,680
	245,112,331	**177,491,139**
Amortisation of Intangible Assets (Note 5)		
Computer Programs	5,344,225	2,305,102
	5,344,225	**2,305,102**
Impairment losses in tangible assets (Note 3)		
Basic equipment	1,339,200	1,408,626
Total	**298,787,956**	**212,582,968**

31 Financial results

The caption Financial results for the semester ended June 30, 2020 and 2019 has the following details:

	Jun 2020	Jun 2019
Interest expenses	(31,790,112)	(15,354,443)
Lease interests related w ith contracts w ithout purchase option	(76,792,852)	(47,415,900)
Other financial expenses	(10,605,804)	(9,150,754)
Interests and similar expenses	**(119,188,768)**	**(71,921,097)**
Interest income	16,926,908	16,613,565
Interests and similar income	**16,926,908**	**16,613,565**
	-	-
Net foreign exchange differences	(57,968,435)	(2,087,137)
Net currency exchange	**(57,968,435)**	**(2,087,137)**
	-	-
Overhedge cost (Note 21)	(136,288,148)	-
Overhedge cost	**(136,288,148)**	**-**
Total	**(296,518,443)**	**(57,394,669)**

The unfavorable exchange rate differences that occurred in the semesters ended on June 30, 2020 and 2019 resulted essentially from the devaluation of the real and the kwanza, as well as from the appreciation of the dollar taking into account the volume of debt in this currency.

The increase in interest expenses on June 30, 2020 is mainly due to the increase in average debt and lease contracts.

32 Income Tax

The caption Income tax on June 30, 2020 and 2019 has the following detail:

	Jun 2020	Jun 2019
Deferred taxes (Note 7)	(142,180,390)	(435,021)
Current taxes (Note 10)	80,100	(29,487,350)
Differences from tax estimates	-	(454,114)
	(142,100,290)	**(30,376,485)**

The reconciliation of the income tax rate for the semester ended June 30, 2020 and 2019 is as follows:

	Jun 2020	Jun 2019
Net income/(loss) before income tax	(724,068,604)	(142,358,279)
Nominal tax rate	21.0%	21.0%
Expected tax	(152,054,407)	(29,895,239)
Permanent differences	9,874,017	(72,782)
Autonomous taxation	80,100	45,650
Differences from tax estimates for the previous year	-	(454,114)
	(142,100,290)	**(30,376,485)**
Effective tax rate	20%	21%

33 Earnings per share

There are no convertible financial instruments on the shares of TAP S.A., so there is no dilution of results. The detail of earnings per share for the semester ended June 30, 2020 and 2019 is as follows:

	Jun 2020	Jun 2019
Net income/(loss) for the year	(581,968,314)	(111,981,794)
Wheighted average number of shares	8,300,000	8,300,000
Basic and diluted earnings per share	(70.1)	(13.5)

34 Commitments

✈ Purchase commitments

The acquisition of 53 aircraft (39 A320 NEO Family and 14 A330 NEO) to be received between 2018 and 2025 is contracted with Airbus SAS ("Airbus") to be received between 2018 and 2025. This order arises from the novation to TAP SA of the acquisition contract previously negotiated and signed between Airbus and DGN Corporation. Of these, contracts to assign a contractual position with subsequent leaseback and sale and leaseback contracts for 18 aircraft have been signed to date, of which 17 aircraft have already been received.

A contract is also in force with CFM International Inc., S.A. regarding the acquisition of 83 LEAP-A1 reactors, including 5 reserve reactors, which will equip and serve the new fleet of A320 NEO Family aircraft. It should be noted that these reactors will be purchased directly by Airbus, apart from reserve reactors. Regarding the reserve reactors, of the 5 planned, 3 have already been acquired

Contracts were also signed with Rolls-Royce, covering maintenance support for all TRENT 7000 reactors, which equip A330 NEO aircraft, as well as the acquisition of three reserve reactors, all acquired at June 30, 2020.

However, the delivery dates for 13 A320neo aircraft from 2012-2022 to 2025-2027 and the delivery date for the A330neo from 2022 to 2024 were renegotiated with Airbus.

✈ Other commitments

Operational lease agreements are signed for aircraft whose entry into operation will only occur between the second half of 2020 and 2021, whose minimum value of future non-cancellable rents amounts to approximately 180 million of Euros on 30 June 2020.

35 Contingencies

As of June 30, 2020, and December 31, 2019, the Group does not have contingent assets subject to disclosure, and contingent liabilities were as follows:

	Jun 2020	Dec 2019
Tax contingencies	540,075	7,574
Civil contingencies	10,964,959	7,704,097
Regulatory contingencies	1,022,650	9,291,545
Total	**12,527,684**	**17,003,216**

Regulatory contingencies essentially include processes initiated by customers regarding irregularities in the activity. The Group, supported by the opinion of the Lawyers, considered that an unfavorable outcome of these processes is not likely.

✈ Guarantees provided

As of June 30, 2020, and December 31, 2019, the guarantees provided by the Group are detailed as follows:

	Jun 2020	Dec 2019
Bank guarantees provided by Head Office		
Aircrafts	90,947,824	93,241,143
Fuel	893,017	1,540,155
Portuguese State - Operation of the Azores routes	1,653,985	1,653,985
Airports	1,031,338	1,028,088
Labour Court	474,902	521,842
Other	6,228,452	6,098,452
Bank guarantees provided by Representations	2,239,092	2,145,382
	103,468,610	**106,229,046**

As mentioned in the Introductory Note, it was decided by the General Meeting of TAP SGPS, on March 8, 2016, to recognize the full effect of the bond issue by TAP SGPS as well as the effect of the collateral provision agreement, entered into in within the scope of said bond issue, between TAP SGPS, TAP SA, Megasis - Sociedade de Serviços de Engenharia e Informática, SA, Azul SA and Bondholders, SL.

36 Related parties

The balances and transactions, with related entities on June 30, 2020 and December 31, 2019, are as follows:

✈ Balances

Jun 2020 - Assets	Customers (Note 8)	Advances to suppliers (Note 8)	Accrued income (Note 8)	Deferred expenses (Note 11)	Income tax receivable (Note 10)	Right-of-use assets	Other receivables current (Note 8)	Total
TAP SGPS	(4,791)	-	885	-	715,053	-	856,662,174	**857,373,321**
Azul S.A.	399,349	-	-	-	-	-	1,562	**400,911**
TAPGER	82,381	-	-	-	-	-	-	**82,381**
PGA	(1,182,427)	-	1,278,060	-	-	149,210,186	278,841	**149,584,660**
SPdH	1,966,187	-	1,128,307	1,471,775	-	-	1,289,740	**5,856,009**
TAP ME Brasil	14,852,364	1,107,830	-	-	-	-	6,741,995	**22,702,189**
Cateringpor	478,084	-	-	-	-	-	583,402	**1,061,486**
UCS	85,329	1,000	145,785	1,408,651	-	-	192,016	**1,832,781**
Aigle Azur Compagnie de Transport Aérien	894,170	-	-	-	-	-	381,318	**1,275,488**
Barraqueiro Group	1,340	-	-	-	-	-	-	**1,340**
	17,571,986	**1,108,830**	**2,553,037**	**2,880,426**	**715,053**	**149,210,186**	**866,131,048**	**1,040,170,566**

Dec 2019 - Assets	Customers (Note 8)	Advances to suppliers (Note 8)	Accrued income (Note 8)	Deferred expenses (Note 11)	Income tax receivable (Note 10)	Right-of-use assets	Other receivables current (Note 8)	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**

Jun 2020 - Liabilities	Suppliers (Note 18)	Accrued expenses (Note 18)	Deferred income (Note 19)	Lease liabilities without purchase option non-current	Lease liabilities without purchase option current	Other payables current (Note 18)	Total
TAP SGPS	(181,158)	-	-	-	-	265	**(180,893)**
Azul S.A.	623	(596)	-	-	-	-	**27**
TAPGER	(70)	-	-	-	-	-	**(70)**
PGA	(19,399,940)	388,968	-	(104,962,996)	(85,862,803)	344	**(209,836,427)**
SPdH	(6,256,366)	(1,971,480)	(100,636)	-	-	(82)	**(8,328,564)**
TAP ME Brasil	(812,652)	(22,907)	-	-	-	-	**(835,559)**
Cateringpor	(5,877,480)	(562,590)	(101,837)	-	-	-	**(6,541,907)**
UCS	(2,703,668)	(76,626)	(28,836)	-	-	(5,196)	**(2,814,326)**
Aigle Azur Compagnie de Transport Aérien	(316,941)	-	-	-	-	-	**(316,941)**
Barraqueiro Group	(14,083)	-	-	-	-	-	**(14,083)**
	(35,561,735)	**(2,245,231)**	**(231,309)**	**(104,962,996)**	**(85,862,803)**	**(4,669)**	**(228,868,743)**

Dec 2019 - Liabilities	Suppliers (Note 18)	Accrued expenses (Note 18)	Deferred income (Note 19)	Lease liabilities without purchase option non-current	Lease liabilities without purchase option current	Other payables current (Note 18)	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

	Jun 2020						
	Operating income	Operating expenses	Depreciation right-of-use	Interest income	Interest expenses	Income tax	Total
TAP SGPS	-	(1,599,517)	-	15,918,358	-	-	14,318,841
Azul S.A.	173,276	(21,157)	-	-	-	-	152,119
TAPGER	-	-	-	-	-	-	-
PGA	1,011,240	(2,605,700)	(44,230,119)	-	(8,290,732)	-	(54,115,311)
SPdH	2,986,117	(24,166,832)	-	-	-	-	(21,180,715)
TAP ME Brasil	197,006	(447,488)	-	-	-	-	(250,482)
Cateringpor	761,204	(9,888,166)	-	-	-	-	(9,126,962)
UCS	339,144	(1,958,966)	-	-	-	-	(1,619,822)
Aigle Azur Compagnie de Transport Aérien	441,780	(22)	-	-	-	-	441,758
Barraqueiro Group	16	(11,163)	-	-	-	-	(11,147)
	5,909,783	**(40,699,011)**	**(44,230,119)**	**15,918,358**	**(8,290,732)**	**-**	**(71,402,884)**

	Jun 2019						
	Operating income	Operating expenses	Depreciation right-of-use	Interest income	Interest expenses	Income tax	Total
TAP SGPS	-	(3,000,030)	-	15,144,174	(4,734)	(96,330)	12,043,080
Azul S.A.	99,147	(136,117)	-	-	-	-	(36,970)
TAPGER	250,000	-	-	-	-	-	250,000
PGA	1,063,833	(6,388,416)	(45,864,051)	-	(11,587,797)	-	(62,776,431)
SPdH	3,607,158	(48,324,618)	-	-	-	-	(44,717,460)
TAP ME Brasil	70,878	(5,537,503)	-	-	-	-	(5,466,625)
Cateringpor	807,711	(24,856,985)	-	-	-	-	(24,049,274)
UCS	487,005	(2,523,914)	-	-	-	-	(2,036,909)
Aigle Azur Compagnie de Transport Aérien	184,064	(493,918)	(4,289,252)	-	(94,196)	-	(4,693,302)
Barraqueiro Group	286	(107,762)	-	-	-	-	(107,476)
	6,570,082	**(91,369,263)**	**(50,153,303)**	**15,144,174**	**(11,686,727)**	**(96,330)**	**(131,591,367)**

Transactions with SPdH refer to ground handling services provided by SPdH to support aircraft, passengers, luggage, cargo and mail.

In addition to the operations, the Group, within the scope of the normal development of its air transport activity, maintains commercial relations, essentially codeshare, with Azul and Aigle Azur. These transactions are carried out on terms and conditions like those practiced in commercial agreements usually concluded with other airlines.

As of June 30, 2020, the related parties were as follows:

Aeropar	Frota Azul (Algarve), Lda.	Rodoviária do Alentejo, S.A.
Aigle Azur Compagnie de Transport Aérien	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
Azul Linhas Aéreas Brasileiras	PGA	TAP SGPS
Barraqueiro Transportes, S.A.	RDL - Rodoviária do Lis, Lda.	TAPGER
Cateringpor	RDO – Rodoviária do Oeste, Lda	UCS
Cityrama - Viagens e Turismo, S.A.	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.	

37 Subsequent events

Signing of a financing contract with the Portuguese State and agreements with an impact on the share structure of Grupo TAP

On June 10, 2020, the European Commission announced its decision to approve the granting of State aid, in the form of a loan, in favor of TAP's sole shareholder, TAP - Transportes Aéreos Portugueses, SGPS, SA ("TAP SGPS"), in the amount of up to 1.2 billion euros (Note 1).

On July 2, 2020, through a joint statement made by His Excellencies, the Minister of State and Finance, the Minister of Infrastructure and Housing and the Secretary of State for the Treasury, announced that the Portuguese State had reached an agreement in principle with the private shareholders of TAP SGPS, which was expected to result in a change in the level of indirect shareholder structure of TAP.

Following the aforementioned announcements, the representatives of the Portuguese State, private shareholders (direct and indirect) of TAP SGPS and the TAP Group negotiated a set of contractual instruments, with a view, in summary:

i. The granting, by the Portuguese State, of a remunerated loan in favor of the TAP Group, in the amount of up to 946 million euros (to which may be added an additional amount of 254 million euros, without, however, the Portuguese State becoming is linked to its availability), as approved by the European Commission;
ii. The acquisition by the Portuguese State, through the Directorate-General for Treasury and Finance, of shareholdings, economic rights and a part of the ancillary payments of the current shareholder of TAP SGPS, Atlantic Gateway, SGPS, Lda., In order the Portuguese State to hold a total social stake of 72.5% and the corresponding economic rights in TAP SGPS, for the amount of 55 million euros;
iii. The execution of a memorandum of understanding under which Azul, S.A. (indirect shareholder of TAP SGPS) agreed to waive its conversion right as holder of convertible bonds issued by TAP SGPS in the nominal value of 90 million euros. In August 2020, Parpublica also renounced the respective conversion right as holder of convertible bonds by TAP SGPS for a nominal value of 30 million euros; and
iv. The transfer to HPGB, SGPS, SA of shares representing 22.5% of the share capital and voting rights of TAP SPGS, as well as ancillary installments in TAP SGPS, held by Atlantic Gateway, SGPS, Lda., Thus leaving the Atlantic Gateway, SGPS, Lda. To be a shareholder of TAP SGPS.

To guarantee the fulfillment of the obligations that for the TAP Group result from the loan granted by the Portuguese State, a financial pledge was granted on all the shares representing the share capital of TAP and Portugália - Companhia Portuguesa de Transportes Aéreos, SA in favor of the State Portuguese, which in case of execution will have impacts at the level of TAP's shareholder structure. In addition, the Portuguese State may use the shares that it may eventually hold in TAP as a result of the conversion of the credit used under the interest-bearing loan or the execution of the aforementioned pledge to proceed with a capital increase in kind at the level of TAP SGPS. For this purpose, at the Extraordinary General Meeting of TAP SGPS held on September 3, 2020, the resolution on the increase in the Company's conditioned capital [TAP SGPS] in kind from 15,000,000 euros to 1,200,000,000 euros was approved , carried out by one or more contributions in kind from the Portuguese Republic or by an entity indicated by it under the terms and for the purposes of Article 87 of the Portuguese Companies Code.

On July 16, 2020 and after the respective approval at the level of the Board of Directors of TAP SGPS, a definitive agreement was reached by all parties involved in the scope of this negotiation process by reference to the essential terms described above, thus meeting conditions are met for the formalization of all contractual documents considered necessary.
The execution of the operations described above is still subject to the fulfillment of several precedent conditions, including the applicable regulatory authorizations, as well as internal approvals.

The first tranche of the interest-bearing loan by the Portuguese State referred to above, in the amount of EUR 250 million, was made on 17 July 2020, the second tranche in the amount of EUR 224 million, was made on 30 July 2020 and the third tranche, amounting to EUR 25 million, was made on August 31, 2020.

Dismissal of precautionary measure by decision of the Supreme Administrative Court

As communicated to the market and the general public on June 26, 2020, TAP and TAP SGPS were formally cited by the Supreme Administrative Court, as Counter-Interested Parties, under the terms and for the purposes of Cautionary Procedure 55 / 20.1 BALSB, to inhibit the administrative act by which the Portuguese State will grant, or authorize the granting, directly or through Parpública - Participações Públicas (SGPS), SA financial aid to TAP SGPS or directly to its subsidiary TAP. The Commercial Association of Porto - Chamber of Commerce and Industry of Porto and Nuno Luis Cameira de Sousa Botelho are identified as Claimants and, as required, the Council of Ministers.

On July 29, 2020, the precautionary measure contained in the best referenced records was dismissed by decision of the Supreme Administrative Court ("Tribunal"). In summary, the Court understood that it was not probable that a request for condemnation of the non-practice of the act of granting or using the loan to TAP was not likely, or, if it were to be practiced, the origin of its challenge.

Ordinary General Meeting of Bondholders, related to the issue "OBLIGATIONS TAP 2019-2023"

Following the holding of the Annual General Meeting of Bondholders, related to the issue "OBRIGAÇÕES TAP 2019-2023", with ISIN PTTAPBOM0007, held on September 14, 2020, TAP's Board of Directors Proposal regarding the punctual waiver of duty to maintain the group relationship by total domain between TAP - Transportes Aéreos Portugueses, SGPS, SA and Transportes Aéreos Portugueses, SA as a result of the potential holding, directly by the Portuguese State, of shares representing the share capital of Transportes Aéreos Portugueses, SA.

Change in the composition of TAP's Board of Directors

Following the resignation presented by the Member of the Board of Directors of TAP, Mr. Eng. Antonoaldo Grangeon Trancoso Neves and the acceptance by the National Civil Aviation Authority (ANAC) of his replacement in the functions of responsible administrator of TAP (“accountable manager”) , pursuant to Regulation no. 831/2010, of 8 November), TAP SGPS, as the sole shareholder of TAP, appointed Mr. Ramiro José Oliveira Sequeira on 16 September 2020 Member of the Board of Directors of TAP, for the remaining term of the current term (three-year period 2018-2020), with effect from 17 September 2020, assuming also the functions of Chairman of the Executive Committee and responsible director TAP, from the same date.

The mentioned resignation presented by Mr. Eng. Antonoaldo Grangeon Trancoso Neves took effect on September 16, 2020.

Mr. Eng. Antonoaldo Grangeon Trancoso Neves also resigned from the other positions he assumed in the directive structure of the other entities that make up the TAP Group, including at TAP SGPS, being replaced by Mr. Ramiro José Oliveira Sequeira, with effect from September 17, 2020.

Restructuring Plan to be submitted for approval by the European Commission

TAP is currently preparing the restructuring plan (“Plan”) to be submitted to the European Commission until December 10, 2020. The main focus of the Plan will be to ensure the sustainability and profitability of TAP, through proper planning routes and fleet, adapting the TAP product to the current and post-COVID-19 reality, and increasing the effectiveness and efficiency of the central services and units of the TAP SA Group.

As part of the elaboration of the Plan that involves the key areas of the Company, a steering commitee, led by the Chairman of the Board of Directors of TAP SGPS, Dr. Miguel Frasquilho, was created to conduct the work and a strategic consultant was hired to assist TAP SA in preparing the Plan.

CHARTERED ACCOUNTANT	BOARD OF DIRECTORS
João Carlos da Silva Bernardes	Humberto Manuel dos Santos Pedrosa Chairman
	David Gary Neeleman Member
	Ramiro José Oliveira Sequeira Chairman Executive Committee
	David Humberto Canas Pedrosa Executive Committee Member
	Raffael Guarita Quintas Alves Executive Committee Member

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Review Report on the Condensed Consolidated Financial Statements

(Free translation from the original in Portuguese)

Introduction

We have reviewed the accompanying condensed consolidated financial statements of Transportes Aéreos Portugueses, S.A. (the Group), which comprise the consolidated statement of financial position as at June 30, 2020 (which shows total assets of Euros 5,014,530,443 and total negative shareholder's equity of Euros 564,208,864, including a net loss of Euros 581,968,314), the consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and the accompanying explanatory notes to these condensed consolidated financial statements.

Management's responsibility

The Management is responsible for the preparation of the condensed consolidated financial statements in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union, as well as to create and maintain appropriate systems of internal control to enable the preparation of condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the accompanying condensed consolidated financial statements. We conducted our review in accordance with ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Those standards require that we conduct the review in order to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union.

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

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

Basis for qualified conclusion

As disclosed in note 1.1.3 of the accompanying notes to the financial statements, on June 10, 2020, the European Commission approved the granting of a State aid, by means of a loan, in favour of the Group's sole shareholder, in the amount of 1.2 billion euros, which implies the presentation by Group TAP of a restructuring plan, within six months, in case of non-reimbursement of the referred loan. As also disclosed in the referred note, at this date, the long-term business plan is being prepared, so it is not approved by the Group's Board of Directors.

Therefore, the financial statements for the period of six-months ended on June 30, 2020 do not reflect the impacts of the recoverability analysis, not performed at this date, in accordance with IAS 36 - Impairment of assets and IAS 12 – Income taxes.

Taking into account the abovementioned facts, and based on the impacts of COVID-19 pandemic and the projections for the air transport sector, at this date, we consider that tangible fixed assets related to the air fleet, the corresponding deferred tax liability and the deferred tax assets arising from tax losses are overstated, and the net loss for the period is understated, by an amount that, in the present circumstances, we cannot quantify with a reasonable assurance.

Qualified conclusion

Based on our review, except for the effects of the matter referred to in paragraphs above in the "Basis for qualified conclusion" section, nothing has come to our attention that causes us to believe that accompanying condensed consolidated financial statements of Transportes Aéreos Portugueses, S.A. as at June 30, 2020 are not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union.

Emphasis

Without qualifying our conclusion expressed in the paragraph above, we draw attention to the disclosure in note 1.1.6 of the accompanying notes to the financial statements, in which the Board of Directors reports that, based on the signed loan contract granted by the Portuguese State up to 1.2 billion euros and the restructuring plan in progress, the financial statements for the six-month period ended on June 30, 2020 were prepared on a going concern basis, which is dependent on the conclusion of the restructuring plan and, in case of a potential worsening of COVID-19 pandemic and its impacts on the air transport activity and, consequently, on the future operational activity of the Group, on obtaining additional financial resources.

September 28, 2020

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

António Joaquim Brochado Correia, R.O.C.