

# Results Presentation

## 4Q2019 & FY2019

Transportes Aéreos Portugueses, S.A.

March 11, 2020





## Disclaimer

This document was prepared by Transportes Aéreos Portugueses, S.A (“TAP”) and may be subject to change and all data included in the present document shall refer to the document date. TAP shall not be under any obligation to update this document.

This document shall be read jointly with TAP’s 2019 Annual report available in [www.tapairportugal.com](http://www.tapairportugal.com).

The information contained in this document is released for general purposes and is not and shall not be understood as an offer (public or private) of securities issued by TAP or as professional advice.

This document may contain forward-looking information and statements, based on management’s current expectations or beliefs. Forward-looking statements are statements that shall not be interpreted as historical facts.

These forward-looking statements are subject to a number of factors and uncertainties that can cause actual results to differ materially from those described in the forward-looking statements, including, but not limited to, changes in regulation, in the airline industry, in competition and in economic conditions. Forward-looking statements may be identified by words such as “believes”, “expects”, “anticipates”, “projects”, “intends”, “should”, “seeks”, “estimates”, “future” or similar expressions.

Although these statements reflect our current expectations, which we believe are reasonable, investors, and, generally, all the recipients of this document are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond our control, that can cause actual results and developments to differ materially from those expressed in, or implied or projected by the forward-looking information and statements. All the recipients of this document are cautioned not to put undue reliance on any forward-looking information or statements. TAP does not undertake any obligation to update any forward-looking information or statements.

TAP’s consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. TAP adopted on January 1, 2019 IFRS 16 – Leases, having selected the modified retrospective model as of the transition date, which does not foresee the restatement of the financial statements from previous years. 2018 Consolidated Financial Statements have not been adjusted for IFRS 16 effects, therefore they are not comparable to 2019 Consolidated Financial Statements.



# Agenda

**1. Main Achievements 2019**

**2. Financials 2019**

**3. Latest Developments**

# 2019 A Turnaround Year

4 years since privatization



## Main Achievements of 2019

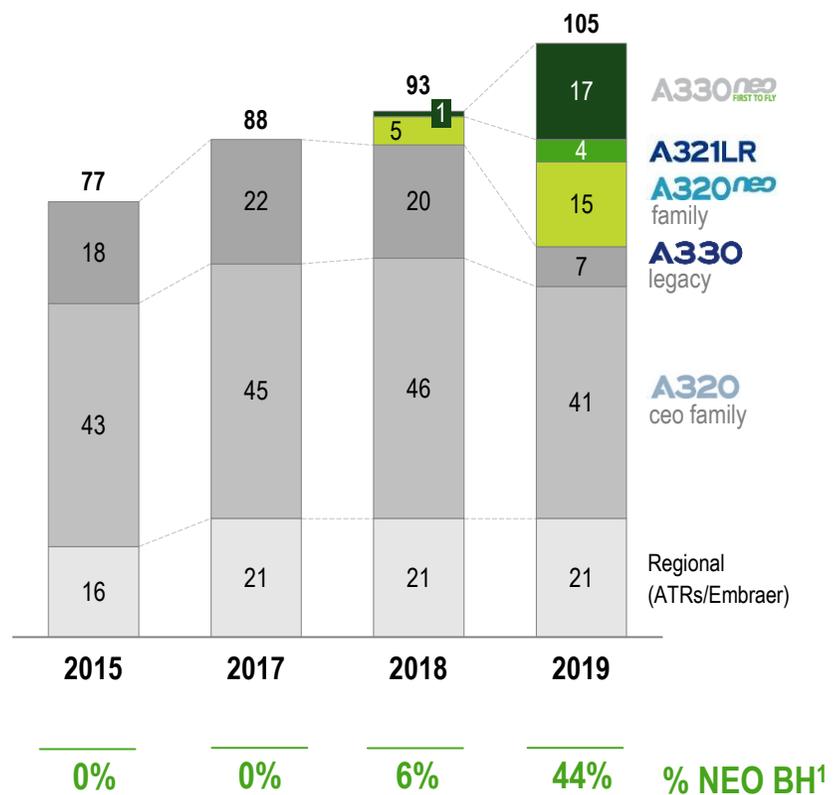
- 1 FLEET RENEWAL
- 2 NEW MARKETS & NETWORK REDESIGN
- 3 CUSTOMER SATISFACTION
- 4 DEBT RENEGOTIATION & FINANCING SOURCES DIVERSIFICATION

# 1 | Fleet Renewal

More than 40% of block hours flown on NEO fleet by year end 2019

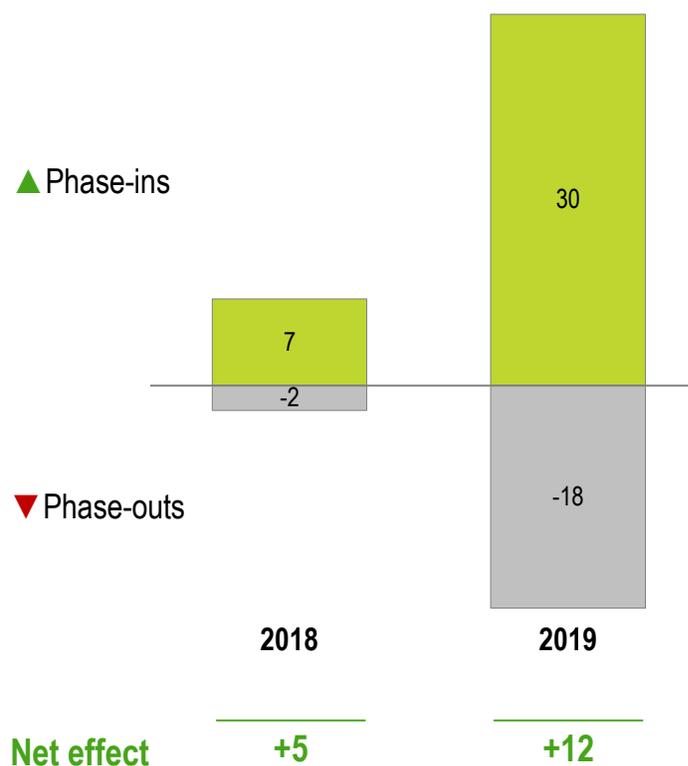
## Operational Fleet Plan

Number of aircraft at year end



## Aircraft's phase-in and phase-out

Number of aircraft



- NEOs allowing an **8-19% unit cost reduction**
- **Costs of 55 M€** with aircraft's phase-ins and phase-outs, in 2019
- **Flexibility** to quickly dispose **22 narrow-body aircraft**

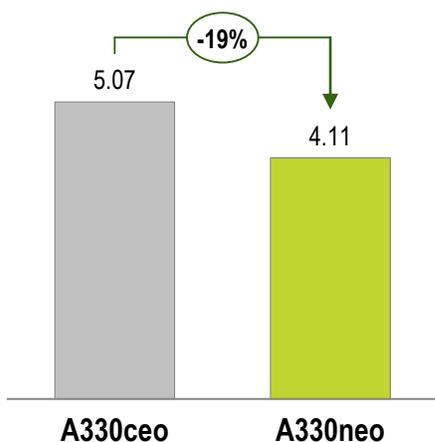
1. At year end, considering December as reference.

# 1 | Fleet Renewal

Fleet transformation driving margin expansion

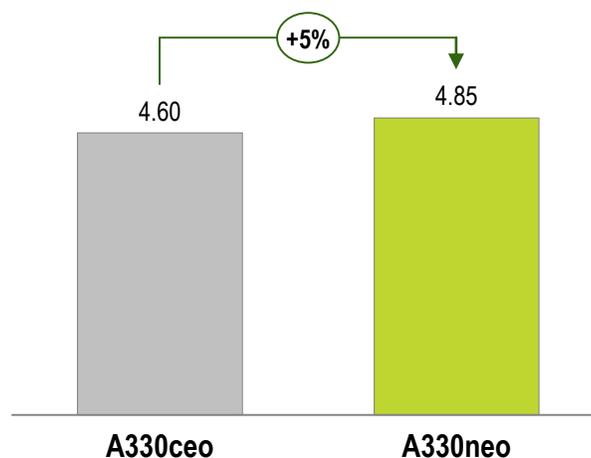
## Wide-body CASK Reduction<sup>1</sup>

EUR cents



## Wide-body PRASK Improvement<sup>1</sup>

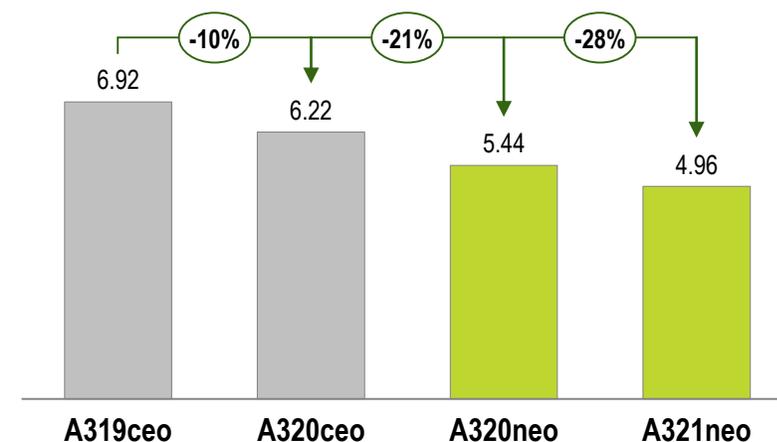
EUR cents



PRASK improvement driven by **more premium passengers** and **higher ancillary revenues**

## Narrow-body CASK Reduction<sup>1</sup>

EUR cents



# Seats <sup>2</sup>	A330ceo	A330neo
2018	96%	4%
2019	21%	79%

# Seats <sup>2</sup>	A319ceo	A320ceo	A320neo	A321neo
2018	43%	47%	3%	8%
2019	29%	34%	15%	22%

1. Based on actuals LTM Nov-2019 per flight date; 2. Physical seats; 3. Breakdowns based on % of total block hours for CEOs vs. NEOs at year end.

# 1 | Fleet Renewal

A321LR allowing to deploy additional capacity at a lower cost with unbeatable fuel efficiency

## A321LR in review

**4** Aircraft in the Fleet **+2** Deliveries expected in 2020

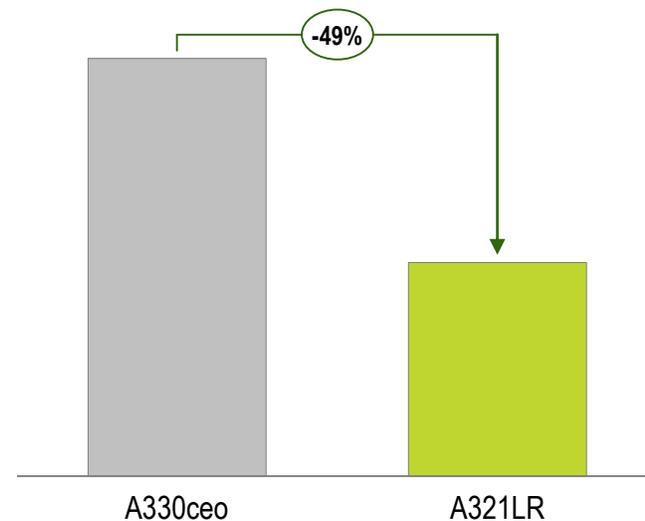
**6** Destinations operated with A321LR<sup>1</sup>  
EWR, IAD, YUL, BEL, NAT, MCZ

- **Unique geographic location** of TAP's hub enables the utilization of the LR **for transatlantic flights**
- **TAP was A321LR's launch operator in Europe**, being the 1<sup>st</sup> to fly passengers transatlantic
- Excellent alternative for **off-peak demand** in long-haul routes



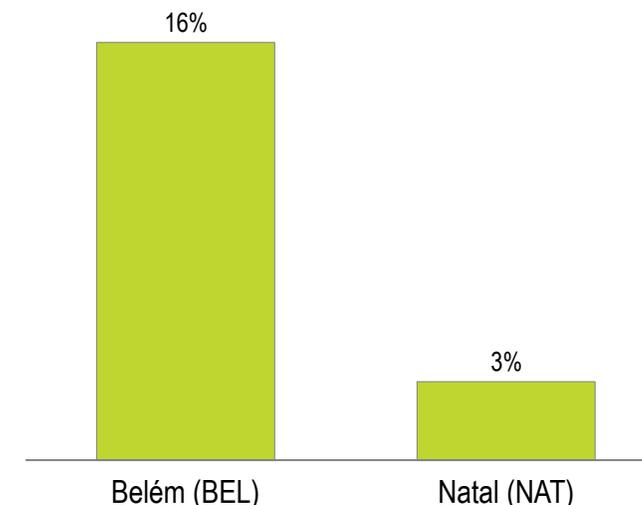
## A321LR allowing significant operational savings

Average Trip Cost<sup>2</sup>



## A321LR introduction reflected in PRASK improvement

Δ PRASK YoY (%), monthly average<sup>3</sup>



1. During 2020 this aircraft will be operated in additional routes; 2. Average of reduction in a route with 5,700 km average stage length; 3. Since introduction of A321LR on routes.

## 2 | New Markets & Network Redesign

### European Network Redesign

#### Network Redesign in 2019

##### Additional Destinations

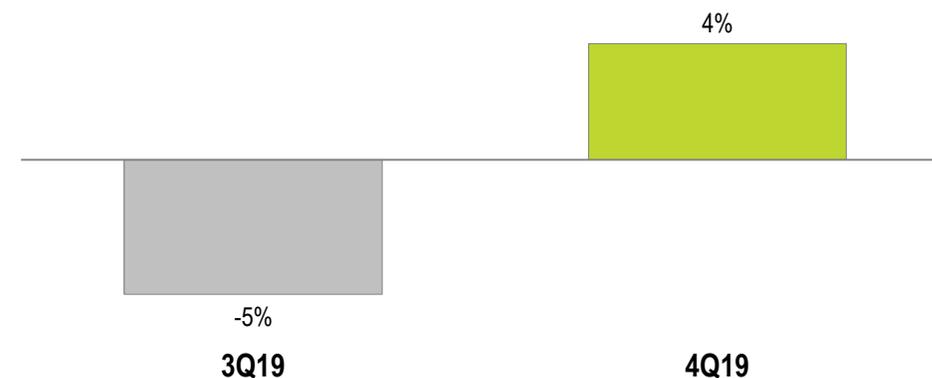
 San Francisco (SFO) Chicago (ORD) Washington (IAD)	 Conakry (CKY)
 Naples (NAP) Florence (FLR)	 Tenerife (TFS) Santiago de Compostela (SCQ)
 Banjul (BJL)	 Tel Aviv (TLV)
	 Dublin (DUB)

##### Cancelled Destinations

 Basel (BSL)	 Lyon (LYS) <sup>1</sup>
 London City Airport (LCY)	 Bucharest (OTP)
 Cologne (CGN) Stuttgart (STR)	 Barcelona (BCN) <sup>1</sup>

#### Winter European Network redesign boosted PRASK in 4Q19

Δ Europe<sup>2</sup> Routes PRASK YoY (%)



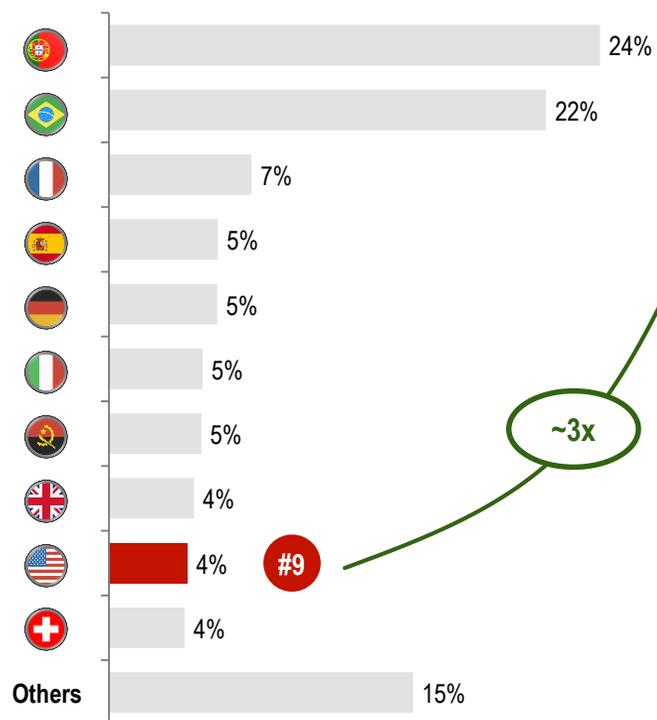
 Cancellations allowed capacity redeployment to more profitable and strategic routes in Europe (e.g., LIS-MAD shuttle)

1. Only departures from Oporto (OPO) were cancelled; 2. Includes Mainland and Islands

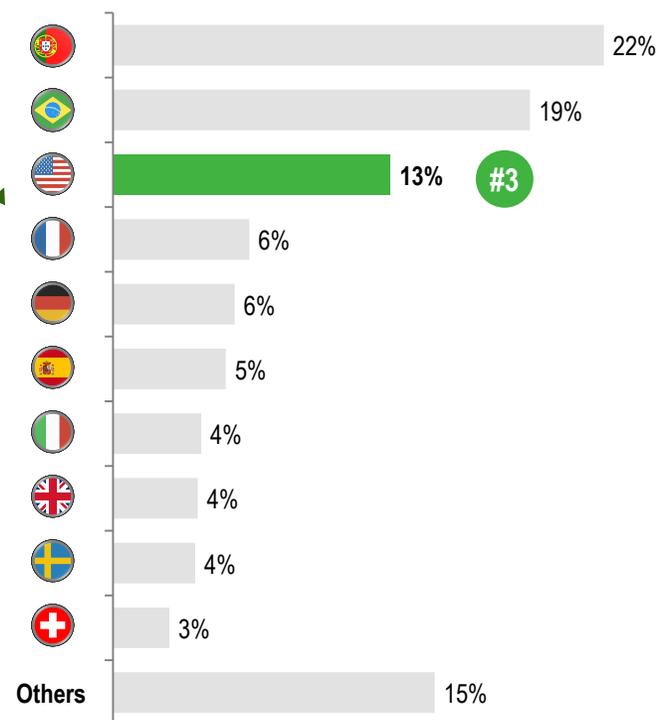
## 2 | New Markets & Network Redesign

Successful investment in North American Market, already with 5 out of the 7 most profitable routes

### Ranking of Revenues 2014 (%)<sup>1</sup>



### Ranking of Revenues 2019 (%)<sup>1</sup>



~3x

### Relevance of the North American Market

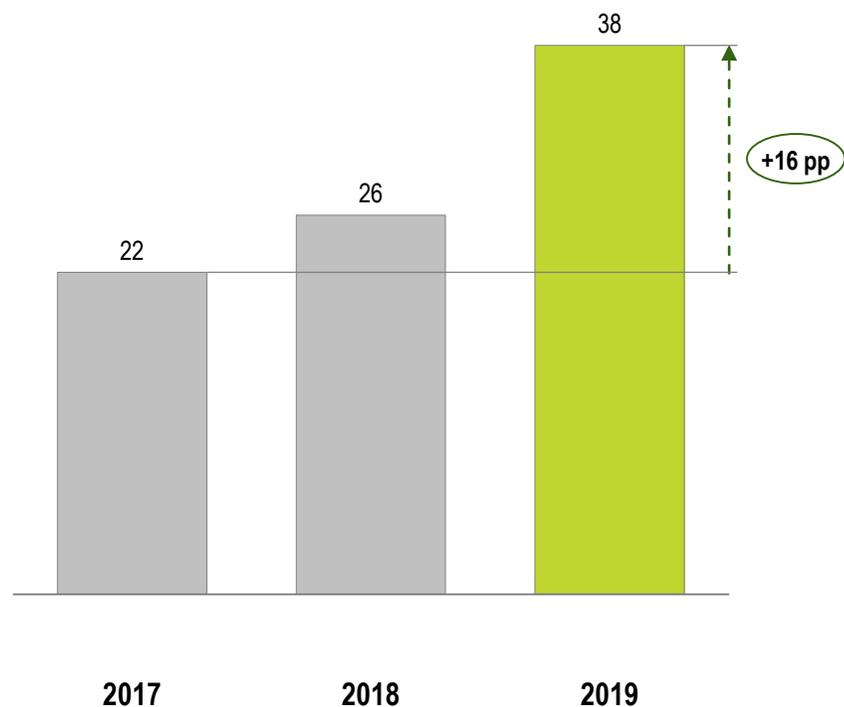
- > Decreases exposure to Brazil
- > Increases revenues in USD
- > Increases percentage of premium passengers
- > Supports European Network connectivity flights

1. Total ticket revenues (amounts paid by passengers and tickets issued in EUR) by country of sale

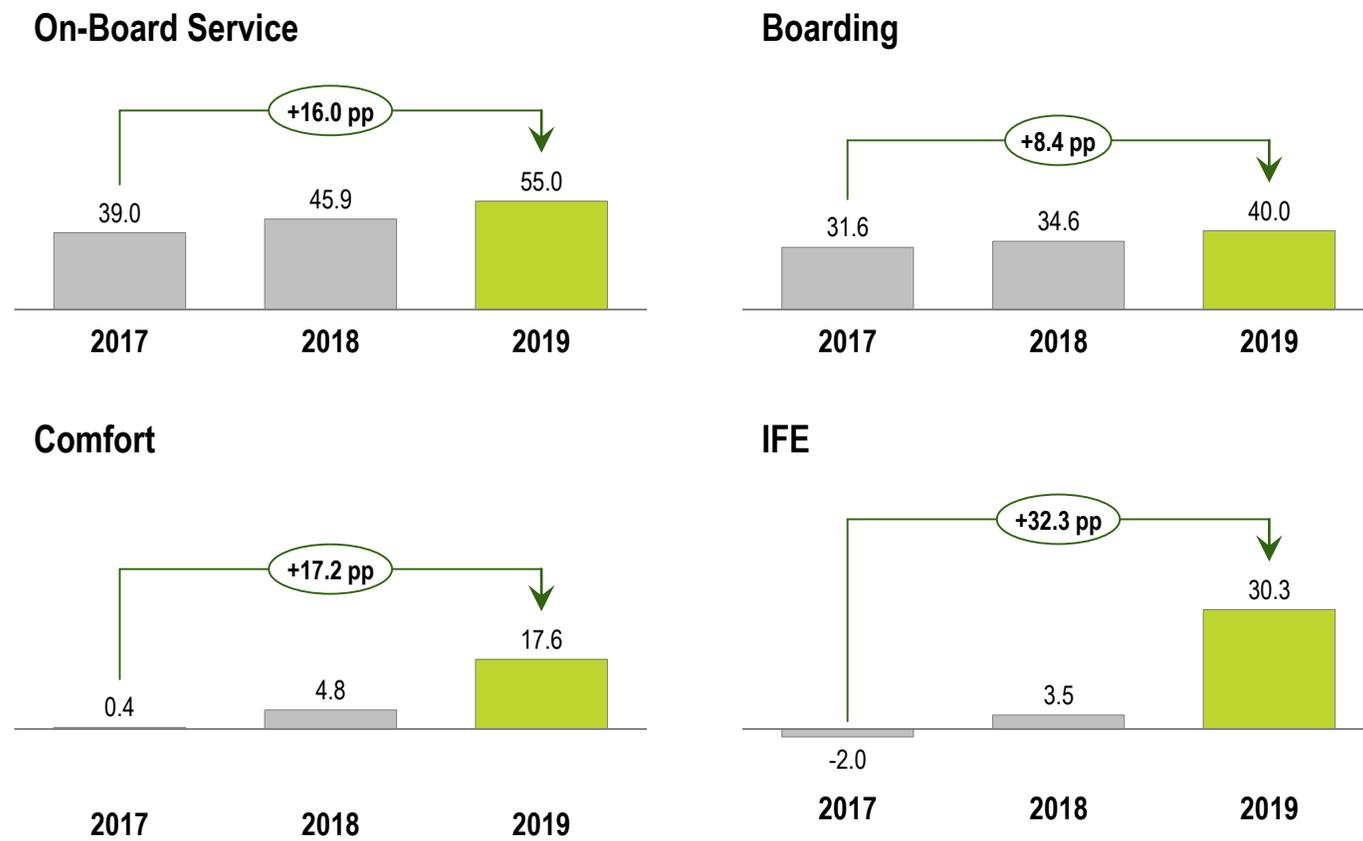
### 3 | Customer Satisfaction

At the same time, TAP has almost doubled the satisfaction of its customers

NPS<sup>1</sup> increased from 22 to 38



Evolution of the main variables<sup>1</sup>



1. Net Promoter Score D15

## 4 | Debt Renegotiation & Financing Sources Diversification

2019 Financing Activity in Review

### Diversification and Internationalization

- **Credit rating** from two international agencies (S&P e Moody's)
- 2<sup>nd</sup> airline in the world to carry out a financing guaranteed by very long-term contractual rights (**137 M€** for **15 years**)
- TAP 1<sup>st</sup> debt capital markets transaction: TAP Bonds 2019-2023 in the amount of **200 M€** with **4-year** maturity admitted to trading at Euronext Lisbon
- Access to international debt capital markets with a **5-year** bond issuance of **375 M€** placed with the main European institutional investors
- **Amortization of Debt** with Portuguese Banks and **maturity extension**

# External recognition confirms strategic execution

## 2019 Awards reflecting TAP's international credibility



**BEST GLOBAL PROMOTION**  
EUROPE AND AFRICA

**BEST CUSTOMER SERVICE**  
EUROPE AND AFRICA

**BEST LOYALTY PROGRAM OF THE YEAR**  
EUROPE AND AFRICA

**BEST INTERNATIONAL LOYALTY PROGRAM**  
BRAZIL



**TOP 20 SAFEST AIRLINES 2020**  
2<sup>ND</sup> IN EUROPE AND 13<sup>TH</sup> IN THE WORLD



**BEST ECONOMY CLASS 2020**  
1<sup>ST</sup> IN EUROPE AND 6<sup>TH</sup> IN THE WORLD



**EUROPEAN DEBT DEAL OF THE YEAR**



**ISSUER OF THE YEAR**



# Agenda

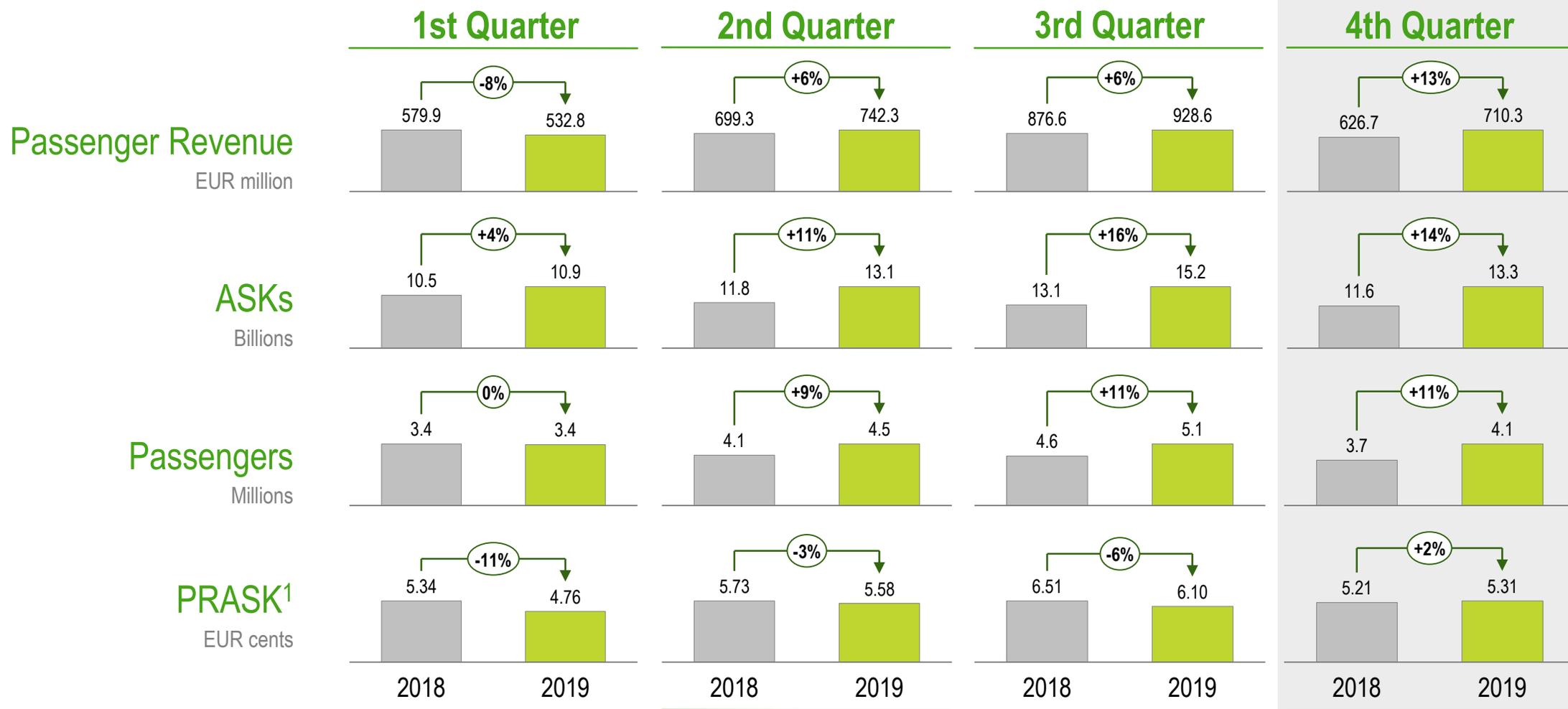
**1. Main Achievements 2019**

**2. Financials 2019**

**3. Latest Developments**

# Strong revenue recovery in 2H19, with emphasis on 4Q19

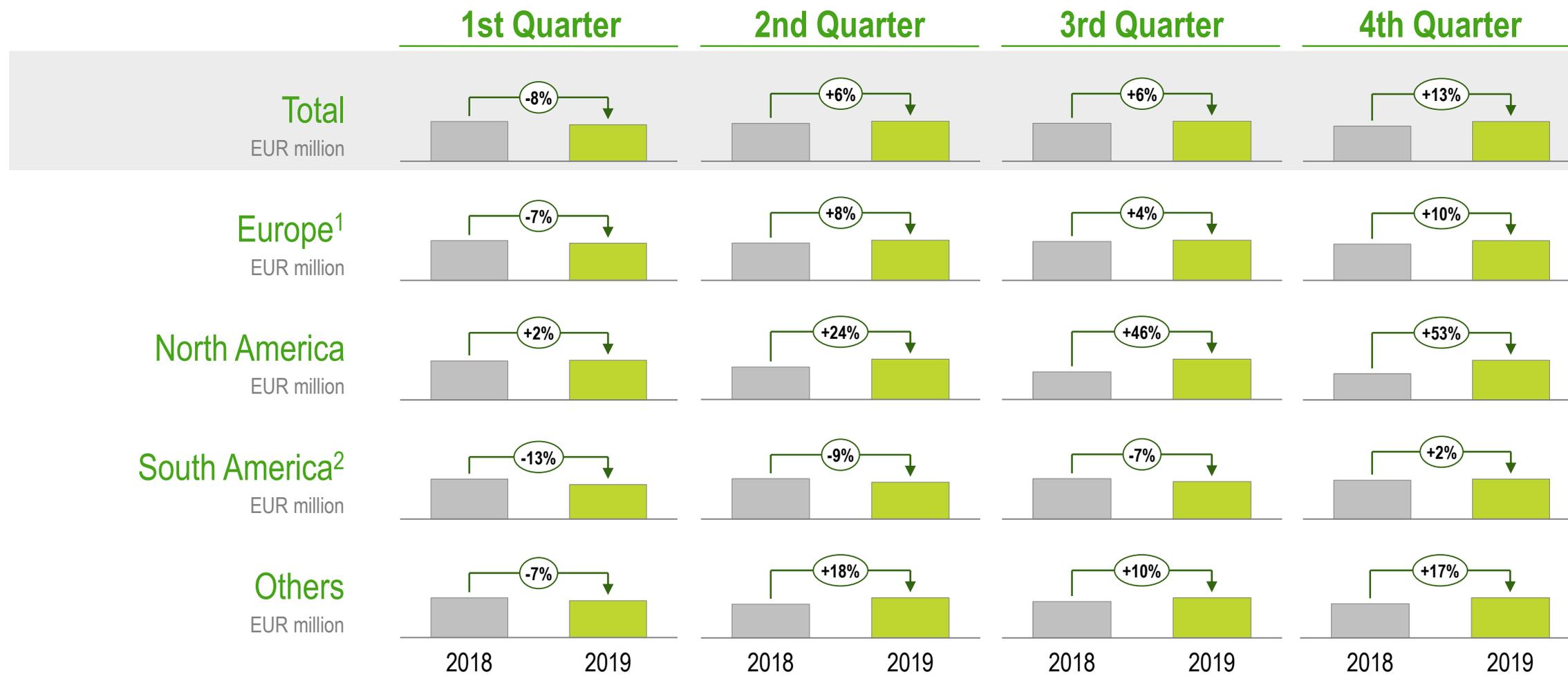
## Passenger Revenue Performance



1. PRASK adjusted for average stage length

# Revenue recovery across all Regions

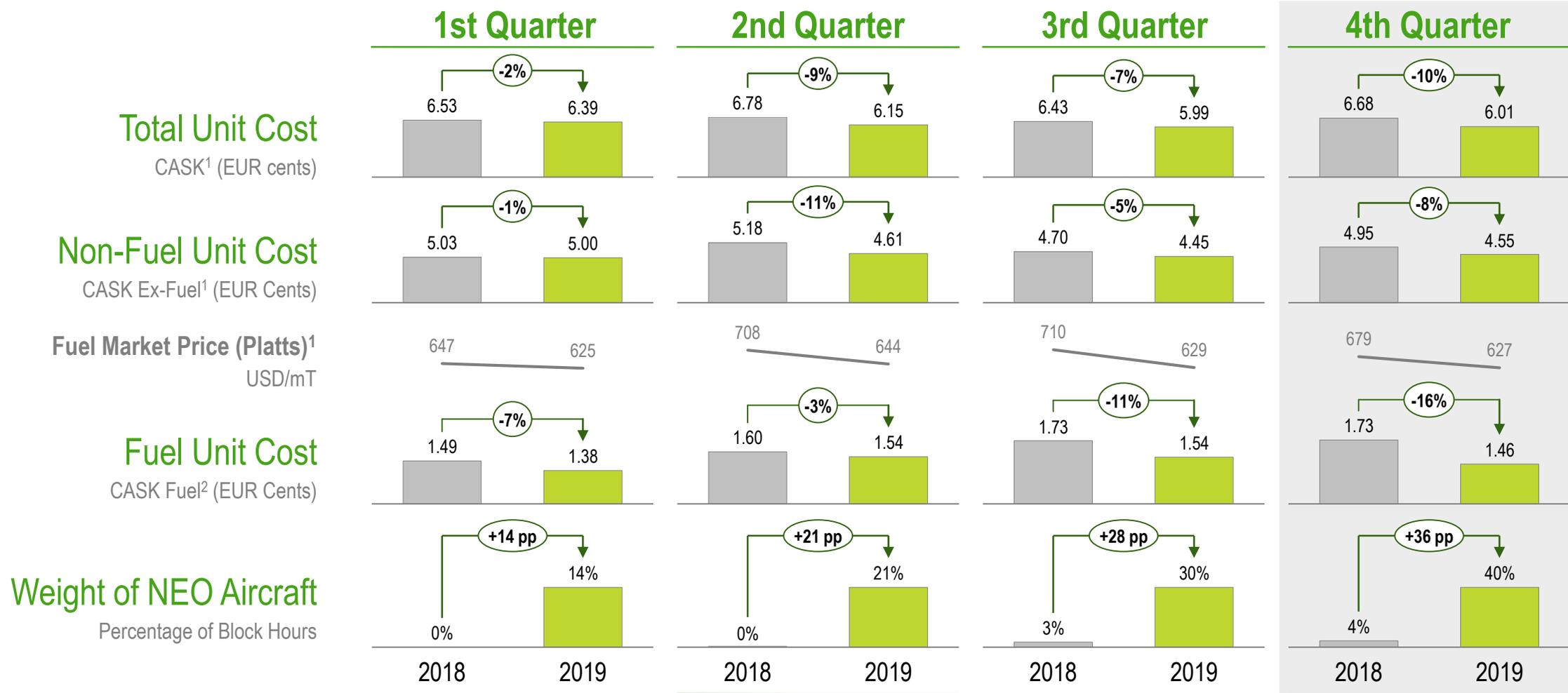
## Evolution of Passenger Revenue by Region



1. Includes Mainland Portugal and Islands; 2. Includes Brazil and mid-Atlantic  
 Note: Distribution of Passenger Revenue by Region made following the stage length sq root methodology

# Significant decrease in CASK, mostly during 4Q19

CASK performance supported by the increasing relevance of NEOs in the fleet



1. Quarter average; 2. CASK adjusted for average stage length

# Maintenance and Cargo Businesses

## Other Business Segment Performance

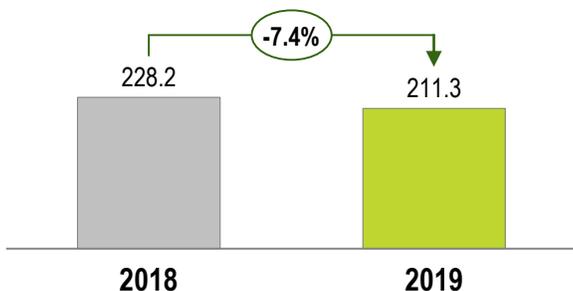


### TAP M&E Portugal



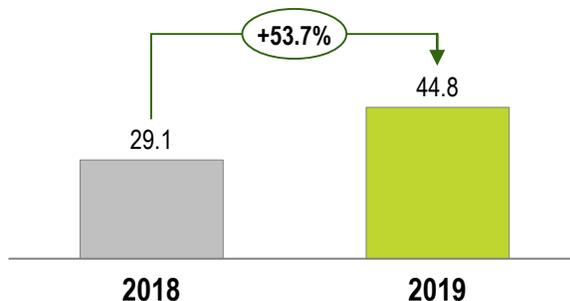
#### Operating Revenue

EUR million



#### Operating Result

EUR million



### TAP Air Cargo



#### Operating Revenue

EUR million



- Significant support to **fleet renewal**, given increased flexibility, lower costs and strong technical capability
- One of the few supplier of support services that is certified to maintain LEAP engines (new generation)
- 80% of revenues came from **engine maintenance**, both in 2018 and 2019

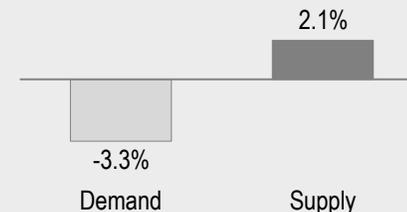
#### TAP M&E Portugal's Clients



#### Cargo market context in 2019<sup>1</sup>

FTKs Market (Demand) vs. ATKs Market (Supply)

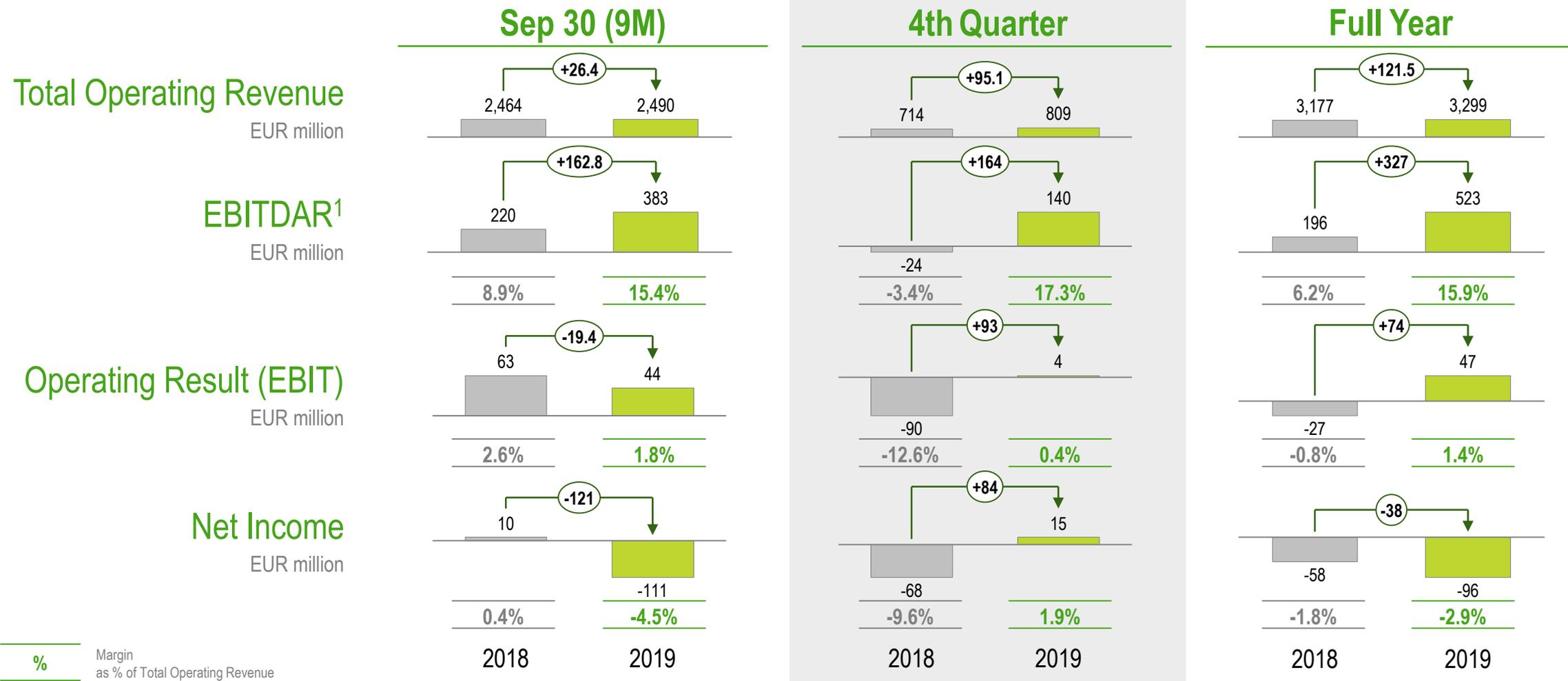
Revenue from Cargo **increased, despite the market downturn**



1. Source: IATA Economics – December Report, dated 05/02/2020 (Supply based on market ATKs; Demand based on market FTKs)

# Significant YoY improvement in 4Q19 profitability

4Q19 strongly contributing to 2H19 Net Income increase, which however was not enough to offset 1H19 loss



% Margin as % of Total Operating Revenue

1. EBIT + Depreciation, amortization and impairment losses + Aircraft rents

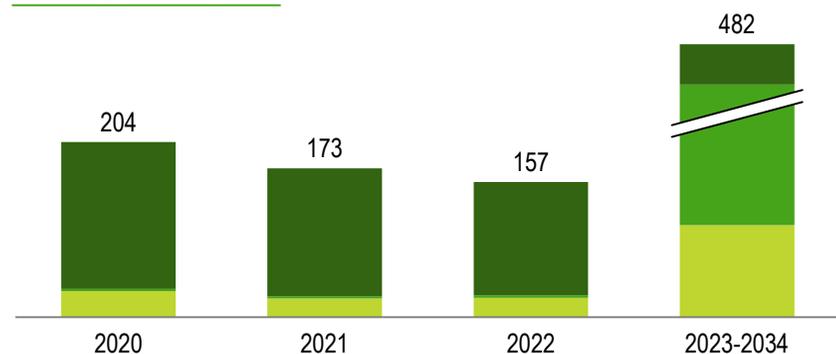
# Financial Debt Profile<sup>1</sup>

Bond transactions of 2019 and loan renegotiation in early 2020 allowed significant extension of debt maturity

## Debt Amortization Schedule

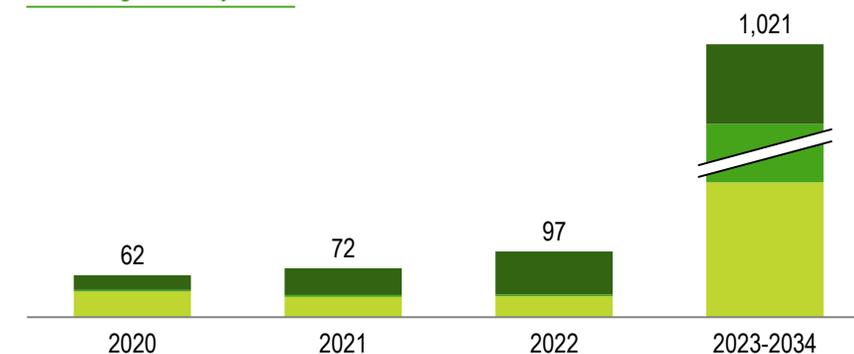
Prior to 2019-2024 Bond Issuance<sup>2</sup>  
EUR million

**3.8 years**  
Avg Maturity



Pro-Forma as of December 31, 2019  
(after Amortization to Portuguese Banks)<sup>3</sup>  
EUR million

**5.1 years**  
Avg Maturity



Short-term financial obligations reduced by **142 M€**

■ Bank Loans ■ Bonds ■ Finance Leases

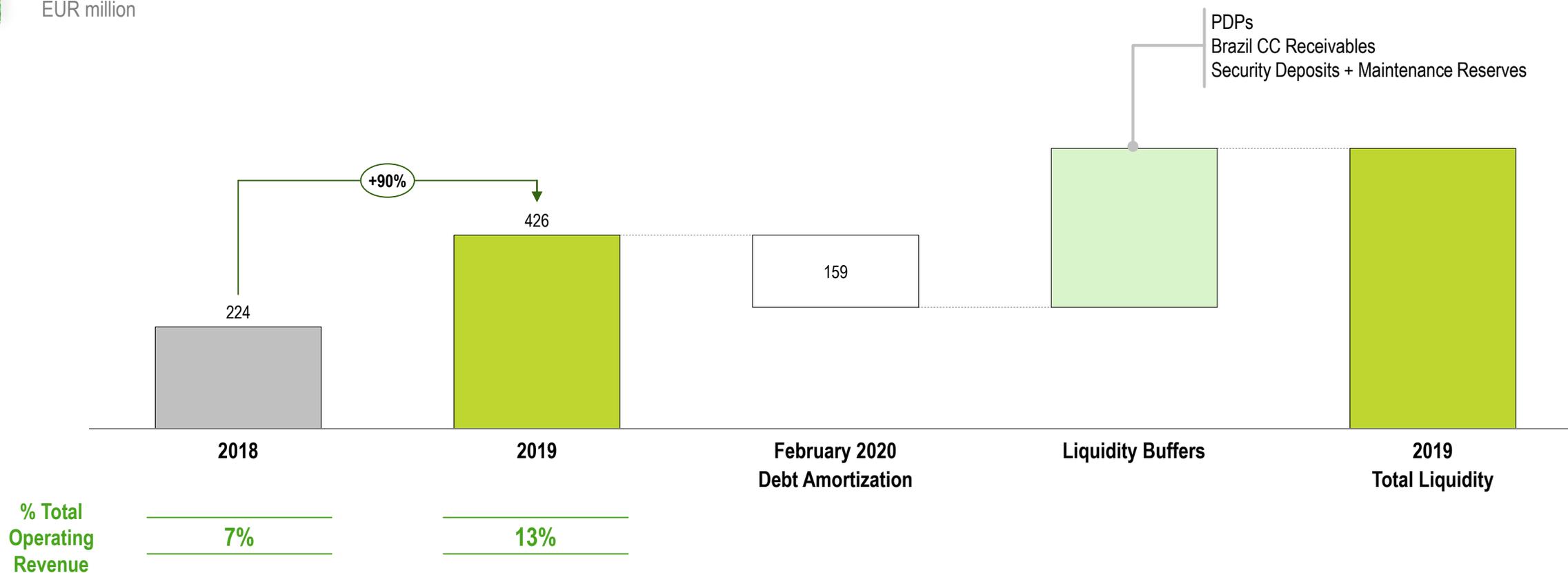
1. Gross Financial Debt, excluding operating leases and accruals and deferrals; 2. As of September 30, 2019; 3. On February 12, 2020, TAP made an amortization towards the Loan Facility with Portuguese Banks in the amount of 159 M€ and on February 28, 2020 renegotiated the extension of the final maturity of the Loan Facility from 2022 to 2024.

# 2019 Liquidity Position

Strengthening of Cash and Other Liquidity Sources

## Cash and Other Liquidity

EUR million



# Agenda

**1. Main Achievements 2019**

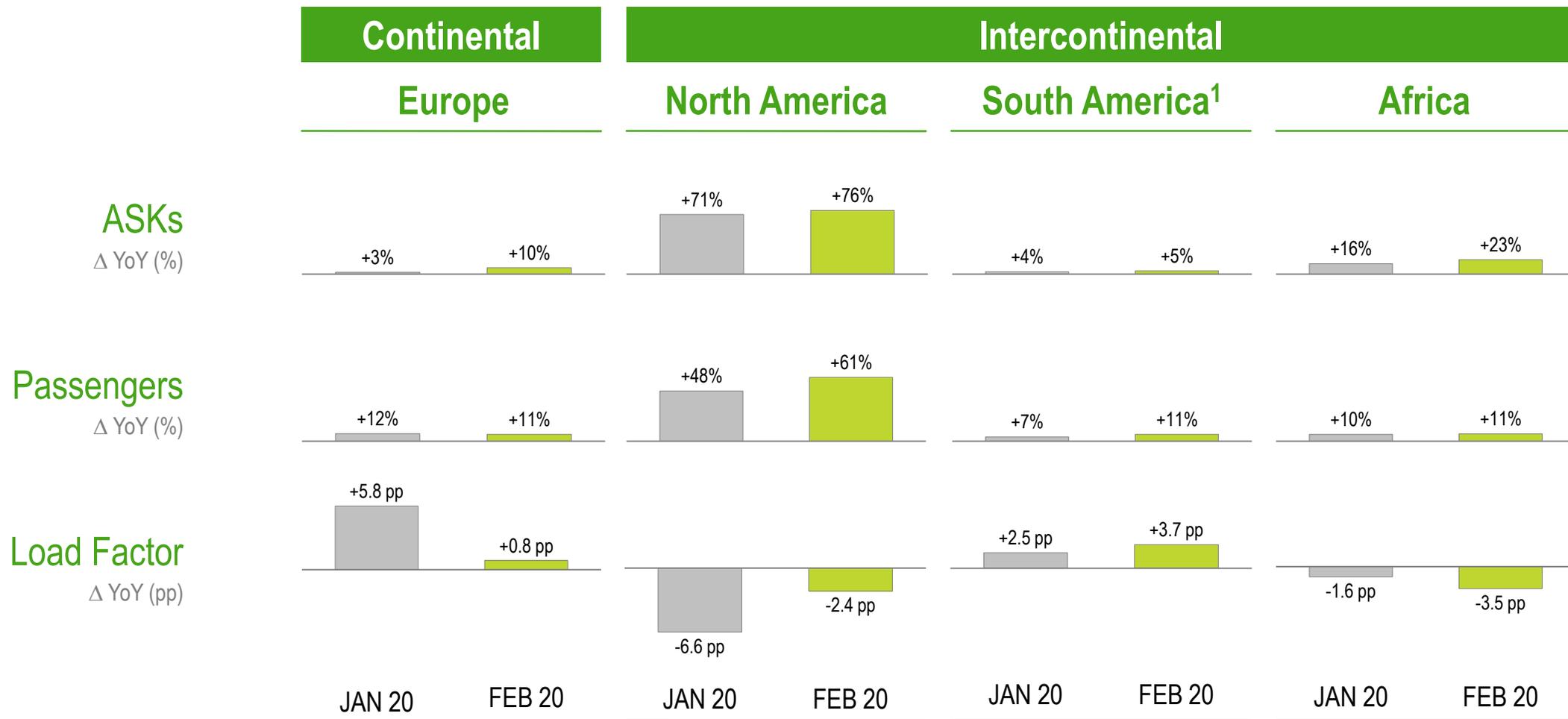
**2. Financials 2019**

**3. Latest Developments**



# Strong performance prior to COVID-19 impact in March

YTD Feb 2020 higher load factor in Europe and South America, coupled with successful diversification into the U.S.



1. Includes Brazil and mid-Atlantic.

# COVID-19 - Measures to mitigate adverse impact

Current demand weakness requires action towards capacity adjustment

## Network & Revenue Initiatives

### Flight Cancellations

- Immediate reduction of at least **~3,500 RT flights<sup>1</sup>**, especially on cities affected by the COVID-19



Capacity Adjustment*	▼ 7% MARCH	▼ 11% APRIL	▼ 19% MAY
----------------------	---------------	----------------	--------------

\* ASK adjustment vs. planned

- Additionally, Portuguese Government has suspended all flight connections to and from Italy, from March 11 until March 24



### Network Structure Adjustments

- **Structural reductions** in the markets being most affected by the outbreak (IT, FR, ES, ... )



### Right-Size Aircraft Optimization to Match Demand Environment

- Capacity deployment (upgauge/downgauge) across markets in order to **better match demand**

1. As of March 11, 2020, being subject to further adjustments

## COVID-19 - Measures to mitigate adverse impact

Additional revenue and cost initiatives are being undertaken

### Financial Initiatives

- Deferral of non-critical CAPEX decisions
- Working capital adjustment with renegotiation of payment terms with suppliers
- Reduction in non-essential expenditures
- Suspension of new hires and promotions
- Implementation of programs for temporary unpaid leave

### And also ...

- Task forces closely monitoring evolving situation for fast response
- Portuguese Government recently announced support package for companies being significantly impacted by COVID-19



**AIRPORTUGAL**

---

A STAR ALLIANCE MEMBER ™