

**TAM S.A.**  
**Consolidated Financial Statements**  
**at December 31, 2008 and 2007**  
**and Report of the independent**  
**registered public accounting firm**

## **Management's Report on Internal Control over Financial Reporting**

To the Board of Directors and Stockholders

TAM S.A

1. The management of TAM S.A. ("TAM" or the "Company"), including the CFO and CEO, is responsible for establishing and maintaining adequate internal control over financial reporting.
2. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the Company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.
3. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of internal control to future periods are subject to the risk that controls may become inadequate because of changes in conditions, and that the degree of compliance with the policies or procedures may deteriorate.
4. TAM's management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 based on the criteria established in Internal Control - "Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and, based on such criteria, TAM's management has concluded that, as of December 31, 2008, the Company's internal control over financial reporting is effective.
5. The effectiveness of the Company's internal control over financial reporting as of December 31, 2008 has been audited by PricewaterhouseCoopers Auditores Independentes, an independent registered public accounting firm, as stated in their report which appears herein.

São Paulo, Brazil, June 30, 2009.

By: /s/ David Barioni Neto  
Chief Executive Officer

/s/ Líbano Miranda Barroso  
Chief Financial Officer

## **Report of the Independent Registered Public Accounting Firm to the Stockholders of TAM S.A.**

To the Board of Directors and Stockholders

TAM S.A

1. In our opinion, the accompanying consolidated balance sheets and the related consolidated income statements, consolidated cash flow statements and consolidated statements of recognized income and expense present fairly, in all material respects, the financial position of TAM S.A. at December 31, 2008 and 2007 and the results of its operations and cash flows for each of the two years in the period ended December 31, 2008, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also, in our opinion the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control over Financial Reporting" as set out on page 2.
2. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statements presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.
3. A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated accounts in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.
4. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

São Paulo, Brazil, June 30, 2009

PricewaterhouseCoopers  
Auditores Independentes  
CRC 2SP000160/O-5

# TAM S.A.

## Consolidated Balance Sheets as at December 31

In thousands of reais, unless otherwise indicated

Assets	Note	2008	2007	Liabilities	Note	2008	2007
<b>Non-current assets</b>				<b>Non-current liabilities</b>			
Property, plant and equipment	5	9,326,171	4,733,054	Financial liabilities	15	7,178,873	3,908,700
Pre-delivery payments	6	426,224	1,024,297	Derivative financial instruments	14	107,057	
Intangible assets	7	152,092	34,248	Deferred income	16	369,210	357,769
Deferred income tax and social contribution	20	259,984	12,835	Provisions	17	947,800	769,696
Other financial assets	8	706,878	385,830	Other non-current liabilities	18	282,993	185,277
		<u>10,871,349</u>	<u>6,190,264</u>			<u>8,885,933</u>	<u>5,221,442</u>
<b>Current assets</b>				<b>Current liabilities</b>			
Trade and other receivables	9	1,404,464	1,207,919	Trade and other payables	19	967,553	804,670
Inventories	10	169,422	100,185	Deferred income	16	1,105,719	1,049,514
Non-current assets held for sale		62,134	62,286	Current income tax liabilities		83,429	20,081
Income taxes recoverable		120,712	87,017	Financial liabilities	15	910,153	1,197,986
Derivative financial instruments	14	62,967	62,967	Derivative financial instruments	14	1,021,928	
Cash and cash equivalents	12	671,785	466,538	Other current liabilities	18	149,091	130,765
Other financial assets	13	1,242,271	2,140,339			<u>4,237,873</u>	<u>3,203,016</u>
		<u>3,670,788</u>	<u>4,127,251</u>			<u>13,123,806</u>	<u>8,424,458</u>
				<b>Total liabilities</b>			
				<b>Equity</b>			
				Capital and reserves attributable to equity holders of TAM S.A.			
				Share capital	21	675,497	675,497
				Revaluation reserve	22	1,244,465	329,548
				Other reserves	23	92,092	885,383
				Retained earnings (accumulated deficit)	21	(597,957)	
						<u>1,414,097</u>	<u>1,890,428</u>
				Minority interest		4,234	2,629
				<b>Total equity</b>		<u>1,418,331</u>	<u>1,893,057</u>
<b>Total assets</b>		<u><u>14,542,137</u></u>	<u><u>10,317,515</u></u>	<b>Total liabilities and equity</b>		<u><u>14,542,137</u></u>	<u><u>10,317,515</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

# TAM S.A.

## Consolidated Income Statements Years Ended December 31 In thousands of reais, unless otherwise indicated

	Note	2008	2007
<b>Revenue</b>	24	10,513,044	8,018,819
Operating expenses	25	(9,885,065)	(7,790,511)
<b>Operating profit before movements in fair value of fuel derivatives and revaluation of aircraft</b>		<u>627,979</u>	<u>228,308</u>
Movements in fair value of fuel derivatives		(1,273,461)	130,410
Gains/(losses) on revaluation of aircraft recognized in the income statement	5	<u>255,617</u>	<u>(224,701)</u>
<b>Operating (loss)/profit</b>		<u>(389,865)</u>	<u>134,017</u>
Finance income	27	1,410,361	1,006,868
Finance costs	27	<u>(3,006,220)</u>	<u>(755,198)</u>
<b>(Loss)/Profit before income tax and social contribution</b>		<u>(1,985,724)</u>	<u>385,687</u>
Income tax and social contribution	28	<u>594,129</u>	<u>(127,118)</u>
<b>(Loss)/Profit after tax (all continuing operations)</b>		<u>(1,391,595)</u>	<u>258,569</u>
<b>Attributable to</b>			
Minority interest		868	177
Equity holders of TAM		<u>(1,392,463)</u>	<u>258,392</u>
<b>Earnings (loss) per share (common and preferred)</b>			
Basic	29	(9.26)	1.72
Diluted	29	(9.26)	1.70

## Consolidated Statements of Recognized Income and Expense Years Ended December 31 In thousands of reais, unless otherwise indicated

	Note	2008	2007
Revaluation of property, plant and equipment, net of tax	22	938,474	27,713
Currency translation gains/(losses), net of tax		<u>13,152</u>	<u>(3,537)</u>
<b>Net income/(expense) recognized directly in equity</b>		<u>951,626</u>	<u>24,176</u>
<b>(Loss)/Profit after tax (all continuing operations)</b>		<u>(1,391,595)</u>	<u>258,569</u>
<b>Total recognized income and expense for the year</b>	21	<u>(439,969)</u>	<u>282,745</u>
<b>Attributable to</b>			
Minority interest		868	177
Equity holders of TAM		<u>(440,837)</u>	<u>282,568</u>

The accompanying notes are an integral part of these consolidated financial statements.

# TAM S.A.

## Consolidated Cash Flow Statements Years Ended December 31, 2008 and 2007 In thousands of reais, unless otherwise indicated

	Note	2008	2007
<b>Cash flows from operating activities</b>			
Tax paid	31	1,904,477	724,760
Interest paid		(58,443)	(65,528)
		<u>(303,525)</u>	<u>(286,559)</u>
<b>Net cash generated from operating activities</b>		<u>1,542,509</u>	<u>372,673</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale property, plant and equipment (PPE)		8,204	4,558
Purchases of property, plant and equipment (PPE)		(637,483)	(311,852)
Purchases of intangible assets		(133,469)	(37,071)
Deposits in guarantee			
Reimbursement		106,292	21,011
Deposits made		(30,503)	(65,383)
Pre delivery payments			
Reimbursement		261,302	401,977
Payments		(217,688)	(451,456)
		<u>(643,345)</u>	<u>(438,216)</u>
<b>Net cash used in investing activities</b>		<u>(643,345)</u>	<u>(438,216)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of common shares			497
Purchase of treasury shares		(14,269)	
Dividends paid to the Company's stockholders		(72,065)	(137,629)
Short and long-term borrowings			
Issuance		208,692	638,105
Repayment		(471,390)	(591,857)
Capital element of finance leases		(340,092)	(263,664)
Repayments of debentures		(4,793)	(19,957)
Issuance of senior notes			607,080
		<u>(693,917)</u>	<u>232,575</u>
<b>Net cash (used in) from financing activities</b>		<u>(693,917)</u>	<u>232,575</u>
<b>Net increase in cash and cash equivalents</b>		205,247	167,032
Cash and cash equivalents at beginning of year		<u>466,538</u>	<u>299,506</u>
<b>Cash and cash equivalents at end of year</b>		<u>671,785</u>	<u>466,538</u>
<b>Supplementary information on cash flows:</b>			
<b>Non cash investing and financing activities – acquisition of aircrafts under finance lease</b>		<u>2,360,295</u>	<u>1,325,685</u>

The accompanying notes are an integral part of these consolidated financial statements.

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## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

In thousands of reais, unless otherwise indicated

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### 1 General Information

TAM S.A. ("TAM" or the "Company") was incorporated on May 12, 1997, to invest in companies which carry out air transportation activities. The Company wholly owns TAM Linhas Aéreas S.A. ("TLA"), a company that operates in the transportation of passengers and cargo in Brazil and on international routes, and 94.98% of Transportes Aéreos del Mercosur S.A. ("Mercosur"), an airline headquartered in Assunción, Paraguay, which operates in Paraguay, Argentina, Brazil, Chile, Uruguay and Bolivia. TAM is incorporated and domiciled in Brazil.

On July 15, 2005, the Company concluded a Public Offering of shares on the São Paulo Stock Exchange – BOVESPA. On March 10, 2006 the Company made an additional Public Offering – this time on the BOVESPA and the New York Stock Exchange – NYSE (in the form of American Depositary Shares – ADS), which was concluded on April 6, 2006.

On April 2007, two wholly-owned finance subsidiaries of TLA were constituted, namely TAM Capital Inc. ("TAM Capital") and TAM Financial Services 1 Limited ("TAM Financial 1"), and in October 2007 TAM Financial Services 2 Limited ("TAM Financial 2") was constituted. These subsidiaries are headquartered in the Cayman Islands, and their main activities involve aircraft acquisition and financing. Debt issued by these wholly-owned companies is wholly and unconditionally guaranteed by TAM.

The Company also controls TP Participações Ltda. ("TP Participações"), whose corporate purpose is holding ownership interests in other companies. TP Participações did not record any transactions during either 2008 or 2007.

TAM controls 99.99% of Fidelidade Viagens e Turismo Ltda. ("Fidelidade"), whose corporate purpose is to carry out the activities of a travel and tourism agency, under the name TAM Viagens.

These consolidated financial statements, of TAM and its subsidiaries, were approved by the Board of Directors on June 26, 2009.

### 2 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

#### 2.1 Basis of preparation

The consolidated financial statements of TAM have been prepared in accordance with International Financial Reporting Standards - IFRS as issued by the International Accounting Standards Board - IASB. These consolidated financial statements are the first TAM S.A. financial statements to be prepared in accordance with IFRS. IFRS 1 - "First-time Adoption of International Reporting Standards" has been applied in preparing these financial statements.

The financial statements are prepared under the historical cost convention unless otherwise indicated, for example in respect of revaluation of flight equipment and measurement of derivative financial instruments at fair value.

The consolidated financial statements of TAM S.A. until December 31, 2008 had been prepared in accordance with Generally Accepted Accounting Principles in Brazil (BR GAAP). BR GAAP differs in certain respects from IFRS. When preparing TAM's 2008 consolidated IFRS financial statements, management has amended certain accounting, valuation and consolidation methods in the BR GAAP financial statements to comply with IFRS. The comparative figures in respect to 2007 were restated to reflect these adjustments. Reconciliations and descriptions of the effect of the transition from BR GAAP to IFRS are given in Note 4.

The last consolidated financial statements available under BR GAAP filed with:

- the United States Securities and Exchange Commission were those for the year ended December 31, 2007;

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## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007 In thousands of reais, unless otherwise indicated

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- . the Brazilian Securities regulators (“CVM”) were those for the year ended December 31, 2008.

The reconciliations in Note 4 cover both dates.

The financial statements are presented in Brazilian reais and all values are rounded to the nearest thousand Brazilian reais, except where indicated otherwise.

### 2.2 Consolidation

#### (a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which TAM has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether TAM controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to TAM. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between the companies are eliminated. Unrealized losses are also eliminated but are considered as an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by TAM.

#### (b) Companies included in the consolidated financial statements

	Ownership and voting power (%)
	<u>2008 and 2007</u>
TLA	100.00
Fidelidade (i)	99.99
TAM Capital (i)	100.00
TAM Financial 1 (i)	100.00
TAM Financial 2 (i)	100.00
Mercosur	94.98
TP Participações	99.99
Fundo <i>Spitfire</i> II (Exclusive investment fund) (ii)	100.00

(i) TAM's investments are held indirectly through TLA.

(ii) TAM's investment is held 30% directly and 70% through TLA. See also Note 13.

#### (c) Transactions and minority interests

TAM applies a policy of treating transactions with minority interests as transactions with parties external to TAM. Minority interests represent the portion of profit or loss and net assets in subsidiaries that are not held by TAM and are presented separately within equity in the consolidated balance sheet.

### 2.3 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of TAM's entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in

# TAM S.A.

## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

In thousands of reais, unless otherwise indicated

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Brazilian reais ("Real"), which is also the Company's functional currency.

### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Assets and liabilities balances are translated at the exchange rate on the balance sheet date. Exchange gains and losses on the settlement of such transactions and the translation of monetary assets and liabilities in foreign currencies are taken to income.

### (c) Translation

In preparing the consolidated financial statements, the income statement, the cash flow statement and all other movements in assets and liabilities are translated at annual average rates of exchange, which are considered a good approximation to the exchange rates prevailing on the dates of the underlying transaction. The balance sheet is translated at year-end rates of exchange.

The effects of exchange rate changes during the year on net assets at the beginning of the year are recorded as a movement in stockholders' equity, as is the difference between profit of the year retained at average rates of exchange and at year-end rates of exchange.

Cumulative exchange differences arising are reported as a separate component of other reserves. In the event of disposal or part disposal of an interest in a group company either through sale or as a result of a repayment of capital, the cumulative exchange difference is recognized in the income statement as part of the profit or loss on disposal.

## 2.4 Property, plant and equipment

Property, plant and equipment (PPE) is stated at either cost less depreciation or revalued amounts. Depending on the type of asset, and when it was acquired, cost either refers to historical purchase cost; deemed cost based on a revaluation performed under previous GAAP; or historical purchase cost adjusted for the effects of hyperinflation during the years when Brazil's economy was considered to be hyperinflationary. Brazil was considered to be hyperinflationary for IFRS purposes until 1997.

Revaluations are performed periodically for flight equipment based on independent appraisers' reports. Increases in the carrying amount arising on revaluation of flight equipment are recognized in the Statement of Recognized Income and Expense, except where the increase reverses a decrease of the same asset previously recognized in the income statement. Decreases that offset previous increases of the same asset are recognized in the Statement of Recognized Income and Expense; all other decreases are recognized in the income statement. Each year the difference between depreciation charged to income statement based on the revalued amount and depreciation based on the assets' original cost is transferred from the revaluation reserve to retained earnings.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	<u>Years</u>
Flight equipment – Aircraft (*)	25 - 30
Flight equipment - Engines	10
Overhaul	4 - 6
Buildings	25
Machinery and equipment	10
Computers	5

(\*) Certain aircraft acquired used are being depreciated over 6 years.

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## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

In thousands of reais, unless otherwise indicated

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Major overhaul expenditure, including replacement spares and labor costs, is capitalized and amortized over the average expected life between major overhauls (the "built-in overhaul method"). All other replacement spares and other costs relating to maintenance of flight equipment assets, including all amounts payable under "power by the hour" maintenance contracts, are charged to the income statement on consumption or as incurred respectively, as described below in Note 2.24.

Borrowing costs, including interest and applicable foreign exchange differences, associated with the acquisition of qualifying assets such as aircraft are capitalized as part of the cost of the asset to which they relate.

The carrying value of PPE is reviewed for impairment when events or changes in circumstances indicate the carrying value is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the income statement. When revalued assets are sold, the amounts included in the revaluation reserves are transferred to retained earnings.

### 2.5 Pre-delivery payments and other aircraft deposits

Pre-delivery Payments (PDPs) paid to aircraft manufacturers under the terms of purchase agreements for aircraft are denominated in US dollars and are recognized at the amount paid translated at the exchange rate ruling at the date of payment. Borrowing costs, including interest and applicable foreign exchange differences incurred for the construction of qualifying assets are capitalized during the period which the aircraft are built.

In the event that a decision is taken that the aircraft will not be purchased by TAM, but rather it will be leased and it is agreed that the PDPs will be returned to TAM, then the related PDPs are reclassified to other receivables and are remeasured to the present value of the amount expected to be returned to TAM. This amount will, if it is denominated in a foreign currency, be translated at the exchange rate ruling at the reporting date, and any resulting difference is recognized in the income statement.

### 2.6 Intangible assets

#### (a) Computer software and IT projects

Expenses related to software maintenance are recognized as expenses as they are incurred. Expenses directly related to internally developed software and other IT projects include materials, costs incurred with software development companies and other direct costs. They are capitalized as intangible assets when they will probably generate economic benefits greater than their costs, considering their economic and technological viability. Computer software development costs recognized as assets are amortized on a straight-line basis over their estimated useful lives, which does not usually exceed 3 years.

#### (b) Other intangible assets

Other intangible assets include licenses and other contractual rights acquired from third parties. They are capitalized as intangible assets and amortized over their estimated useful lives.

The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, or if the intangible assets have not yet started to be used and amortized.

### 2.7 Impairment of non-current assets

Property, plant and equipment and other non-current assets, including intangible assets, are reviewed for impairment whenever events or changing circumstances suggest that their book value may not be recoverable. Impairment losses are recognized as the excess of the asset book value over its recoverable value, which is the higher of fair value less cost to sell and value in use.

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### Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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For impairment testing purposes, assets are grouped at the lowest level for which cash flows can be separately identified (cash generating units or "CGUs").

#### 2.8 Financial assets

TAM classifies its financial assets in the following categories: at fair value through profit or loss, (including derivative financial instruments) and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

##### (a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss - FVTPL at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are measured at fair value and gains or losses arising from changes in the fair value are recognized immediately in the income statement. Assets in this category are classified as current assets.

##### (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are valued at amortized cost, and are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. TAM's loans and receivables comprise "trade and other receivables" and cash and cash equivalents in the balance sheet, except for certain short term investments that meet the definition of assets at fair value through profit and loss.

##### (c) Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Transaction costs are expensed when incurred.

While TAM uses derivatives to mitigate the economic effects of international petroleum prices, TAM does not apply hedge accounting. Changes in the fair value of derivative instruments are recognized immediately in the income statement.

Gains and losses due to fair value movements of fuel derivatives are presented as a separate line item on the face of the income statement.

##### (d) Valuation of financial assets

The fair values of quoted investments are based on current bid prices. For unlisted and for listed securities where the market for a financial asset is not active TAM establishes fair value using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

##### (e) Impairment of financial assets

At each balance sheet date TAM assesses whether there is objective evidence that its financial assets are impaired.

#### 2.9 Inventories

Inventories, consisting mainly of spare parts and materials to be used in maintenance and repair activities, are stated at the average acquisition cost, or realizable value where lower, net of provisions to write down the value of obsolete items.

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## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

In thousands of reais, unless otherwise indicated

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### 2.10 Non-current assets held for sale

Assets are classified as 'held for sale' when all of the following criteria are met: a decision has been made to sell, the assets are available for sale immediately, the assets are being actively marketed, and a sale has been or is expected to be concluded within twelve months of the balance sheet date. Assets held for sale are valued at the lower of book value or fair value less disposal costs. Assets held for sale are not depreciated.

### 2.11 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. In practice, due to the short term nature of the receivables, they are usually recognized at the invoiced amount. A provision for impairment of trade receivables (allowance for doubtful receivables) is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

### 2.12 Cash and cash equivalents

Cash and cash equivalents presented in the cash flow statement include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

### 2.13 Share capital

Common shares and non-redeemable preferred shares are classified as stockholder's equity.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from stockholders' equity until the shares are cancelled or reissued.

### 2.14 Share-based payment

TAM operates an equity-settled share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, TAM revises its estimates of the number of options that are expected to vest, recognizing the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When share options are satisfied by issuing treasury shares, the proceeds received from the exercise of options, net of any directly attributable transaction costs are credited to treasury shares; the difference between the book value of the treasury shares awarded to the employee and the exercise price is recognized in retained earnings.

### 2.15 Pension plans

TAM only operates defined contribution plans. Once the contributions are made, the Company has no further liability for additional payments. Regular contributions comprise the net periodic costs of the period when they are due and, accordingly, are included in personnel expenses.

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### 2.16 Deferred income

Deferred income comprises advances from ticket sales, gains on sale and leaseback transactions resulting in finance leases (see also Note 2.21 below) and revenue related to TAM Loyalty Program frequent flyer scheme (see Note 2.23 below).

Advances from ticket sales represent the liabilities connected with tickets sold in the last 12 months and not yet used. Such amounts are recognized as income when the service is actually rendered or when the tickets expire.

### 2.17 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. In practice, due to the short term nature of most trade payables, they are usually recognized at the invoiced amount.

### 2.18 Borrowings

Borrowings are included within financial liabilities, and are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost, including charges and interest using the effective interest rate method, net of repayments made.

Borrowings are classified as current liabilities unless TAM has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Non-convertible debentures and senior bonds are recorded similarly to borrowings.

### 2.19 Income tax and social contribution

Income tax and social contribution on net income, for the current period and deferred, are calculated based on a Brazilian federal income tax rate of 25% and 9% for social contribution, and consider the offsetting of tax losses and negative social contribution, limited to 30% of actual income in any one year.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in accordance with Brazil's tax regulations. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is calculated using the liability method, using tax that are expected to apply to the period when the asset is realized or the liability settled, based on tax rates which have been enacted or substantively enacted by the balance sheet date.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the tax losses or temporary differences can be utilized.

Deferred tax liabilities in respect of unremitted earnings of overseas subsidiaries are not recognized to the extent that TAM can control the payment of dividends, and does not plan to do so in the foreseeable future.

### 2.20 Provisions

Provisions are recognized when TAM has a legal or constructive obligation as a result of past events a reliable estimate can be model, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation, using where appropriate a discount rate based on current market interest rates and that reflects the risks related to the liability.

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### 2.21 Lease agreements

Leases are classified at inception. Leases of assets under which TAM has substantially all the risks and rewards of ownership are classified as finance leases. All other types of leases are classified as operating leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included within financial liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The long-term assets acquired under finance leases are depreciated over the shorter of the asset's useful life and the period for which the asset will be leased.

Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Any gains arising on sale and leaseback transactions resulting in finance leases are deferred and recognized in the income statement on a straight-line basis over the period of the lease; gains arising on sale and leaseback transactions resulting in operating leases are generally recognized in the income statement immediately.

### 2.22 Dividends

Dividends payable are recognized as a liability in the financial statements when there is a legal obligation for them to be paid. This is either when the dividends are approved by TAM's stockholders or to comply with Brazilian corporate law. TAM's by-laws establish that all stockholders are entitled at a minimum dividend of 25% of net income for each year, calculated in accordance with Brazilian corporate law.

### 2.23 Revenue

Air transportation revenues (passengers and cargo) are recognized when transportation services are rendered. Revenue in respect of passenger tickets sold but not yet used (advance ticket sales) is treated as deferred income, classified within current liabilities. Revenue for unused tickets is recognized on the ticket expiration date, which is 12 months after the issuance date of the ticket.

The Company sponsors a program (TAM Loyalty Program) to award frequent flyers, whereby points are accumulated when flying with TAM or partner airline companies, or when making purchases using TAM Loyalty Program credit card, or using the services and products of commercial partners. The Loyalty Program award credits are recognized as a separately identifiable component of revenue based on the estimated fair value of the points awarded. This revenue is deferred, considering the points that are expected to be redeemed based on historical experience, and is recognized in the income statement as passenger revenue when the points are redeemed and passengers uplifted.

Other operating revenues, represented by fees arising from alterations to flight reservations, sub-lease of aircraft and other services, are recognized when the service is provided.

Interest income is recognized using the effective interest rate method, taking into account the principal outstanding and interest rates in effect up to maturity or the balance sheet date.

### 2.24 Aircraft and engine maintenance

Engine maintenance contracts cover all significant engine maintenance activity. The Company recognizes maintenance expenses for its engine maintenance contracts on an as-incurred basis. The basis on which maintenance expenses are considered incurred is dependant on the nature of the services provided:

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- For contracts under which amounts are payable to the maintenance provider, and are recognized in the income statement, based on actual maintenance activities performed by the maintenance providers, the costs incurred reflect the actual amount of time incurred by the maintenance providers and the cost of the materials and components used in the maintenance activities. These maintenance contracts are referred to as "time and materials" contracts.
- For contracts under which amounts are contractually payable to the maintenance provider based on hours flown, "power by the hour" contracts, a liability and a corresponding expense in the income statement are recognized as the hours are flown.

### 2.25 Segmental information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer. Due to the essentially fixed cost base of TAM's operations, while the CODM reviews revenue information at a number of levels, the CODM only assesses the performance of TAM's group as a whole, and so TAM has determined that there is only one operating segment. However, the financial information provided to the CODM during 2008 was based on BR GAAP (Law 11,638) rather than IFRS. Reconciliations between the amounts presented under BR GAAP (Law 11,638) and IFRS as at December 31, 2008 and for the year then ended are included in Note 4.3.

### 2.26 Income statement presentation

On the face of the income statement, amounts relating to:

- the movements in the fair value of fuel derivatives;
- revaluations of flight equipment required to be recognized in the income statement.

These items are shown separately as part of operating profit. These are material in terms of nature and amount, and are disclosed separately in order to help users of the financial statements better understand TAM's financial performance.

### 2.27 Recent accounting developments

(a) The following interpretation, standards and amendments were early adopted by TAM:

- IAS 23 (revised) - "Borrowing costs" (effective from January 1, 2009). The amendment requires TAM to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs was removed. A further amendment, as part of the IASB's annual improvements project published on May 2008, amends the definition of borrowing costs so that interest expense is calculated using the effective interest method defined in IAS 39 - "Financial instruments: Recognition and measurement". This eliminates the inconsistency of terms between IAS 39 and IAS 23.

(b) TAM is currently assessing the impact of the following revised standards or interpretations that are not yet effective and have not been early adopted by TAM:

- IAS 1 (revised) - "Presentation of financial statements" (effective from January 1, 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but TAM can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of

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## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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comprehensive income). When TAM restates or reclassifies comparative information, it will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. TAM will apply IAS 1 (revised) from January 1, 2009. It is likely that TAM will choose to present both an income statement and a statement of comprehensive income as performance statements.

IFRS 3 (revised) - "Business combinations" (effective from July 1, 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. TAM will apply IFRS 3 (revised) prospectively to all business combinations from January 1, 2010.

- IAS 36 (amendment) - "Impairment of assets" (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published on May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. TAM will apply the IAS 36 (Amendment) and provide the required disclosure if applicable for impairment tests from January 1, 2009.

Amendment to IFRS 7 - "Financial instruments – Disclosures" (effective January 1, 2009). The amendment increases the level of required disclosure in respect of liquidity and valuation of financial instruments.

IFRIC 13 - "Customer loyalty programs" (effective from July 1, 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is relevant to TAM's operations but TAM currently defers revenue in a manner consistent with IFRIC 13, and so we do not expect it to have a significant impact.

- (c) The following interpretations and amendments to existing standards have been published and are mandatory for TAM's accounting periods beginning on or after January 1, 2009 or later periods but are not relevant for TAM's operations or are not expected to have a significant impact on TAM's financial statements:

- IFRS 2 (amendment) - "Share-based payment" (effective from January 1, 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only.
- IFRS 1 (amendment) - "First time adoption of IFRS" and IAS 27 - "Consolidated and separate financial statements" (effective from January 1, 2009). The amended standard deals with separate financial statements, and TAM does not prepare its separate financial statements in accordance with IFRS.
- IAS 20 (amendment) - "Accounting for government grants and disclosure of government assistance" (effective from January 1, 2009). The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39 - "Financial instruments: Recognition and measurement", and the proceeds received with the benefit accounted for in accordance with IAS 20.
- IAS 27 (revised) - "Consolidated and separate financial statements" (effective from July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses.
- IFRS 5 (amendment) - "Non-current assets held for sale and discontinued operations" (and consequential amendment to IFRS 1 - "First-time adoption") (effective from July 1, 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control.

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- . IAS 28 (amendment) - "Investments in associates" (and consequential amendments to IAS 32 - "Financial Instruments: Presentation" and IFRS 7 - "Financial instruments: Disclosures") (effective from January 1, 2009). TAM has no investments in associates.
- . IAS 38 (amendment) - "Intangible assets" (effective from January 1, 2009). A prepayment may only be recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services.
- . IAS 38 (amendment) - "Intangible assets" (effective from 1 January 2009). The amendment deletes the wording that states that there is "rarely, if ever" support for use of a method that results in a lower rate of amortization than the straight line method. TAM's intangible assets are amortized using the straight line method.
- . IAS 19 (amendment) - "Employee benefits" (effective from January 1, 2009). TAM no longer has any defined benefit pension plans, to which the amendments refer.
- . IAS 39(amendment) - "Financial instruments: Recognition and measurement" (effective from January 1, 2009). The amendments largely relate to hedge accounting; TAM does not apply hedge accounting.
- . IAS 16 (amendment) - "Property, plant and equipment" (and consequential amendment to IAS 7 - "Statement of cash flows") (effective from January 1, 2009). TAM's ordinary activities do not comprise renting and subsequently selling assets.
- . IAS 27 (amendment) - "Consolidated and separate financial statements"; IAS 28 (amendment) - "Investments in associates" (and consequential amendments to IAS 32 - "Financial Instruments: Presentation" and IFRS 7 - "Financial instruments: Disclosures"); IAS 31 (amendment) - "Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7) (all effective from January 1, 2009). There is no impact on TAM's consolidated financial statements.
- . IAS 29 (amendment) - "Financial reporting in hyperinflationary economies" (effective from January 1, 2009). None of TAM's subsidiaries operates in hyperinflationary economies.
- . IAS 32 (amendment) - "Financial instruments: Presentation", and IAS 1 (amendment) - "Presentation of financial statements" - "Puttable financial instruments and obligations arising on liquidation" (effective from January 1, 2009). TAM does not have any financial instruments of the type referred to in this amendment.
- . IAS 40 (amendment) - "Investment property" (and consequential amendments to IAS 16) (effective from January 1, 2009). TAM does not have any investment properties.
- . IAS 41 (amendment) - "Agriculture" (effective from 1, 2009). TAM does not have any biological assets.
- . IAS 1 (amendment) - "Presentation of financial statements" (effective from January 1, 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39 are examples of current assets and liabilities respectively. TAM will apply the IAS 39 (amendment) from January 1, 2009. It is not expected to have an impact on TAM's financial statements.
- . There are a number of minor amendments to IFRS 7 - "Financial instruments: Disclosures", IAS 8 - "Accounting policies, changes in accounting estimates and errors", IAS 10 - "Events after the reporting period", IAS 18 - "Revenue" and IAS 34 - "Interim financial reporting", which are part of the IASB's annual improvements project published on May 2008 (not addressed above). These amendments are unlikely to have an impact on the accounts and have therefore not been analyzed in detail.
- . IFRIC 15 - "Agreements for construction of real estates" (effective from January 1, 2009). The interpretation clarifies whether IAS 18 - "Revenue", or IAS 11 - "Construction contracts" should be applied to particular transactions. It is likely to

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result in IAS 18 being applied to a wider range of transactions. IFRIC 15 is not relevant to TAM as all revenue transactions are accounted for under IAS 18 and not IAS 11.

- . IFRIC 16 - "Hedges of a net investment in a foreign operation" (effective from October 1, 2008). TAM does not apply net investment hedging.
- . IFRIC 17 - "Distributions of non-cash assets to owners" (effective from July 1, 2009). TAM does not generally distribute non-cash assets to its stockholders.
- . IFRIC 18 - "Transfers of assets from customers" (effective from July 1, 2009). TAM does not ordinarily receive assets from its customers.

### 3 Critical Accounting Estimates and Judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### 3.1 Revenue recognition

Tickets that are sold are posted under advance ticket sales, in current liabilities, due to our obligation to transport passengers. Flight revenue (passenger and cargo transportation) is recognized when the transportation services are effectively rendered. Other revenue is recognized for tickets unused within 12 months of the original scheduled travel date. These tickets are cancelled in accordance with IATA regulations and revenue is recognized at that point.

Revenue in respect to TAM Loyalty Program - frequent flyer program - is deferred based on the estimated fair value of the points awarded to passengers. The fair value is determined based on a weighted average of the value of points sold to commercial partners, and the value of free tickets awarded to passengers. Revenue deferral also depends on the number of points estimated to be forfeited when they expire after two years, and this is based on historical forfeiture rates. The principal assumptions used are shown in Note 16.

#### 3.2 Deferred taxes

TAM recognizes deferred income tax assets and liabilities based on the differences between the carrying amounts shown in the financial statements and the tax basis of the assets and liabilities, using prevailing tax rates. TAM regularly reviews deferred tax assets for recoverability, taking into account historical income generated and projected future taxable income based on a study of technical viability. The accounting losses recognized in 2008 relate in large part to fair value movements of the WTI (West Texas Intermediate crude oil) derivatives due to the decrease in the cost of fuel during the year.

#### 3.3 Provisions

TAM is currently involved in various judicial and administrative proceedings, as described in Note 17. Provisions are recognized for all contingencies in judicial proceedings that represent probable losses. The probability of loss is evaluated based on the available evidence, including the views of internal and external legal counsel. TAM believes that these contingencies are properly recognized in the financial statements.

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### 3.4 Financial instruments used to mitigate the risks of variations in jet fuel prices

TAM records the financial instruments used to mitigate the risks of variations in jet fuel prices at their fair market value based on market quotations for similar instruments. Derivative financial instruments are used in order to mitigate the risk against variations in fuel prices. Sensitivity to movements in the price of oil is discussed in Note 11.

TAM does not apply hedge accounting to its derivatives. If TAM were to apply hedge accounting, it would affect the timing of recognition of gains and losses in the income statement, but would not affect the underlying economic effects of the derivative contracts.

### 3.5 Carrying value of flight equipment

TAM's flight equipment is included in the financial statements at fair value based on valuations. The valuations are based on observable market prices. The revaluations are described further in Note 5.

The carrying value is further affected by the aircraft and engines' estimated useful economic lives, which is based on expected usage and current technology and environmental regulations.

## 4 First time of adoption of IFRS

### 4.1 Basis of transition to IFRS

#### 4.1.1 Application of IFRS 1

TAM's financial statements for the year ended December 31, 2008 are the first annual financial statements that comply with IFRS as issued by the IASB. The financial statements for the year ended December 31, 2007 were prepared in accordance with accounting principles generally accepted in Brazil ("BR GAAP") in accordance with Brazilian Law 6,404/76. During 2008, following the publication of Brazilian Law 11,638/07, accounting principles generally accepted in Brazil changed substantially as Brazil moves towards aligning BR GAAP with IFRS.

The reconciliations that are presented in Note 4.2 reconcile the previously published financial statements under BR GAAP in accordance with Brazilian Law 6,404/76 at December 31, 2007 to the corresponding amounts calculated in accordance with IFRS. Reconciliations between the amounts included in the financial statements prepared in accordance with BR GAAP under Law 11,638/07 at, and for the year ended December 31, 2008 and IFRS are presented in Note 4.3.

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended December 31, 2008, the comparative information presented in these financial statements for the year ended December 31, 2007 and in the preparation of an opening IFRS balance sheet at January 1, 2007.

In preparing these consolidated financial statements in accordance with IFRS 1, TAM has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS, as set out in IFRS 1 - "First time adoption of IFRS".

#### 4.1.2 Exemptions from full retrospective application elected by TAM

IFRS 1 allows first-time adopters certain exemptions from the general requirements contained in IFRSs. TAM has taken the following exemptions:

##### (a) Business combinations exemption

TAM has applied the business combinations exemption in IFRS 1 to prior business combinations; TAM does not have any significant goodwill relating to those business combinations.

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**(b) Fair value as deemed cost exemption**

As discussed in Note 4.2.1(b) certain assets were revalued under BR GAAP in 1991. The revalued amounts for those assets are considered as deemed cost under IFRS.

Despite TAM electing to measure its flight equipment at revalued amounts on the date of transition to IFRS, the revalued amounts are not being considered as deemed cost. Historical acquisition cost will remain as cost under IFRS for flight equipment. The revaluation at January 1, 2007 is discussed in Note 4.2.1(b).

**(c) Employee benefits exemption**

TAM had no significant defined benefit pension schemes at January 1, 2007, and so this exemption is not applicable.

**(d) Cumulative translation differences exemption**

TAM elected to record the accumulated cumulative translation adjustment at January 1, 2007, and so this exemption is not applicable.

**(e) Compound financial instruments exemption**

TAM has no compound financial instruments in issue; this exemption is not applicable.

**(f) Assets and liabilities of subsidiaries, associates and joint ventures exemption**

This exemption is not applicable, as the use of the exemption is made at the level of the subsidiary, associate or joint venture that adopts IFRS later than its parent company.

**(g) Designation of financial assets and financial liabilities exemption**

TAM did not reclassify any financial assets as available-for-sale investments or as financial assets at fair value through profit and loss; this exemption is not applicable.

**(h) Share-based payment transaction exemption**

TAM's share-based payment program consists only at equity classified awards and commenced in 2005; this exemption is not applicable.

**(i) Insurance contracts exemption**

TAM does not issue insurance contracts; this exemption is not applicable.

**(j) Changes in existing decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment exemption**

TAM does not have any decommissioning liabilities relating to its property, plant and equipment; this exemption is not applicable.

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### (k) Leases

TAM has considered contracts which may contain a lease based on the facts and circumstances as at the date of transition to IFRS. There was no impact on the financial statements.

### (l) Fair value measurement of financial assets or liabilities at initial recognition

TAM has not applied the exemption offered by the revision of IAS 39 on the initial recognition of the financial instruments measured at fair value through profit and loss where there is no active market; this exemption is not applicable.

### (m) Service concession arrangements

TAM has no arrangements that fall to be treated in line with IFRIC 12; this exemption is not applicable.

## 4.1.3 Exceptions from full retrospective application followed by TAM

TAM S.A. has applied the following mandatory exceptions from retrospective application:

### (a) Derecognition of financial assets and liabilities exception

Financial assets and liabilities derecognized before January 1, 2007 as a result of transactions that occurred before January 1, 2004 are not re-recognized under IFRS. The application of this exception had no significant impact on these financial statements.

### (b) Hedge accounting exception

Management has chosen not to apply hedge accounting, and so no adjustments were required.

### (c) Estimates exception

Estimates under IFRS at January 1, 2007 and December 31, 2007 are consistent with estimates made for the same date under BR GAAP. There is no evidence that those estimates were made in error.

### (d) Assets held for sale and discontinued operations exception

Management applies IFRS 5 retrospectively from January 1, 2007. TAM S.A. did not have any assets that met the held-for-sale criteria during the periods presented, and so no adjustment was required.

## 4.2 Reconciliations between BR GAAP (Law 6,404 effective in 2007) and IFRS

As discussed above, in preparing its opening balance sheet, TAM has adjusted amounts reported previously in the financial statements prepared in accordance with its old basis of accounting (BR GAAP) which were published for the year ended December 31, 2007.

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### 4.2.1 Explanation of the effect of the transition to IFRS

The following explains the material adjustments to the balance sheet and income statement:

#### (a) Recognition of finance leased assets on TAM's balance sheet and income statement

	<u>Equity</u>	
	<u>January 1, 2007</u>	<u>December 31, 2007</u>
Recognition of flight equipment at cost (i)	3,655,605	4,778,085
Capitalized built – in – overhaul maintenance in respect of flight equipment under finance leases (ii)	108,738	192,560
Depreciation effect of the above adjustments	(915,102)	(1,112,736)
Recognition of finance lease obligations (i)	(2,450,635)	(2,894,316)
Total Adjustments	<u>398,606</u>	<u>963,593</u>
	<u>Income Statement December 31, 2007</u>	
Reverse of operating lease expense		379,663
Foreign exchange gain on finance lease obligations		441,266
Interest expense on finance lease obligations		(142,130)
Capitalized built – in – overhaul maintenance in respect of flight equipment under finance leases (ii)		83,823
Depreciation effect of the above adjustments (iii)		(197,634)
Total Adjustments		<u>564,988</u>

#### (i) Recognition of flight equipment under finance leases and of finance lease obligations

BR GAAP did not have a specific requirement on accounting for leases and TAM recognized as finance leases only contracts where TAM had a bargain purchase option for the asset. All other leases were treated as operating leases.

Under IFRS, IAS 17 - "Accounting for Leases" defines financial leases as leases which transfer substantially all risks and rewards to the lessee. While there are no specific rules which define when substantially all risks and rewards have been transferred, the following are criteria which would usually indicate that the lessee has assumed substantially all risks and rewards:

- . The lease transfers ownership of the property to the lessee by the end of the lease.
- . The lease contains a bargain purchase option for the lessee to purchase the asset at a price below market value.
- . The lease term is for more the major part of the economic life of the leased asset.
- . The present value at the inception of the lease of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.
- . The leased assets are of such a specialized nature that only the lessee can use them without major modifications.

On renegotiation of lease terms, regardless as to whether the lessor is changed, the new lease is maintained as a finance lease by the lessee if, under the amended lease terms, the lease would have been classified a finance lease either initially or at the renegotiation date.

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At January 1, 2007, TAM had 41 aircraft recorded as operating leases under BR GAAP, which were considered finance leases under IFRS.

At December 31, 2007, TAM had 47 aircraft recorded as operating leases under BR GAAP, which were considered as finance leases under IFRS.

Under IFRS, the acquisition cost of these aircraft and the related liability at the inception of the lease contract, totaling, at January 1, 2007 R\$ 3,655,605 (December 31, 2007 - R\$ 4,778,085), has been recorded in the balance sheet, with accumulated depreciation at January 1, 2007 of R\$ 915,102 (December 31, 2007 - R\$ 1,112,736). The obligations are recorded in short and long-term liabilities, including accrued interest and foreign exchange gains or losses (the lease obligations are denominated in U.S. dollars).

Foreign exchange gains on finance lease payables totaled R\$ 441,266 for the year ended December 31, 2007. Interest expense on the financial lease obligation of these aircraft totaled R\$ 142,130 for the year ended December 31, 2007. The operating lease expense recognized under BR GAAP for these aircraft were reversed during all periods and totaled R\$ 379,663 for the year ended December 31, 2007.

### (ii) Built-in overhaul

Under BR GAAP, TAM used the built-in overhaul method for engines under capital lease arrangements. Under the built-in overhaul method, major maintenance expenditure is capitalized and depreciated over the period to the next scheduled major maintenance. For aircraft under operating leases, TAM continued to expense maintenance as incurred.

Under IFRS, TAM also applies the built-in overhaul method. However, the population of engines for which the built-in overhaul method is used under IFRS also includes engines which had been classified as operating leases under BR GAAP but are finance leases under IFRS. The effect of applying the built-in overhaul method to the finance-leased engines was to increase the cost of flight equipment by R\$ 108,738 at January 1, 2007 (December 31, 2007 - R\$ 192,560). The effect of capitalized built – in – overhaul maintenance in respect of flight equipment under finance leases was in net income R\$ 83,823 in net income for the year ended December 31, 2007.

### (iii) Depreciation

Depreciation expense on these aircraft recognized in the IFRS financial statements totaled R\$ 197,634 for the year ended December 31, 2007.

### (b) Revaluation of flight equipment

TAM has elected to measure its flight equipment at revalued amounts (fair value) on the date of transition to IFRS, January 1, 2007. However, the “cost” of the revalued assets will remain their historical acquisition cost, or historical acquisition cost adjusted for the effects of hyperinflation in 1996 and 1997, with the difference recorded in revaluation reserve within equity. The revalued amounts are not considered as “deemed cost” on transition to IFRS. The fair value of the flight equipment at January 1, 2007 was determined to be R\$ 3,524,537, representing an increase of R\$ 259,415 compared with the BR GAAP carrying value. The increased carrying value had a consequent impact on the depreciation charge for the year. The depreciation charge for the year ended December 31, 2007 was R\$ 27,734 higher than it had been under BR GAAP, and the carrying value of flight equipment at December 31, 2007 was R\$ 48,969 higher than it had been under BR GAAP. The income statement for the year ended December 31, 2007 also included revaluation decreases below cost in the amount of R\$ 224,701. Further information relating to the revaluation of the flight equipment is included in Note 5.

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### (c) Gains on sale and leaseback transactions

BR GAAP does not have specific requirements on sale-leaseback transactions. All gains or losses arising from sale and leaseback transactions were recognized in the income statement at the time of the transaction.

Under IFRS a sale and leaseback where the resulting lease is a finance lease is treated as a single financing transaction in which any profit or loss on the sale for the seller (who becomes the lessee) is deferred and amortized over the lease term.

The amortization of gains on sale and finance-leaseback transactions recognized in the income statement under IFRS for the year ended December 31, 2007 was R\$ 32,085.

The effect of recognizing the deferred income was to reduce IFRS equity at January 1, 2007 by R\$ 211,611 (December 31, 2007 - R\$ 179,526).

### (d) Loyalty Program

The Company sponsors a program of rewards to frequent flyers (TAM Loyalty Program), who accumulate points when they use TAM's flights or flights of partner airlines, as well as when they make purchases using TAM Loyalty Program credit cards, or use products and services at partner establishments.

Revenue from passengers - under BR GAAP, TAM provided for the incremental cost of providing award flights, and made a provision for future liabilities relating to the Loyalty Program.

Revenue from the Loyalty Program Partners - under BR GAAP, revenues related to partnership with the Loyalty Program for frequent flyers were recorded when the points are issued to participants.

Under IFRS, TAM defers revenue in respect of points in issue (both for those awarded directly to passengers by TAM and for those sold by TAM to partners) based on the fair value of the points. Revenue is deferred, considering the points that are expected to be redeemed, and is recognized in the income statement as passenger revenue when the points are redeemed and passengers uplifted.

The effect of deferring revenue in this way rather than recognizing the incremental cost was to increase deferred income by R\$ 230,351 at January 1, 2007 (December 31, 2007 - R\$ 361,131) and decrease revenue for the year ended December 31, 2007 by R\$ 130,780.

### (e) Dividends and interest on capital

Under BR GAAP at December 31, 2007 the Company recorded an amount of R\$ 72,616 as dividends and interest on capital to be paid to its stockholders, based on the declaration of dividends by the Board of Directors in March 2008 (January 1, 2007 - none).

For IFRS purposes at December 31, 2007 an amount of R\$ 40,537 (January 1, 2007 - none) relating to the amounts accrued in excess of the minimum mandatory dividend has been reversed because it had not been approved at that date.

### (f) TAM Mercosur

Negative goodwill - negative goodwill for BR GAAP purposes was generated as the difference between the book value and the amount paid in the transaction for the acquisition of TAM Mercosur and recorded on TAM's balance sheet as a liability. IFRS does not allow negative goodwill, and so R\$ 11,099 at December 31, 2007 (January 1, 2007 - R\$ 11,099) has been eliminated against retained earnings on transition to IFRS.

Currency translation adjustment - for BR GAAP purposes, the effects of the exchange variation on this subsidiary's stockholders' equity were recorded in the income statement. For IFRS purposes, the effect of this exchange variation for the

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year ended December 31, 2007, R\$ 3,537, was removed from the income statement and recognized in equity in cumulative translation adjustments, in accordance with IAS 21 - "Foreign Currency Translation".

### (g) Share based payment plan

Under BR GAAP stock options did not generate any expense and were recorded as a capital increase only when exercised for the amount of the exercise price paid.

IFRS requires the measuring and recording of the cost of employee services in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions). The cost is recognized over the period during which the employee is required to provide the service in exchange for the award. The grant date fair value is estimated using the Black-Scholes option-pricing model. The plan is treated as a equity settled, and the share based payment charge for the year is based on the fair value of the options as at the grant date. R\$ 11,230 was recognized in the income statement for the year ended December 31, 2007. There is no effect on equity at either January 1, 2007 or December 31, 2007.

### (h) Pre-delivery payments

Under BR GAAP, pre-delivery payments (PDPs) were recognized as accounts receivable due to the past history of such amounts being refunded by the aircraft manufacturers. Correspondingly, exchange differences on amounts denominated in foreign currency were recognized in the income statement.

Under IFRS, due to TAM not having a contractual right for the PDPs to be refunded, the PDPs are accounted for as non-monetary items, and no exchange differences arise. Borrowing costs in relation to the PDPs are capitalized under IFRS.

The impact in equity was to reverse net exchange loss of R\$12,353 at January 1, 2007 and R\$ 53,024 at December 31, 2007, and to capitalize borrowing costs of R\$ 27,379 at January 1, 2007 and R\$ 58,100 at December 31, 2007. The impact in net income at December 31, 2007 was R\$ 71,392.

### (i) Maintenance contracts

Under BR GAAP maintenance was accounted for when the maintenance activities were performed by the maintenance provider.

Under IFRS an accrual is made for the maintenance of engines covered by "power by the hour" maintenance contracts based on hours flown.

The impact was to recognize an additional maintenance accrual of R\$ none at January 1, 2007 and R\$ 62,925 at December 31, 2007.

### (j) Other adjustments

Other adjustments include individually and collectively insignificant amounts in relation to:

- . hyperinflation accounting for the years 1996 and 1997;
- . pension accounting in respect of five employees that were still in TAM's defined pension plan at January 1, 2007. The pension liability was irrevocably transferred to a third party on September 30, 2007.

### (k) Deferred income tax and social contribution

Under BR GAAP, deferred income tax is recognized using the liability method on temporary taxable or deductible differences, in a manner largely consistent with IFRS. The deferred tax adjustments represent the tax effect of the adjustments discussed in items (a) to (j) above.

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### (l) Earnings per share

Under BR GAAP, net income (loss) per share was only presented in the parent company financial statements and is not presented for the consolidated financial statements. Net income (loss) per share was calculated on the number of shares outstanding at the balance sheet date. Information was disclosed per one thousand shares because, generally, this is the minimum number of shares that can be traded on the Brazilian stock exchanges.

Under IFRS, earnings per share are presented based on TAM's consolidated net income (loss), considering the weighted average number of shares in issue during the year excluding shares held as treasury shares. Diluted earnings per share are also presented, taking into account the potentially dilutive impact of outstanding share options.

### (m) Classification of line items

#### (i) Income statement

Under BR GAAP, the classification of certain income and expense items was presented differently from IFRS. The reclassifications, other than those disclosed above, are summarized as follows:

- Under BR GAAP, gains and losses on the disposal of property, plant and equipment and investments or impairment of fixed assets are classified as non-operating income/(expense) while under IFRS they are classified within operating income.
- Under BR GAAP movements in the fair value of fuel derivatives are shown as financial result. Under IFRS they are shown separately.

#### (ii) Balance sheet

Under BR GAAP, the classification of certain balance sheet items was presented differently from IFRS. The reclassifications, other than those disclosed above, are summarized as follows:

- Under BR GAAP, cash and cash equivalents consist principally of highly liquid cash deposits, but there is no requirement that there are insignificant potential changes in value because of interest rate changes, nor is there a maximum 90 day original period to maturity. Under IFRS, the Company's funds are considered to be subject to potential change in value due to changes in interest rates or have underlying securities with original maturities greater than 90 days. Therefore, under IFRS, such investments were classified under other financial assets (held for trading) in the balance sheet.
- Under BR GAAP, deferred income taxes are not netted and assets are presented separately from liabilities. For IFRS purposes, deferred tax assets and liabilities are netted where there is a legal right of set-off and are classified as non-current.
- Certain other amounts regarding accounts receivable and payable, financial liabilities, revenue and operating expenses, which were previously presented under BR GAAP on the face of the balance sheet or income statement have been grouped together in the corresponding IFRS financial statements and are shown separately in the Notes.

### (n) Business segments

Under BR GAAP, no separate segment reporting is required.

Under IFRS, IFRS 8 - "Segmental reporting" defines operating segments as components of an entity for which separate financial information is available and evaluated regularly for assessing segment performance and allocating resources to segments. Measures of profit or loss, total assets and other related information are required to be disclosed for each operating segment. IFRS 8 requires that segment data be presented in accordance with the internal information that is used by management for operating decision making, including allocation of resources among segments, and segment performance. In addition, this standard requires the annual disclosure of information concerning revenues derived from the entity's products or services, countries in which revenues or assets are generated and major customers.

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## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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### (o) Cash flow statement

Under BR GAAP, there was no requirement to prepare a cash flow statement, although TAM voluntarily prepared one.

Under IFRS a cash flow statement is required. There are no significant differences between the format of the cash flow statement previously presented and the IFRS format, other than the definition of cash and cash equivalents discussed above in (m) (ii).

### (p) Impairment

Under BR GAAP, companies were required to determine if operating income is sufficient to absorb the depreciation or amortization of long-lived assets in order to assess potential asset impairment. In the event that operating income is insufficient to recover the depreciation, the assets, or groups of assets, are written-down to recoverable values, preferably based on the projected discounted cash flows of future operations. In the event of a planned substitution of assets prior to the end of the original estimated useful life of the asset, depreciation of that asset is accelerated to ensure the asset is depreciated according to estimated net realizable value at the estimated date of substitution.

Under IFRS, IAS 36 - "Impairment" requires companies to evaluate the carrying value of long-lived assets, when events and circumstances require such a review (or annually in the case of goodwill and intangible assets not subject to amortization). The carrying value of long-lived assets is considered impaired when the recoverable amount, the higher of the value in use and fair value less costs to sell, is less than the carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the recoverable amount.

In the case of TAM, there were no impairment indicators and, therefore, no differences between IFRS and BR GAAP related to impairment provision criteria were recorded for the periods presented.

## 4.2.2 Reconciliations

### (a) Reconciliation of equity at January 1, 2007 and December 31, 2007

	<u>January 1, 2007</u>	<u>December 31, 2007</u>
<b>Total equity under BR GAAP (Law 6,404 effective in 2007)</b>	1,446,176	1,494,287
Recognition of finance leased assets on TAM's balance sheet (Note 4.2.1 (a))	398,606	963,593
Revaluation of flight equipment (Note 4.2.1 (b))	259,415	48,969
Gains on sale and leaseback transactions (Note 4.2.1 (c ))	(211,611)	(179,526)
Loyalty program (Note 4.2.1 (d))	(230,351)	(361,131)
Dividends and interest on capital (Note 4.2.1 (e))		40,537
TAM Mercosur (Note 4.2.1 (f))	11,099	11,099
Pre-delivery payments (Note 4.2.1 (h))	39,732	111,124
Maintenance contracts (Note 4.2.1 (i))		(62,925)
Other adjustments	745	8,850
Deferred income tax and social contribution on adjustments above (Note 4.2.1 (k))	(94,991)	(181,820)
<b>Total adjustments</b>	<u>172,644</u>	<u>398,770</u>
<b>Total equity under IFRS</b>	<u>1,618,820</u>	<u>1,893,057</u>

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## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007 In thousands of reais, unless otherwise indicated

### (b) Reconciliation of net income for year ended December 31, 2007

	<u>December 31, 2007</u>
Net income for the year under BR GAAP (Law 6,404 effective in 2007)	129,073
Recognition of finance leased assets on TAM's balance sheet (Note 4.2.1 (a))	564,988
Revaluation of flight equipment (Note 4.2.1 (b))	(252,435)
Gains on sale and leaseback transactions (Note 4.2.1 (c))	32,085
Loyalty program (Note 4.2.1 (d))	(130,780)
Shared based payment plan (Note 4.2.1 (g))	(11,230)
Pre-delivery payments (Note 4.2.1 (h))	71,392
Maintenance contracts (Note 4.2.1 (i))	(62,925)
TAM Mercosur (Note 4.2.1 (f))	3,537
Other adjustments	(117)
Deferred income tax and social contribution on adjustments above (Note 4.2.1 (k))	(85,019)
<b>Total adjustments</b>	<u>129,496</u>
<b>Total net income for the year under IFRS</b>	<u><u>258,569</u></u>

### 4.3 Additional reconciliations between BR GAAP (Law 11,638 effective in 2008) and IFRS

On March 31, 2009, TAM published its consolidated financial statements for the year ended December 31, 2008 prepared under revised BR GAAP, prepared in accordance with Brazilian Corporate Law 11,638.

In addition to the reconciliations presented in Note 4.2 reconciling between the amounts published in TAM's 2007 20-F filed with the United States Securities and Exchange Commission and IFRS, reconciliations are presented below between the amounts presented in accordance with Brazilian Corporate Law 11,638 and IFRS as at December 31, 2008 and for the year then ended.

#### 4.3.1 Explanation of the differences between BR GAAP (Law 11,638 effective in 2008) and IFRS

The following explains the material adjustments to the balance sheet and income statement:

##### (a) Revaluation of property, plant and equipment

As discussed in Note 4.2.1 (b), TAM has elected to measure its flight equipment at revalued amounts (fair value) on transition to IFRS

The fair value of the flight equipment at December 31, 2008 was determined to be R\$ 8,856,086, representing an increase of R\$ 1,732,470 compared with the BR GAAP (Law 11,638) carrying value. The increased carrying value had a consequent impact on the depreciation charge for the year, which for the year ended December 31, 2008 was R\$ 16,435 higher than it had been under BR GAAP. The income statement for the year ended December 31, 2007 also included a revaluation gain of R\$ 255,617 for aircraft where a revaluation decrease had previously been recognized in the income statement. Further information relating to the revaluation of the flight equipment is included in Note 5.

##### (b) Loyalty Program

As discussed in Note 4.2.1 (d), TAM sponsors a program of rewards for frequent flyers. Under IFRS, TAM defers revenue in respect of points in issue. The effect of deferring revenue in this way was to increase deferred income by R\$ 414,283 December 31, 2008 and decrease revenue for the year then ended by R\$ 53,152.

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### (c) TAM Mercosur

As discussed in Note 4.2.1 (f), IFRS does not allow negative goodwill, and so R\$ 11,099 at December 31, 2008 was eliminated against retained earnings on transition to IFRS.

### (d) Pre-delivery payments

As discussed in Note 4.2.1 (h), exchange differences on pre-delivery payments (PDPs) denominated in foreign currency were recognized in the income statement, but under IFRS, the PDPs are accounted for as non-monetary items, and no exchange differences arise. Borrowing costs in relation to the PDPs are capitalized under IFRS.

The impact in equity was to reverse accumulated net exchange gain of R\$ 172,190 at December 31, 2008 and to capitalize accumulated borrowing costs of R\$ 104,484 at December 31, 2008. The impact in net income at December 31, 2008 was a loss of R\$ 178,830.

### (e) Maintenance contracts

Under BR GAAP maintenance was accounted for when the maintenance activities were performed by the maintenance provider, whereas under IFRS an accrual is made for the maintenance of engines covered by "power by the hour" maintenance contracts based on hours flown.

The impact was to recognize an additional maintenance accrual of R\$ 125,329 at December 31, 2008, and a corresponding additional expense in the income statement of R\$ 62,403 for the year then ended.

The impact in equity was to reverse accumulated maintenance depreciation to engines related to "power by the hour" contracts was R\$ 56,548 at December 31, 2008. The impact in net income at December 31, 2008 was R\$ 14,645.

### (f) Deferred income tax and social contribution

Under BR GAAP, deferred income tax is recognized using the liability method on temporary taxable or deductible differences, in a manner largely consistent with IFRS. The deferred tax adjustments represent the tax effect of the adjustments discussed in items (a) to (e) above.

## 4.3.2 Reconciliations

### (a) Reconciliation of equity at December 31, 2008

<b>Total equity under BR GAAP (Law 11,638 effective in 2008)</b>	<u>632,355</u>
Revaluation of flight equipment (Note 4.3.1(a))	1,732,470
Loyalty program (Note 4.3.1(b))	(414,283)
TAM Mercosur negative goodwill (Note 4.3.1(c))	11,099
Pre-delivery payments (Note 4.3.1(d))	(67,706)
Maintenance contracts (Note 4.3.1(e))	(68,781)
Others adjustments	(15,008)
Deferred income tax and social contribution on adjustments above (Note 4.3.1(f))	(391,815)
<b>Total adjustments</b>	<u>785,976</u>
<b>Total equity under IFRS</b>	<u><u>1,418,331</u></u>

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### (b) Reconciliation of net loss for the year ended December 31, 2008

Net loss for the year under BR GAAP (Law 11,638 effective in 2008)	<u>(1,359,239)</u>
Revaluation of flight equipment (Note 4.3.1(a))	239,182
Loyalty program (Note 4.3.1(b))	(53,152)
Pre-delivery payments (Note 4.3.1(d))	(178,830)
Maintenance contracts (Note 4.3.1(e))	(47,758)
Deferred income tax and social contribution on adjustments above (Note 4.3.1(f))	<u>8,202</u>
<b>Total adjustments</b>	<u>(32,356)</u>
<b>Total net loss for the year under IFRS</b>	<u><u>(1,391,595)</u></u>

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### 5 Property, Plant and Equipment

	<u>Flight equipment</u>	<u>Land and buildings</u>	<u>Computer equipment</u>	<u>Machinery and equipment</u>	<u>Construction in progress</u>	<u>Other</u>	<u>Total</u>
At January 1, 2007							
Cost	4,780,983	219,930	98,158	64,303	43,406	83,917	5,290,697
Accumulated depreciation	(1,256,446)	(12,463)	(42,636)	(31,254)		(50,371)	(1,393,170)
Net book amount	<u>3,524,537</u>	<u>207,467</u>	<u>55,522</u>	<u>33,049</u>	<u>43,406</u>	<u>33,546</u>	<u>3,897,527</u>
Year ended December 31, 2007							
Opening net book amount	3,524,537	207,467	55,522	33,049	43,406	33,546	3,897,527
Additions	1,405,670		13,112	14,988	16,322	35,609	1,485,701
Reclassification	(83,951)						(83,951)
Disposals/write-offs	(23,379)	(13,816)	(2,617)	(3,225)	(78)	(1,734)	(44,849)
Revaluation through equity	41,990						41,990
Revaluation through income statement	(224,701)						(224,701)
Depreciation	(301,953)	(4,876)	(18,004)	(6,525)		(7,305)	(338,663)
Closing net book amount	<u>4,338,213</u>	<u>188,775</u>	<u>48,013</u>	<u>38,287</u>	<u>59,650</u>	<u>60,116</u>	<u>4,733,054</u>
Year ended December 31, 2007							
Cost	5,896,612	206,114	108,653	76,066	59,650	117,792	6,464,887
Accumulated depreciation	(1,558,399)	(17,339)	(60,640)	(37,779)		(57,676)	(1,731,833)
Net book amount	<u>4,338,213</u>	<u>188,775</u>	<u>48,013</u>	<u>38,287</u>	<u>59,650</u>	<u>60,116</u>	<u>4,733,054</u>

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	Flight equipment	Land and buildings	Computer equipment	Machinery and equipment	Construction in progress	Other	Total
Year ended December 31, 2008							
Opening net book amount	4,338,213	188,775	48,013	38,287	59,650	60,116	4,733,054
Additions	3,228,970	6,631	31,408	39,005	26,402	42,530	3,374,946
Reclassification	(16,322)	49,790			(49,790)		(16,322)
Disposals/write-offs	(3,553)			(4,582)	(56)	(8,838)	(17,029)
Revaluation through equity	1,421,930						1,421,930
Revaluation through income statement	255,617						255,617
Depreciation	(368,769)	(17,044)	(20,739)	(8,713)		(10,760)	(426,025)
Closing net book amount	<u>8,856,086</u>	<u>228,152</u>	<u>58,682</u>	<u>63,997</u>	<u>36,206</u>	<u>83,048</u>	<u>9,326,171</u>
Year ended December 31, 2008							
Cost	10,783,254	262,535	140,061	110,489	36,206	151,484	11,484,029
Accumulated depreciation	<u>(1,927,168)</u>	<u>(34,383)</u>	<u>(81,379)</u>	<u>(46,492)</u>		<u>(68,436)</u>	<u>(2,157,858)</u>
Net book amount	<u>8,856,086</u>	<u>228,152</u>	<u>58,682</u>	<u>63,997</u>	<u>36,206</u>	<u>83,048</u>	<u>9,326,171</u>

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"Flight equipment" includes aircraft, engines and spare parts. During 2008, acquisitions include aircraft under finance leases, and at December 31, 2008 TAM possesses 64 finance leased aircraft. The cost of these aircraft recognized at the commencement of the leases was R\$ 7,724,713 (2007 - R\$ 5,031,289), with accumulated depreciation of R\$ 1,390,585 (2007 - R\$ 1,073,235), and so a net book value of R\$ 6,334,128 (2007 - R\$ 3,958,054). The depreciation expense for the year for finance leased flight equipment was R\$ 278,390 (2007 - R\$ 197,634).

Flight equipment is recorded at revalued amounts. The revaluations were performed by an independent valuation firm, Engeval Engenharia de Avaliações S/C Ltda., part of the ArcaLaudis - Global Network of International Valuers and Loss Assessors, as at January 1, 2007, December 31, 2007 and December 31, 2008. The valuations were based on observable market prices for flight equipment. If the flight equipment had been recorded at historical cost, the carrying value at December 31, 2008 would have been R\$ 7,092,539 (2007 - R\$ 4,250,602). The revaluation surplus at December 31, 2008 was R\$ 1,421,930 (2007 - R\$ 41,990). At December 31, 2007 the revaluations resulted in an expense of R\$ 224,701 for aircraft whose revalued amount was lower than their cost. At December 31, 2008 the revaluations resulted in a gain being recognized in the income statement of R\$ 255,617 for aircraft where a revaluation decrease had previously been recognized in the income statement.

"Construction in progress" is mainly composed of improvements carried out at the São Carlos Technology Center. "Other" is mainly composed of furniture and vehicles.

The properties and improvements of TAM's subsidiary TLA have been mortgaged as guarantee for loans in the total amount of R\$ 110,499 (2007 - R\$ 110,499).

Other than aircraft, no significant amounts of PPE are located outside Brazil. Aircraft are based in Brazil but fly both domestically and internationally.

#### 6 Pre-delivery Payments

	<u>Pre-delivery payments</u>
At January 1, 2007	383,165
Additions	924,375
Transfers (i)	(313,964)
Capitalized borrowing costs	30,721
	<hr/>
Year ended December 31, 2007	1,024,297
	<hr/>
Additions	401,653
Transfers (i)	(1,046,110)
Capitalized borrowing costs	46,384
	<hr/>
Year ended December 31, 2008	426,224
	<hr/>

- (i) Transfers occur when the aircraft are delivered and amounts are either returned to TAM or capitalized within flight equipment.

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### 7 Intangible Assets

	<u>IT projects in progress</u>	<u>Computer software</u>	<u>Others</u>	<u>Total</u>
At January 1, 2007				
Cost				
Accumulated amortization and impairment				
Closing net book amount				
Year ended December 31, 2007				
Additions	22,723	14,348		37,071
Amortization		(2,823)		(2,823)
Closing net book amount	<u>22,723</u>	<u>11,525</u>		<u>34,248</u>
At December 31, 2007				
Cost	22,723	14,348		37,071
Accumulated amortization and impairment		(2,823)		(2,823)
Net book amount	<u>22,723</u>	<u>11,525</u>		<u>34,248</u>
Year ended December 31, 2007				
Opening net book amount	22,723	11,525		34,248
Additions	80,045	23,527	29,897	133,469
Transfer	(432)	(278)		(710)
Amortization		(14,915)		(14,915)
Closing net book amount	<u>102,336</u>	<u>19,859</u>	<u>29,897</u>	<u>152,092</u>
Year ended December 31, 2008	<u>102,336</u>	<u>19,859</u>	<u>29,897</u>	<u>152,092</u>
At December 31, 2008				
Cost	102,336	37,597	29,897	169,830
Accumulated amortization and impairment		(17,738)		(17,738)
Closing net book amount	<u>102,336</u>	<u>19,859</u>	<u>29,897</u>	<u>152,092</u>

IT projects in progress and computer software are recorded at cost less accumulated amortization and impairment. Expenditure for development of projects and software, including the costs of materials, third-parties' worked hours and other direct costs, are recognized when it is probable that they will be successful, taking into account their commercial and technological feasibility, and only when their cost can be reliably measured. Such expenses are amortized on the straight-line method over the period of the expected benefits. As to Company development projects still underway, it is expected that they will be amortized as from 2009, upon becoming operational. The anticipated amortization period is tree-ten years, depending on the useful life of each project.

Computer software is amortized over its useful life, not normally exceeding three years.

Other projects include payments to the international airline network Star Alliance, and will be amortized from 2009 when TAM completes the integration process into the network and the assets start to be used.

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#### 8 Other financial assets

	<u>2008</u>	<u>2007</u>
Deposits in guarantee (i)	116,135	161,488
Prepaid aircraft maintenance (ii)	432,839	119,633
Other non-current receivables	<u>157,904</u>	<u>104,709</u>
	<u>706,878</u>	<u>385,830</u>

Financial assets included above are classified as loans and receivables measured at amortized cost. Their carrying value approximates to their fair value.

#### (i) Deposits in guarantee

Deposits in guarantee and collateral relating to the lease of aircraft and engines are mainly guarantees of operating lease installments. These deposits and collateral are denominated in U.S. dollars, and accrue interest based on the London Interbank Offered Rate ("LIBOR") plus a spread of 1% per annum (p.a.).

#### (ii) Prepaid aircraft maintenance

The maintenance reserve is a guarantee for the aircraft owner that the returned aircraft can be restored to its original condition. Certain aircraft leasing agreements require that advance deposits be made on behalf of the lessor, with maintenance reserve funds, at a restricted bank account in the lessor's name. The lessor may withdraw funds from this account if the required maintenance is not carried out upon return of the aircraft. Should TLA perform the maintenance of the aircraft or its parts, such as fuselage, engines and landing gear, it can request that the lessor return the related amount, which will otherwise revert to the owner.

#### 9 Trade and Other Receivables

Trade and other receivables are composed of:

	<u>2008</u>	<u>2007</u>
Trade accounts receivable	1,157,239	937,928
Aircraft insurance	58,694	44,515
Prepaid expenses	90,587	151,372
Other current receivables	<u>97,944</u>	<u>74,104</u>
	<u>1,404,464</u>	<u>1,207,919</u>

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### Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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Financial assets included above are classified as loans and receivables measured at amortized cost. Their carrying value approximates to their fair value.

#### (a) Trade receivables

			2008	2007
	Domestic	International (*)	Total	Total
Credit cards	659,315	41,698	701,013	575,039
Travel agents	226,090	47,849	273,939	239,747
Others	180,560	76,403	256,963	173,382
Sub total	1,065,965	165,950	1,231,915	988,168
Provision for impairment of trade receivables	(57,225)	(17,451)	(74,676)	(50,240)
	1,008,740	148,499	1,157,239	937,928

(\*) Includes R\$ 42,487 denominated in US Dollars, R\$ 40,344 denominated in Euros, R\$ 14,842 denominated in Argentine Pesos, and the remaining balance is composed of various currencies.

#### (b) Trade receivables by due date

	2008	2007
Not yet due	1,119,068	892,581
Over due		
Up to 60 days	20,651	20,663
From 61 to 90 days	3,796	11,582
From 91 to 180 days	2,482	7,056
From 181 to 360 days	27,572	10,332
More than 360 days	58,346	45,954
	1,231,915	988,168

#### (c) Provision for impairment of trade receivables

Movements on the provision for impairment of trade receivables are as follows:

	2008	2007
Balance at January 1	50,240	38,387
Charge for the year	25,047	12,399
Unused amounts reversed	(611)	(546)
Balance at December 31	74,676	50,240

The establishment and release of provisions for impaired receivables have been included in "selling expenses" in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. None of the items for which an impairment provision has been recognized is individually significant.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. TAM does not hold any collateral as security.

# TAM S.A.

## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007 In thousands of reais, unless otherwise indicated

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### 10 Inventories

	<u>2008</u>	<u>2007</u>
Material for repairs and maintenance	149,062	94,966
Other inventories (*)	<u>20,360</u>	<u>5,219</u>
	<u>169,422</u>	<u>100,185</u>

(\*) Other inventories include uniforms, stationery and catering items.

### 11 Financial risk management

TAM's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Company has a risk management program which allows its Treasury Department to enter into derivative financial instruments in order to reduce the exposure to its main risks of exchange rate and jet fuel price volatility on its cash flows.

These derivatives are used in line with TAM's policies, considering liquidity, impact on TAM's results and cost/benefit analysis of each position taken. Control over the use of derivatives includes ensuring that the rates contracted in derivative contracts are in line with market rates. All of the derivatives entered into are to mitigate TAM's risk exposures and are not used for speculation.

#### (a) Market risks

TAM is exposed to market risks from our normal commercial activities. These market risks principally relate to changes in interest rates, exchange rates or jet fuel prices. Any such changes may adversely affect the value of our financial assets and liabilities or our future cash flows and expenses. Market risk is the possible loss derived from variations in market prices. TAM has entered into derivative contracts and other financial instruments for the purpose of mitigating the risks arising from variations in these factors. TAM has also implemented policies and procedures in order to evaluate such risks and approve and monitor its derivative transactions, including a policy which stipulates that TAM will only enter into derivative transactions with counterparties which have an investment grade credit rating.

#### (i) Risks relating to variations in the price of jet fuel

One of the most important financial risks of airline companies is the volatility in fuel prices. Fuel represented 39.7% (2007 - 33.2%) of operating costs for the year ended at December 31, 2008.

The Company has entered into derivative transactions in order to economically hedge themselves against this risk. TAM's Risk Committee has established policies for achieving this. TAM's policy is to enter into derivative transactions covering a period of up to two years, allowing up to 80% of forecast fuel consumption for the next year decreasing to 30% of forecast consumption for the second year. Swaps, options, forwards or a combination of these (e.g. seagulls), using market prices for crude oil, heating oil or jet fuel as the underlying may be used to achieve TAM's aims.

In Brazil the price of jet kerosene is determined by the state-controlled oil company, Petrobras, based on international jet fuel prices. TAM aims to reduce the volatility in its kerosene price by using derivatives based on

## TAM S.A.

### Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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crude oil (West Texas Intermediate or "WTI"). WTI is highly correlated with TAM's average Jet Fuel Price. This strong fundamental and statistical relationship, coupled with the fact that crude oil is arguably the most actively traded commodity, led TAM to elect WTI as the main underlying for its fuel hedging program.

In January the 2009, the Company, together with its key counterparties, started a restructuring of its hedge transactions whose market value was R\$ 1,128,985 at December 31, 2008. The restructuring basically consisted of the distribution of maturity dates over a longer period. With this action, the Company aims at accomplishing two main goals: first, reduce cash payments, that were concentrated in the first half of 2009; second, settle the most part of the transactions at a period when prices are less volatile which, according to Company estimates, should be more in line with price levels more similar to the transaction strike.

The coverage profile, which was concentrated in the first half of 2009, is now more evenly distributed through 2009 and 2010, including a small coverage in the first quarter of 2011. For the next 12 months following March 31, 2009, the coverage accounts for 27% of the anticipated consumption. The average strike for transactions in the same period is now US\$ 112 per barrel. Approximately 65% of the volume in WTI barrels, as of the end of the first quarter, had been renegotiated, representing a reduction of around US\$ 95 million of disbursements in the first half of 2009.

All of the crude oil derivatives that TAM enters into are "over the counter", and none requires guarantees or margin calls. Due to the rescheduling of its hedging derivatives maturities, which took place in Q1 09, TAM has agreed to deposit a portion of its fair value as collateral to those restructured operations.

At December 31, 2008, the company had outstanding derivatives contracts relating to the price of crude oil amounting approximately 8.0 million barrels of oil with maturities out to Q3 10 (2007 - 5.5 million with maturities to November 2008) covering 47% of the next 12 months' expected usage. At December 31, 2008 TAM recorded a liability of R\$ 1,128,985 in respect of these contracts (2007 - asset of R\$ 62,967). See also note 14.

As TAM does not hedge 100% of its expected fuel needs with derivatives, any increase in kerosene prices will not be completely offset; similarly decreases in kerosene prices will have a net benefit to TAM, despite the negative cash flows from settling its derivative contracts.

At the time the majority of the WTI derivatives were entered into, the expected price of WTI was between US\$ 120-150 per barrel. In this context, derivatives were entered into with an average strike price of US\$ 104 per barrel. At December 31, 2008 the market price of WTI was US\$ 44.60 per barrel resulting in a negative value for the derivatives.

The maturity of the derivatives is as follows:

	<u>2009</u>	<u>2010</u>
Notional amount – thousands of barrels	7,200	800
Fair value (reais)	(1,021,928)	(107,057)

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TAM will only contract derivatives with counterparties which have a credit rating of at least A- (A3) issued by S&P, Moody's or Fitch. The distribution of the fair values of the counterparties by credit rating is:

	<u>Fair value of derivatives</u>
AAA	(446,757)
AA+, AA or AA-	(131,109)
A+, A or A-	<u>(551,119)</u>
	<u>(1,128,985)</u>

A hypothetical 10% increase/decrease in the price of WTI would lead to a increase/decrease of approximately R\$ 30.4 million/R\$ 30.6 million respectively in the fair value of the WTI derivatives. This increase/decrease would directly influence our financial results; in terms of cash flow, however, these changes in WTI price would be more than offset by a decrease/increase in our jet fuel costs.

#### (ii) Exchange rate risk

A significant part of the company's costs and operating expenses, such as aircraft and engine maintenance services, aircraft lease payments and aircraft insurance, are denominated in U.S. dollars. To manage exchange rate risk, TAM may enter into derivative contracts to protect itself against a possible depreciation or devaluation of the real in relation to the U.S. dollar. At December 31, 2008, TAM had no outstanding currency derivative contracts.

At December 31, 2008, if the Brazilian real had weakened/strengthened by 10% against the U.S. dollar with all other variables held constant, post-tax profit for the year would have been R\$ 770 higher/lower, mainly as a result of foreign exchange gains/losses on translation of U.S. dollar denominated trade receivables and U.S. dollar denominated financial assets at fair value through profit or loss, and foreign exchange losses/gains on translation of U.S. dollar-denominated borrowings and finance leases. Profit is more sensitive to movement in currency/U.S. dollar exchange rates in 2008 than 2007 because of the increased amount of U.S. dollar-denominated finance leases. The exchange rate risk in our financial results is inflated by the fact that its effect on the price of our aircraft cannot be registered in results. The effect on equity would have been the same as the effect on post-tax profit.

#### (iii) Interest rate risk

TAM's earnings are affected by changes in interest rates due to the impact those changes have on interest expense from variable-rate debt instruments, variable-rate leasing contracts and on interest income generated from its cash and short-term investment balances. To minimize possible impacts from interest rate fluctuations, TAM has adopted a policy of diversification, alternating between contracting fixed and variable rates (such as LIBOR and CDI).

A hypothetical 100 basis point increase in market interest rates at December 31, 2008 would increase its aircraft rental and interest expense by approximately R\$ 1.9 million.

These amounts are determined by considering the impact of the hypothetical interest rates on TAM's variable-rate debt and variable-rate leasing contracts at December 31, 2008.

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**(b) Credit risk**

Credit risk arises from the possibility of TAM not recovering amounts receivable from services provided to consumers and/or travel agencies, or from credits held by financial institutions generated by financial investment operations. Management does not expect any losses from non-performance by its counterparties, and does not have any significant exposure to any individual counterparty.

To reduce credit risk, TAM has adopted the practice of establishing credit limits and the permanent follow-up of its debtor balance (mainly from travel agencies).

TAM will only deal with financial institution counterparties which have a credit rating of at least BBB- (Baa3) issued by S&P, Moody's or Fitch. In the case of derivatives contracted in Brazil, a local rating of at least brA- is required. In addition, each institution has a maximum limit for investments, as determined by the Company's Risk Committee.

TAM's maximum exposure to credit risk is equal to the carrying amount of each of its financial assets.

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, TAM treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Excess cash is invested mainly in the exclusive investment funds described in Note 13. Each of these funds has a clear investment policy, with limits on concentration of risk in the underlying investments.

The table below analyses TAM's financial and liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest, apart from the net settled derivatives, for which the fair value is disclosed.

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## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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	Less than one year	Between one and two years	Between three and five years	More than five years	Total	Effect of discounting	Carrying value
Non-derivative financial liabilities							
At December 31, 2008							
Finance lease obligations	961,373	1,764,576	1,751,910	3,751,912	8,229,771	(1,781,291)	6,448,480
Borrowings	239,402	228,621	8,310	12,468	488,801	(87,233)	401,568
Debentures	51,464	333,333	166,667		551,464	(22,922)	528,542
Senior notes	51,562	103,269	103,412	882,215	1,140,458	(430,022)	710,436
Trade and other payables	967,553				967,553		967,553
At December 31, 2007							
Finance lease obligations	456,065	821,927	800,005	1,781,126	3,859,123	(890,909)	2,968,214
Borrowings	944,414	237,340	35,601	10,217	1,227,572	(159,725)	1,067,847
Debentures	57,393	218,131	333,333		608,857	(76,698)	532,159
Senior notes	39,408	78,162	78,380	707,854	903,804	(365,338)	538,466
Trade and other payables	804,670				804,670		804,670
Derivative financial liabilities							
At December 31, 2008							
WTI	1,021,928	107,057			1,128,985		1,128,985

### 11.1 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by TAM is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. TAM uses a variety of methods that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to TAM for similar financial instruments.

### 11.2 Capital management

The objective of capital management is to ensure that TAM is able to continue as a going concern whilst delivering shareholder expectations of a strong capital basis as well as returning benefits to other stakeholders and optimizing the cost of capital.

TAM monitors capital on the basis of the leverage ratio, net debt as a percentage of total capital. Net debt is defined as the total loans and borrowings, lease agreements, net of cash and cash equivalents and other current financial assets. We define capital as the total of shareholders' equity and net debt. The leverage ratios at December 31, 2008 and 2007 were as follows:

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	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	(671,785)	(466,538)
Other financial assets	(1,242,271)	(2,140,339)
Borrowings	401,568	1,067,847
Debentures and senior notes	1,238,978	1,070,625
Lease agreements	<u>8,928,266</u>	<u>4,811,572</u>
Net debt (1)	<u>8,654,756</u>	<u>4,343,167</u>
Total equity	<u>1,418,331</u>	<u>1,893,057</u>
Total capital (2)	<u>10,073,087</u>	<u>6,236,224</u>
Leverage ratio (1) / (2)	85.9%	69.6%

The increase in the leverage ratio during 2008 resulted primarily from the delivery of Boeing and Airbus aircraft during the year. Management believes that the resources available to the Company are sufficient for its present requirements and will be sufficient to meet its anticipated requirements for capital investments, which are approved annually by the Board of Directors, and other cash requirements for the 2009 fiscal year despite the current economic turmoil. The Company is not subject to any externally imposed capital requirements.

#### 12 Cash and cash equivalents

Cash and cash equivalents include the following:

	<u>2008</u>	<u>2007</u>
Cash and bank accounts	105,251	134,873
Short-term deposits	<u>566,534</u>	<u>331,665</u>
Cash and cash equivalents	<u>671,785</u>	<u>466,538</u>

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## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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### 13 Other financial assets

	<u>2008</u>	<u>2007</u>
<b>In local currency</b>		
Exclusive investment funds		
Government securities	683,779	1,229,723
Corporate securities	222,990	173,026
Others	<u>1,246</u>	<u>40,570</u>
	<u>908,015</u>	<u>1,443,319</u>
Austrian Notes	84,124	79,082
Bank deposit certificates - CDB	<u>11,164</u>	
	<u>95,288</u>	<u>79,082</u>
	<u>1,003,303</u>	<u>1,522,401</u>
<b>In foreign currency</b>		
Dual currency bonds	221,518	617,938
Other bank deposits	<u>17,450</u>	
	<u>238,968</u>	<u>617,938</u>
	<u>1,242,271</u>	<u>2,140,339</u>

All financial investments are measured at their fair value through profit and loss and held for active and frequent trading.

Management of financial investments in the domestic market is primarily performed via exclusive investment funds. This structure follows high transparency and corporate governance standards. The custody of securities and units of funds and the management of funds are carried out by an independent management institution. The mandates and regulations are consistent within each type of management and are subject to clear limits and measurement methods for market, credit and liquidity risks. The average profitability of these funds was 11.33% in 2008 (2007 – 11.77 %).

Investments in international markets essentially comprise time deposits, notes and overnight transactions with first tier banks with which the Company maintains business relationships. The average profitability of these investments was 4.89% in 2008 (2007 – 11.82 %).

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### 14 Derivative Financial Instruments

	2008		2007	
	Assets	Liabilities	Assets	Liabilities
West Texas Intermediate crude oil derivatives				
Forwards		351,343		
Swaps		517,696	55,096	
Seagulls		224,902	7,059	
Collar		35,044		
Foreign currency forwards			812	
		<u>1,128,985</u>	<u>62,967</u>	
Analyzed				
Current		1,021,928	62,967	
Non-current		107,057		

The derivative financial instruments included above are described in Note 11.

### 15 Financial Liabilities

The carrying value of financial liabilities, all of which are measured at amortized cost, and their corresponding fair values are shown in the following table:

	Fair value		Carrying value	
	2008	2007	2008	2007
Non-current				
Finance lease obligations	5,768,040	2,669,736	5,768,040	2,669,736
Senior notes	328,335	453,694	701,100	531,390
Borrowings	221,034	214,959	209,733	207,574
Debentures	483,517	504,043	500,000	500,000
	<u>6,800,926</u>	<u>3,842,432</u>	<u>7,178,873</u>	<u>3,908,700</u>
Current				
Finance lease obligations	680,440	298,478	680,440	298,478
Senior notes	4,372	6,041	9,336	7,076
Borrowings	202,172	891,346	191,835	860,273
Debentures	27,601	32,419	28,542	32,159
	<u>914,585</u>	<u>1,228,284</u>	<u>910,153</u>	<u>1,197,986</u>

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#### 15.1 Finance lease obligations

	Monthly payments expiring in	2008	2007
Foreign currency			
Aircraft	2020	6,176,550	2,894,316
Engines	2017	244,379	41,409
IT equipment	2012	27,551	32,489
		<u>6,448,480</u>	<u>2,968,214</u>
Analyzed			
Current		680,440	298,478
Non-current		<u>5,768,040</u>	<u>2,669,736</u>

The finance lease obligations are denominated in US dollars. TAM has provided letters of guarantee and deposits in guarantee in respect of the finance leases. At December 31, 2008 TAM has 64 aircraft under finance leases (2007 - 47 aircraft). See Note 5.

The minimum payments under finance leases are classified:

	2008	2007
No later than one year	961,373	456,065
Later than one year and no later than five years	3,516,486	1,621,932
Later than five years	3,751,912	1,781,126
Effect of discounting	<u>(1,781,291)</u>	<u>(890,909)</u>
	<u>6,448,480</u>	<u>2,968,214</u>

#### 15.2 Senior Notes

On April 25, 2007, TAM Capital concluded an offer of senior bonds in the total amount of US\$ 300 million (equivalent to R\$ 710.4) with interest of 7.375% per annum, paid half-yearly and with final or sole maturity in 2017, by means of a transaction abroad exempt from filing with the Brazilian CVM. The Company opted to register the securities with the United States Securities and Exchange Commission – (“SEC”) on October 30, 2007.

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### 15.3 Borrowings

	<b>Guarantees</b>	<b>Interest rate (effective rate for year ended December 31, 2008 and 2007)</b>	<b>Payment terms and year of last payment</b>	<b>2008</b>	<b>2007</b>
<b>Local currency</b>					
FINEM - sub credit A	Mortgage of assets and accounts receivable	TJLP + 4.5% p.a (10.8% p.a. and 10.8% p.a.)	Monthly until 2011	43,554	58,040
FINEM - sub credit B	Mortgage of assets and accounts receivable	Basket of currencies BNDES + 3.0% p.a (10.5% p.a and 11.9% p.a.)	Monthly until 2012	7,984	8,149
Compror	No guarantee	100.0% p.a. to 101.5% p.a. of the CDI (12.8% p.a and 11.3% p.a)	Monthly until 2008		223,573
Other				9,261	7,561
<b>Total local currency</b>				<b>60,799</b>	<b>297,323</b>
<b>Foreign currency</b>					
FINIMP	Promissory note US\$ 23,593 thousand	LIBOR + 0.9% p.a. to 5.7% p.a. (5.3% p.a. and 6.4%p.a)	Annual until 2010	167,289	84,883
International Finance Corporation - "IFC"	Deposits in guarantee US\$ 2,500 thousand	6 months LIBOR + 3.0% p.a.(6.6% p.a. and 7.7% p.a.)	Half-yearly until 2012	52,393	51,414
Leasing renegotiation Financing - Pre-delivery payment	Letter of guarantee	Fixed installments of US\$ 55 thousand	Monthly until 2022	14,013	11,137
Other	No guarantee	Monthly LIBOR + 0.6% p.a. (1.1% p.a and 4.8% p.a.)	Monthly until 2011	107,074	621,734
<b>Total foreign currency</b>				<b>340,769</b>	<b>770,524</b>
<b>Total</b>				<b>401,568</b>	<b>1,067,847</b>
Analyzed					
Current				191,835	860,273
Non-current				209,733	207,574

FINIMP – Import Financing, FINEM – Government agency financing for machinery and equipment, TJLP – Long term interest rate and CDI – Interbank deposit rate.

Non-current maturities are as follows:

<b>Year</b>	<b>2008</b>	<b>2007</b>
2009		119,523
2010	60,573	56,015
2011	132,559	22,950
2012	5,531	2,486
2013	1,221	660
After 2013	9,849	5,940
	<b>209,733</b>	<b>207,574</b>

On May 21, 2007, TAM entered into a loan agreement with Calyon Bank and other banks to finance up to US\$ 330.9 million (equivalent to R\$ 642,938) of pre-delivery payment - PDP operations made to Boeing for the delivery of 4 Boeing 777-300ER aircraft with firm purchase orders and delivery scheduled for 2008. On December 31, 2008 the balance of this loan was R\$ 356 (2007 - R\$ 516,725).

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### Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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On December 28, 2007, TAM entered into a loan agreement with bank BNP Paribas to finance up to US\$ 117.1 million (equivalent to R\$ 207.3) of pre-delivery payments for 30 Airbus aircraft with firm purchase orders and delivery scheduled between 2008 and 2010. At December 31, 2008, the balance of this loan was R\$ 106,718 (2007 - R\$ 105,009).

In 2005, TAM signed a loan agreement under the FINIMP program, obtaining funds mostly from Unibanco and Banco do Brasil to finance imports of aircraft engines and parts up to a sum of US\$ 8,805 thousand (equivalent to R\$ 21,435), with maturities until December 2008, except for a renegotiated portion with Banco do Brasil for US\$ 4,719 thousand (equivalent to R\$ 11,299), maturing in November 2009. In 2006, the Company raised US\$ 37,885 thousand (equivalent to R\$ 82,412) from Unibanco, maturing in July 2009. In 2008, for the same purpose, US\$ 84,996 thousand (equivalent to R\$ 155,862) was obtained from Unibanco, HSBC and Itaú, maturing in September 2010. At December 31, 2008 the balance of this type of financing amounts to R\$ 167,289 (2007 - R\$ 84,883).

The Company is not subject to certain obligations under loan agreements, such as compliance with certain financial indices, limits on the issue of financial debt, and priority in the repayment of loans.

#### 15.4 Debentures

<u>Issuer</u>	<u>Series</u>	<u>Quantity</u>	<u>Nominal value - R\$</u>	<u>2008</u>	<u>2007</u>
TAM					
August 1, 2006	Only	<u>50,000</u>	10,000	<u>528,542</u>	<u>523,147</u>
TLA					
April 22, 2003	First	473,006	100		4,308
April 22, 2003	Second	222,835	100		2,029
May 16, 2003	Third	<u>177,165</u>	100		<u>2,675</u>
		<u>873,006</u>			<u>9,012</u>
				<u>528,542</u>	<u>532,159</u>
Current				<u>(28,542)</u>	<u>(32,159)</u>
Non-current				<u>500,000</u>	<u>500,000</u>

#### TAM

On July 7, 2006 the Board of Directors approved the issue of nominative, nonconvertible debentures with no security guarantee or preference but with a guarantee provided by TLA.

The debentures have a face value of R\$ 10 and a term of six years, with repayment in three successive, equal, annual payments the first of which falls due on August 1, 2010.

Interest is to be paid every six months at a rate equivalent to 104.5% of the CDI as calculated and published by CETIP - the custodian and liquidation chamber. The effective interest rate was 14.29% as at December 31, 2008 (2007 - 11.7%).

The Company will be subject to certain obligations under the debenture contracts, such as compliance with certain financial indices, limits on the issuance of financial debt, and priority in the repayment of debentures. Such requirements will become effective as from 2010, when the debentures will start to be amortized.

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### Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

In thousands of reais, unless otherwise indicated

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#### TLA

At the Extraordinary General Meeting held on April 7, 2003 the stockholders approved the private issuance of nonconvertible, nominative debentures, without the issuance of warrants or certificates, with a face value of R\$ 100.00 (one hundred reais) each, totaling three series. Each series falls due 60 months as from the subscription date. The debentures were totally settled in May 2008.

#### 16 Deferred Income

	<u>2008</u>	<u>2007</u>
Non-current		
Frequent flyer program	253,854	210,328
Sale and leaseback – deferred gains	<u>115,356</u>	<u>147,441</u>
	<u>369,210</u>	<u>357,769</u>
Current		
Advance ticket sales	819,780	807,101
Frequent flyer program	253,854	210,328
Sale and leaseback – deferred gains	<u>32,085</u>	<u>32,085</u>
	<u>1,105,719</u>	<u>1,049,514</u>

At 31 December, 2008, "Advance ticket sales" amounted to R\$ 819,780 (2007 - R\$ 807,101), which is represented by 2,835,019 (2007 - 2,698,341) tickets coupons sold but not yet used.

The frequent flyer deferred income is accounted for based on the number of outstanding points of 30.4 billion (2007 - 25.5 billion) and a forfeiture rate of 31.6% (2007 - 29.2%) and TAM Loyalty Program points expire after two years and are forfeited at that point. During the year 2,142,160 (2007 – 934,597) reward flights were granted to passengers.

The deferred gains on sale and leaseback transactions relate to sales of aircraft in 2001 and 2003. The gains are being recognized in the income statement on a straight-line basis through to 2013.

# TAM S.A.

## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

In thousands of reais, unless otherwise indicated

### 17 Provisions

Management of the Company and its subsidiaries recorded provisions for contingencies in all cases where loss by the Company is deemed probable, based on advice provided by the Company's internal and external legal counsel. As at December 31, 2008 and December 31, 2007, the value of provisions and corresponding judicial deposits recognized were as follows:

	COFINS and PIS (i)	Additional tariff (ii)	Airline Staff fund (iii)	Labor contingencies (iv)	Other provisions	Total
At 1 January 2008						
Provision net of judicial deposits						769,696
Add: Judicial deposits made						<u>75,017</u>
Provision	396,532	323,691	71,552	12,811	40,127	844,713
Charged/(credited) to the income statement						
Additional provisions	4,722	63,832	21,718	18,233	64,437	172,942
Unused amounts reversed	(33,744)			(2,089)	(1,592)	(37,425)
Payments made				(5,517)	(9,340)	(14,857)
Inflation adjustments	<u>24,640</u>	<u>32,815</u>	<u>7,151</u>	<u>743</u>	<u>2,006</u>	<u>67,355</u>
At 31 December 2008	<u>392,150</u>	<u>420,338</u>	<u>100,421</u>	<u>24,181</u>	<u>95,638</u>	<u>1,032,728</u>
Less: Judicial deposits made						<u>(84,928)</u>
Provision net of judicial deposits (all non-current)						<u>947,800</u>

(i) Corresponds to the discussion of the constitutionality of the increase in the tax base of the PIS tax and the increase in the contribution and basis of calculation of the COFINS tax, introduced under Law 9,718/98. Judicial deposits were made for certain months, and for the others TLA is supported by judicial measures. These amounts, net of judicial deposits, are updated based on the SELIC rate.

On November 9, 2005, the full bench of the Federal Supreme Court ruled that the increase in the tax base was unconstitutional. During the first quarter of 2007 the Company was successful in obtaining a favorable ruling in one process and reversed the related provision for the amount of R\$ 7,560, of which R\$ 3,496 was recorded to reduce administrative expenses and R\$ 4,064 recorded to reduce financial expenses. As at December 31, 2008, five lawsuits had not yet to be finally judged.

(ii) Corresponds to the collection of 1% of the amount of fares of all tickets sold for regular domestic routes. TLA management, based on the opinion of its external legal counsel, is contesting the constitutionality of this collection, and non-payment is supported by a judicial order.

(iii) Corresponds to the collection of 2.5% on the monthly payroll for private social welfare and professional training entities. TLA management, based on the opinion of its external legal counsel, is contesting the constitutionality of this collection, and the non-payment is supported by a judicial order.

(iv) Corresponds to the provision based on management estimates as to losses that are expected to be incurred as a result of the various labor claims filed by current or former employees.

Due to the nature of these disputes, the timing of the utilization of the provisions, and any associated cash outflows, is uncertain.

# TAM S.A.

## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

In thousands of reais, unless otherwise indicated

### 18 Other Liabilities

	<u>2008</u>	<u>2007</u>
Non-current liabilities		
Return of Fokker 100 Fleet	32,563	41,523
Accrued maintenance	135,021	75,179
Other liabilities	<u>115,409</u>	<u>68,575</u>
	<u>282,993</u>	<u>185,277</u>
Current liabilities		
Return of Fokker 100 Fleet	18,623	11,501
Accrued maintenance	7,400	
Other liabilities	<u>123,068</u>	<u>119,264</u>
	<u>149,091</u>	<u>130,765</u>

Pursuant to the agreement to return the Fokker 100 fleet, on December 19, 2003, TLA cancelled 19 lease agreements then outstanding, of which ten were finance leases and nine were operating leases. As a result, TLA agreed to pay a contractual rescission penalty in 30 consecutive quarterly installments, between April 2004 and July 2011 in the original amount of R\$ 94,188. This amount was recognized in the statement of operations in the year ended December 31, 2003. The Company issued letters of guarantee as Security. TLA also renegotiated the reschedule overdue installments in the original amount of R\$ 49,599.

On December 31, 2008, the total commitment under the Fokker 100 fleet operating leases arrangements amounted to R\$ 51,186 (2007 – R\$ 53,024) equivalent to US\$ 21,903 thousand (2007 – US\$ 29,935 thousand), of which R\$ 18,623 (2007 – R\$ 11,501) is classified in current liabilities.

### 19 Trade and Other Payables

	<u>2008</u>	<u>2007</u>
Trade payables	486,095	426,856
Salaries and payroll payable	317,951	236,708
Indirect taxes and tariffs payable	162,908	109,054
Dividends	<u>599</u>	<u>32,052</u>
	<u>967,553</u>	<u>804,670</u>

The financial liabilities included above are measured at amortized cost, and their fair value approximates to their carrying value.

### 20 Deferred Income Tax and Social Contribution

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The movement in deferred income tax assets and liabilities during the years, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

# TAM S.A.

## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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<b>Deferred tax assets</b>	<b>At January 1, 2008</b>	<b>Charged/ (credited) to the income statement/equity</b>	<b>At December 31, 2008</b>
Income tax loss carry forwards	3,556	7,136	10,692
Social contribution carry forwards	2,508	2,569	5,077
Temporary timing differences			
Provision for derivatives loss		383,855	383,855
Provision for contingencies	133,373	54,134	187,507
Allowance for doubtful accounts	56,011	(42,468)	13,543
Allowance for losses on inventories	18,081	5,883	23,964
Deferred revenue from sale <i>leaseback transaction</i>	61,039	(10,909)	50,130
Maintenance	7,148	16,238	23,386
Pre delivery payments	(37,431)	60,803	23,372
Loyalty Program	134,391	22,263	156,654
Revaluation	109,423	(86,910)	22,513
Other	8,230	2,946	11,176
Total deferred tax assets	496,329	415,540	911,869
<b>Deferred tax liabilities</b>			
Revaluation reserve	(169,767)	(471,321)(*)	(641,088)
Finance leases	(313,727)	302,930	(10,797)
Total deferred tax liabilities	(483,494)	(168,391)	(651,885)
Total deferred tax netted	12,835	247,149	259,984

(\*) Amount related to revaluation reserve charged directly to Equity.

	<b>2008</b>	<b>2007</b>
Deferred tax expected to be recovered within 12 months - Netted	57,485	17,483
Deferred tax expected to be recovered within more than 12 months - Netted	202,499	(4,648)
Total deferred tax netted	259,984	12,835

Deferred tax assets resulting from tax losses, social contribution negative calculation basis, and temporary differences are recognized to the extent that the realization of the related tax benefit through the future taxable profits is probable.

No withholding tax or other taxes would be payable regarding the distribution of earnings of TAM Mercosur.

There are no unrecognized deferred tax assets.

Deferred tax amounts are presented net as all amounts relate to a single taxpayer.

# TAM S.A.

## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007 In thousands of reais, unless otherwise indicated

### 21 Share Capital and Reserves

	Share capital	Revaluation Reserve (Note 22)	Other reserves (Note 23)	Retained earnings (Accumulated deficit)	Total	Minority interest	Total
At January 1, 2007	675,000	326,035	615,041		1,616,076	2,744	1,618,820
Recognized income and expense for the year		27,713	(3,537)	258,392	282,568	177	282,745
Stock option plan – credit			11,230		11,230		11,230
Capital increase through issuance of shares	497		(882)		(385)		(385)
Revaluation reserve depreciation of aircraft		(24,200)		36,667	12,467		12,467
Dividends (Note 30)				(31,528)	(31,528)		(31,528)
Appropriation of net income			263,531	(263,531)			
Other movements						(292)	(292)
At December 31, 2007	675,497	329,548	885,383		1,890,428	2,629	1,893,057
Recognized income and expense for the year		938,474	13,152	(1,392,463)	(440,837)	868	(439,969)
Stock option plan - credit			16,512		16,512		16,512
Options exercised			(9,336)		(9,336)		(9,336)
Movement in treasury shares			(11,370)	(2,899)	(14,269)		(14,269)
Revaluation reserve depreciation of aircraft		(23,557)		35,693	12,136		12,136
Dividends (Note 30)				(40,537)	(40,537)		(40,537)
Appropriation of net loss			(802,249)	802,249			
Other movements						737	737
At December 31, 2008	<u>675,497</u>	<u>1,244,465</u>	<u>92,092</u>	<u>(597,957)</u>	<u>1,414,097</u>	<u>4,234</u>	<u>1,418,331</u>

#### 21.1 Authorized capital

At December 31, 2008 and 2007, the authorized capital was R\$ 1,200,000 and can be increased by means of the issuance of common and preferred shares, as resolved by the Board of Directors.

#### 21.2 Subscribed share capital

At December 31, 2008 the subscribed share capital was comprised of 150,585,147 shares, 50,195,049 of which were common shares and 100,390,098 were preferred shares (2007- 150,585,147 shares, 59,791,955 of which were common shares and 90,793,192 preferred shares).

At the Board of Directors meeting held on August 29, 2007, a capital increase through the exercise of share options was approved, with the subscription of 16,140 preferred shares with no par value under the 1st grant, and 5,666 preferred shares with no par value under the 2nd grant, for issue prices of R\$ 15.21 and R\$ 44.38 per share, respectively, for a total of R\$ 497. Payment of this capital increase was made on November 30, 2007.

The common shares confer to their holder the right to vote in general meetings.

The preferred shares have the right to vote in respect of some matters, as described in the 8<sup>th</sup> paragraph of the Company's Statutes while the Company is listed on BOVESPA's Level 2. However, they have priority in the distribution of dividends and in capital reimbursement, without any premium, if the Company were to be

## TAM S.A.

### Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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liquidated, and the right to participate, under the same terms as the common shares, in the distribution of any benefits to stockholders.

As per the Adhesion Agreement executed with BOVESPA, the Company has a three-year period, from June 13, 2005, to comply with the requirement to have a free float of 25% of its shares. Since August 2007 the free float has been 53.85% (unaudited).

#### 22 Revaluation reserve

The revaluation reserve represents the amount by which the carrying value (revalued amount) of certain property, plant and equipment (flight equipment) exceeds its historical cost. See Note 5.

	<u>Revaluation reserve, gross of tax</u>	<u>Deferred tax</u>	<u>Revaluation reserve, net of tax</u>
January 1, 2007	493,992	(167,957)	326,035
Revaluation - through equity	41,990	(14,277)	27,713
Depreciation	(36,667)	12,467	(24,200)
<b>Year ended December 31, 2007</b>	<b>499,315</b>	<b>(169,767)</b>	<b>329,548</b>
Revaluation - through equity	1,421,930	(483,456)	938,474
Depreciation	(35,692)	12,135	(23,557)
<b>Year ended December 31, 2008</b>	<b>1,885,553</b>	<b>(641,088)</b>	<b>1,244,465</b>

#### 23 Other Reserves

	<u>2008</u>	<u>2007</u>
Share premium	74,946	74,946
Legal reserve		802,249
Treasury shares	(11,370)	
Cumulative translation adjustments	3,309	(9,843)
Stock options	25,207	18,031
	<u>92,092</u>	<u>885,383</u>

##### 23.1 Share premium

The share premium reserve arose on the subscription of shares in TAM, due to the fair value of net assets received being greater than the nominal amount of the share capital issued.

##### 23.2 Legal reserve

Brazilian law requires that a legal reserve is constituted by appropriating 5% of profit for the year until the legal reserve reaches 20% of the amount of share capital.

## TAM S.A.

### Notes to the Consolidated Financial Statements at December 31, 2008 and 2007 In thousands of reais, unless otherwise indicated

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#### 23.3 Treasury shares

The movement of treasury shares during the year was as follows:

	<u>Quantity of shares</u>	<u>Thousands of reais</u>	<u>Average price per share - Reais</u>
As at January 1, 2008			
Purchases of shares	601,900	17,703	29.41
Reductions	<u>(199,589)</u>	<u>(6,333)</u>	<u>31.73</u>
Year ended December 31, 2008	<u>402,311</u>	<u>11,370</u>	<u>28.26</u>

The market value was R\$ 19.09 (reais) per preferred share at December 31, 2008.

The reduction in Treasury shares relates to the share option plan (see Note 26.2). The difference between the exercise price of options and the book value of treasury shares used was accounted for in "Retained earnings" for an amount of R\$ 2,899.

The Board of Directors, at a meeting held on January 30, 2009, approved a new program to repurchase TAM shares to be kept in treasury or subsequently cancelled or sold, with no capital reduction. Under the program, 3,596,629 preferred shares will be repurchased.

#### 23.4 Currency translation adjustment

The effects of exchange rate changes during the year on net assets of foreign operations at the beginning of the year and the difference between their profit for the year at average and year-end exchange rates are recorded in the currency translation adjustment reserve.

#### 23.5 Stock options

The credit relating to the expense for stock options is recorded in this reserve, and is released to retained earnings when options are exercised or expire.

# TAM S.A.

## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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### 24 Revenue

TAM had no major customers which represented more than 10% of revenues in 2008 or 2007. The Company utilizes its segmented gross revenue information by type of service rendered and by region, as follows:

#### (a) By type of service rendered

	2008	%	2007	%	Year – on - year variation (%)
Domestic					
Scheduled - Passenger	5,967,628	54.6	4,681,866	56.2	27.5
Charter - Passenger	194,844	1.8	152,037	1.8	28.2
Cargo	<u>459,487</u>	<u>4.2</u>	<u>360,149</u>	<u>4.3</u>	<u>27.6</u>
	<u>6,621,959</u>	<u>60.6</u>	<u>5,194,052</u>	<u>62.3</u>	<u>27.5</u>
International					
Scheduled - Passenger	2,803,800	25.7	2,109,398	25.3	32.9
Charter - Passenger	18,818	0.2	20,343	0.2	(7.5)
Cargo	<u>549,595</u>	<u>5.0</u>	<u>416,668</u>	<u>5.0</u>	<u>31.9</u>
	<u>3,372,213</u>	<u>30.9</u>	<u>2,546,409</u>	<u>30.5</u>	<u>32.4</u>
Other					
TAM Loyalty Program	441,202	4.0	144,183	1.8	206.0
Travel and tourism agencies	64,132	0.6	30,242	0.4	112.1
Others (includes expired tickets)	<u>420,682</u>	<u>3.9</u>	<u>413,220</u>	<u>5.0</u>	<u>1.8</u>
	<u>926,016</u>	<u>8.5</u>	<u>587,645</u>	<u>7.2</u>	<u>57.6</u>
Total gross	<u>10,920,188</u>	<u>100.0</u>	<u>8,328,106</u>	<u>100.0</u>	<u>31.1</u>
Sales taxes and other deductions	<u>(407,144)</u>		<u>(309,287)</u>		
Revenue	<u>10,513,044</u>		<u>8,018,819</u>		

#### (b) By geographic location of the Company's destinations

	2008	%	2007	%	Year – on - year Variation (%)
Brazil	7,547,976	69.2	5,781,698	69.4	30.5
Europe	1,543,350	14.1	1,047,726	12.6	47.3
North America	943,137	8.6	1,000,102	12.0	(5.7)
South America (excluding Brazil)	<u>885,725</u>	<u>8.1</u>	<u>498,580</u>	<u>6.0</u>	<u>77.6</u>
Total gross	<u>10,920,188</u>	<u>100.0</u>	<u>8,328,106</u>	<u>100.0</u>	<u>31.1</u>
Sales taxes and other deductions	<u>(407,144)</u>		<u>(309,287)</u>		
Revenue	<u>10,513,044</u>		<u>8,018,819</u>		

# TAM S.A.

## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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### 25 Operating Expenses by Nature

#### Year ended December 31, 2008

	<b>2008</b>					
	<b>Cost of services rendered</b>	<b>Expenses</b>			<b>Total</b>	<b>%</b>
		<b>Selling</b>	<b>General and administrative</b>	<b>Directors' Fees</b>		
Personnel	1,477,381	158,954	128,857	16,833	1,782,025	18.0
Fuel	3,927,888				3,927,888	39.7
Depreciation and amortization	376,075	1,074	63,791		440,940	4.5
Maintenance and repairs (except personnel)	469,101				469,101	4.7
Aircraft insurance	47,781				47,781	0.5
Take-off, landing and navigation aid charges	495,426				495,426	5.0
Leasing of aircraft, engine and equipment	424,637	7,720	11,074		443,431	4.5
Third party services	150,538	223,817	327,429		701,784	7.2
Selling and marketing		988,579			988,579	10.0
Other	337,563	16,469	234,078		588,110	5.9
	<u>7,706,390</u>	<u>1,396,613</u>	<u>765,229</u>	<u>16,833</u>	<u>9,885,065</u>	<u>100.0</u>

#### Year ended December 31, 2007

	<b>2007</b>					
	<b>Cost of services rendered</b>	<b>Expenses</b>			<b>Total</b>	<b>%</b>
		<b>Selling</b>	<b>General and administrative</b>	<b>Directors' Fees</b>		
Personnel	1,051,324	118,514	112,150	27,739	1,309,727	16.8
Fuel	2,536,398				2,536,398	32.6
Depreciation and amortization	309,607	1,443	30,436		341,486	4.4
Maintenance and repairs (except personnel)	445,816				445,816	5.7
Aircraft insurance	33,560				33,560	0.4
Take-off, landing and navigation aid charges	421,021				421,021	5.4
Leasing of aircraft, engine and equipment	488,514	4,077	8,547		501,138	6.4
Third party services	124,406	174,711	249,834		548,951	7.1
Selling and marketing		975,149			975,149	12.5
Other	351,303	173,763	152,199		677,265	8.7
	<u>5,761,949</u>	<u>1,447,657</u>	<u>553,166</u>	<u>27,739</u>	<u>7,790,511</u>	<u>100.0</u>

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## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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### 26 Employee Benefits

Personnel costs are composed of the following amounts:

	<u>2008</u>	<u>2007</u>
Salaries and bonuses	1,380,304	1,014,222
Defined contribution pension plan	19,803	13,025
Share based payment	7,176	10,357
Taxes and social contributions	374,742	272,123
	<u>1,782,025</u>	<u>1,309,727</u>

#### 26.1 Profit-sharing and bonuses

In accordance with the annual Union agreement, the Company will pay a share of its BR GAAP earnings before interest and tax as a result of it reaching certain performance indicators established in line with the annual budget. Consequently, management recorded at December 31, 2008, a provision for payment of this benefit in the amount of R\$ 60,939 (2007 - R\$ 36,140).

#### 26.2 Share-based payment

At the Extraordinary Stockholders' Meeting held on May 16, 2005, TAM's stockholders approved the Company's Stock Option Plan for Directors and employees. The Board of Directors made available under this plan 1,735,316 preferred shares relating to the 1st, 2nd and 3rd grants and 230,000 preferred shares relating to the special grant as follows:

	<u>Number of shares</u>	<u>Weighted average exercise price - R\$</u>
As at January 1, 2007	955,005	22.15
Granted	1,010,311	39.37
Exercised	<u>(21,806)</u>	<u>22.79</u>
Year ended December 31, 2007	<u>1,943,510</u>	<u>32.10</u>
Exercised	(199,589)	17.21
Cancelled	<u>(42,593)</u>	<u></u>
Year ended December 31, 2008	<u>1,701,328</u>	<u>37.31</u>

Under the terms of the Plan, the options granted are divided into three equal amounts and employees may exercise one third of their options after three, four and five years, respectively, if still employed by the Company at that time.

The options have a contractual term of seven years.

The options contain a "service condition" as vesting and exercisability of the options depends only on the rendering of a defined period of services by the employee. Dismissed employees have the obligation to satisfy certain conditions in order to maintain their options rights.

The options are valued using the Black-Scholes option pricing model. The following table shows details of the

## TAM S.A.

### Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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various option grants, together with the variables used in valuing the options granted. The exercise price is adjusted by the IGP-M (General Price Index), from the award grant date up to the exercise date.

	<u>1st grant</u>	<u>2nd grant</u>	<u>3rd grant</u>	<u>Special grant</u>	<u>Total or weighted average</u>
Date	12.28.05	11.30.06	12.14.07	09.27.07	
Number of options granted	715,255	239,750	780,311	230,000	
Exercise price at grant date	14.40	43.48	39.67	38.36	
Risk free interest rate - %	17.93	13.13	10.95	10.82	
Option term	5.5	5.5	5.5	4.5	
Expected dividend yield - %	0.00	0.32	0.58	0.58	
Share price volatility - %	34.24	41.29	42.30	40.48	
Market share price - R\$	45.00	61.00	44.03	50.10	
Number of options outstanding	481,825	227,870	761,633	230,000	1,701,328
Number of options exercisable	160,608				160,608
Exercise price (adjusted by IGP-M) - R\$	17.68	51.59	43.56	43.61	37.31

Share price volatility is determined based on historical share price volatility of the company's quoted shares.

The charge to the income statement in respect of share based payment for the year ended December 31, 2008 was R\$ 16,512 (2007 - R\$ 11,230).

#### 27 Net Finance Result

	<u>2008</u>	<u>2007</u>
Financial income		
Interest income from financial investments	192,765	263,291
Exchange gains	1,182,239	673,414
Other	35,357	70,163
	<u>1,410,361</u>	<u>1,006,868</u>
Financial expenses		
Exchange losses	(2,440,322)	(280,618)
Interest expense	(582,157)	(469,362)
Other	(30,125)	(35,939)
Capitalized borrowing cost (i)	46,384	30,721
	<u>(3,006,220)</u>	<u>(755,198)</u>
Financial result, net	<u>(1,595,859)</u>	<u>251,670</u>

(i) Rate used for capitalization was 10.0% in 2008 (2007 - 13.7%)

#### 28 Income Tax Expense

	<u>2008</u>	<u>2007</u>
Current tax	(120,956)	(138,956)
Deferred tax	715,085	11,838
	<u>594,129</u>	<u>(127,118)</u>

The tax on TAM's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

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## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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	<u>2008</u>	<u>2007</u>
Loss/Profit before tax	(1,985,724)	385,687
Tax calculated at Brazilian tax rates applicable to profits	34%	34%
	<u>675,146</u>	<u>(131,134)</u>
Non-deductible expenses	(7,572)	(5,138)
Other permanent differences	(13,773)	(1,952)
IRPJ tax incentives		1,849
Realization of the revaluation reserve	(1,362)	(1,768)
Unrecognized tax credit on tax losses arising from foreign subsidiaries	(68,894)	(1,587)
Net income of foreign subsidiary	10,584	
Income tax and social contribution on interest on own capital		<u>12,612</u>
	<u>594,129</u>	<u>(127,118)</u>

The applicable tax rate was 34% (2007 - 34%). No income tax is payable in Paraguay.

The tax years 2003 to 2007 are subject to examination by the Brazilian tax authorities.

### 29 Earnings per Share

Considering that common and preferred shares have equal rights in respect of dividends (see Note 21), a single measure of earnings per share based on the total number of common and preferred shares is presented. Common and preferred shares are considered two classes of ordinary shares.

#### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares (common and preferred) in issue during the year excluding ordinary shares purchased by the Company and held as treasury shares.

	<u>2008</u>	<u>2007</u>
Profit (loss) attributable to equity holders of the company	(1,392,463)	258,392
Weighted average number of ordinary shares in issue	150,585	150,585
Treasury shares	<u>(205)</u>	
Weighted average number of ordinary shares outstanding	<u>150,380</u>	<u>150,585</u>
Basic (loss)/earnings per share (reais per share)	(9.26)	1.72

## TAM S.A.

### Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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#### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The company has only one category of dilutive potential ordinary shares: share options.

	<u>2008</u>	<u>2007</u>
Profit (loss) attributable to equity holders of the company	(1,392,463)	258,392
Weighted average number of ordinary shares outstanding	150,380	150,585
Adjustments for share options		1,046
Weighted average number of ordinary shares for diluted earnings per share calculation	<u>150,380</u>	<u>151,631</u>
Diluted (loss)/earnings per share (reais per share)	(9.26)	1.70

#### 30 Dividends

In accordance with TAM S.A.'s bylaws, stockholders are assured a minimum compulsory dividend based on of 25% of net income for the year in the parent company's separate financial statements, prepared under BR GAAP. Tax deductible interest on own capital which has been paid or credited may be deducted from mandatory dividends. The preferred shares have priority in capital reimbursement and the right to dividends at least equal to those distributed to the common shares. The dividend is subject to approval at the Annual General Meeting (AGM) and is shown as follows:

	<u>2008</u>	<u>2007</u>
Minimum compulsory dividend R\$ none per share (2007 - R\$ 0.20937693 per share)		31,528
Complementary dividend in respect of 2007's results approved at the 2008 AGM	<u>40,537</u>	
Total	<u><u>40,537</u></u>	<u><u>31,528</u></u>

# TAM S.A.

## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007 In thousands of reais, unless otherwise indicated

### 31 Cash generated from operations

	<u>2008</u>	<u>2007</u>
Net income after taxes for the year	(1,391,595)	258,569
Adjustments for		
Deferred income tax and social contribution	(652,572)	61,590
Depreciation and amortization	440,940	341,486
Revaluation through income statement	(255,617)	224,701
(Profit)/loss on disposal of property, plant and equipment (see below)	8,825	40,291
Deferred income	67,646	161,652
Fair value (gains)/losses on derivative financial instruments	1,191,949	(72,887)
Foreign exchange losses/(gains) on operating activities	1,664,380	(311,918)
Monetary variation and interest expense	96,612	111,410
Others provisions set	84,530	143,348
Contingent provision	173,751	232,583
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation)		
Financial Assets	898,068	13,132
Inventories	(69,237)	11,171
Provision for contingencies and tax obligations under judicial dispute	(60,632)	(186,294)
Trade and other receivables	(216,988)	(264,246)
Trade and other payables	194,336	167,890
Held for sale	(17,150)	(69,431)
Other assets	(301,569)	(165,282)
Other liabilities	48,800	26,995
Cash generated from operations	<u>1,904,477</u>	<u>724,760</u>

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	<u>2008</u>	<u>2007</u>
Net book amount	17,029	44,849
Profit/(loss) on disposal of property, plant and equipment	(8,825)	(40,291)
Proceeds from disposal of property, plant and equipment	<u>8,204</u>	<u>4,558</u>

### Non-cash transactions

The principal non-cash transactions relate to share based payment discussed in Note 25 and acquisitions of flight equipment under finance leases discussed in Note 5.

### 32 Commitments and contingencies

#### (a) Operating lease commitments

TLA has obligations arising under aircraft operating lease contracts. TAM has 65 aircraft under the simple type of operating lease (2007 – 68 aircraft). These agreements have an average term of 125 months and are denominated in U.S. dollars plus *LIBOR*. The leasing expense, recognized in the consolidated statement of income in “Costs of services rendered”, was R\$ 424,637 for the year ended at December 31, 2008 (2007 – R\$ 488,514), equivalent to US\$ 181,702 thousand (2007 – US\$ 275,794 thousand).

## TAM S.A.

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For most of the operations TAM has given letters of guarantee issued by TAM or deposits in guarantees.

In addition, to meet the payment conditions established by contract, promissory notes guaranteed by TAM were issued, totaling US\$ 36,492 thousand at December 31, 2008 (2007 - US\$ 49,222 thousand).

Future aggregate minimum lease payments under these agreements are as follows:

	<u>Monthly payments maturing in</u>	<u>2008</u>	<u>2007</u>
Aircraft	2016	1,035,103	1,022,479
Engines	2014	25,995	18,202
		<u>1,061,098</u>	<u>1,040,681</u>

Operating lease obligations fall due as follows:

	<u>2008</u>	<u>2007</u>
No later than one year	231,401	232,806
Later than one year and no later than five years	714,961	669,107
Later than five years	114,736	138,768
	<u>1,061,098</u>	<u>1,040,681</u>

The amounts included above are denominated and payable in U.S. dollars.

#### (b) Commitments for future aircraft leases

##### (i) Airbus

Since 1998, TLA has had firm orders to purchase new Airbus aircraft. The final one was delivered in September 2008.

In 2005, the Company executed an amendment to the contract with Airbus for the firm order of 20 Airbus A320, the remaining nine of which to be delivered by 2010, with an option for 20 more of the same aircraft family (including A319, A320 and A321). In 2006, the Company finalized the contract to acquire a further 37 Airbus aircraft (31 aircraft narrow body family A320 and six A330) for delivery by 2012. The options under the contract from 2005 were transferred to the 2006 contract.

On June 28, 2007, the Company also executed a Memorandum of Understanding for the purchase of 22 Airbus A350XWB models 800 and 900, with ten more options, for delivery between 2013 and 2018.

Additionally, the Company confirmed the exercise of four options for Airbus A330, two of which will be delivered in 2010, and the other two in 2011, related to the agreement signed at the end of 2006. TAM also confirmed the twenty options that had been postponed from 2005 to 2006 and the anticipated delivery before the end of 2014.

## TAM S.A.

### Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

In thousands of reais, unless otherwise indicated

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**(ii) Boeing**

In 2006, the Company ordered 4 Boeing 777-300ER with options for 4 additional aircraft, which were exercised in 2007. Upon receipt of the four aircraft in 2008, the Company had six firm orders placed with Boeing for this type of aircraft, of which four are expected to be delivered in 2012 and two in 2013.

**(c) Insurance**

TAM maintains adequate insurance for risks which are expected to cover any liabilities generated by the accident on July 17, 2007, of an Airbus A320 aircraft, considering the agreements already made with and paid to the victims' families by the insurance company. As of December 31, 2008, some 160 (2007 – 50) compensation payments were paid to families of the victims and others are under negotiation with the Company's insurance firm. Management understands that the insurance coverage of these liabilities is adequate to cover all related costs. The Company believes that it will not incur additional or unexpected expenses outside the scope of the insurance agreement which would be TAM's direct responsibility.

**(d) Contingent liabilities**

Contingencies for which it is probable that TAM will be required to make payments are provided for and are discussed in Note 17.

The Company and its subsidiaries are involved parties in other judicial contingencies involving fiscal, labor and civil claims in the amount of R\$ 787,920 as at December 31, 2008 (2007 - R\$ 423,125) for which no provision is required. Based on the opinion of its based on the opinion and advice from internal and Brazilian external legal counsel, the Company believes that the chances of success remaining amounts are possible but not probable.

**(e) Contingent assets**

**(i) ICMS**

On December 17, 2001 the Federal Supreme Court ruled that domestic and international air passenger transportation revenue, as well as international air cargo transportation revenue was no longer subject to ICMS.

However, based on this ruling, ICMS taxation on domestic air cargo transportation revenue is still due. On December 31, 2008, the provision maintained by the Company totaled R\$ 6,187 (2007 – R\$ 6,059), recorded in "Taxes and tariffs payable". On December 31, 2008, the installments due in more than one year totaled R\$ 98 (2007 – R\$ 136), classified within "Other liabilities".

We consider payments of ICMS made between 1989 and 1994 to be amounts paid in error because we believe it was unconstitutional to charge ICMS on air navigation services. TAM Linhas Aéreas has filed claims against various states in Brazil to claim the amounts paid in error. Rulings on these claims are pending. The total value involved in these claims is R\$ 55 million. Our policy is to only adjust the value of these claims for inflation at the time that payment in respect thereto is recorded in our financial statements.

**(ii) Indemnification for losses on regulated fares**

We are plaintiffs in an action filed against the Brazilian government in 1993 seeking damages for breaking-up of the economic-financial equilibrium of an air transport concession agreement as a result of having to freeze our

## **TAM S.A.**

### **Notes to the Consolidated Financial Statements at December 31, 2008 and 2007**

**In thousands of reais, unless otherwise indicated**

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prices from 1988 to September 1993 in order to maintain operations with the prices set by the Brazilian government during that period. The process is currently being heard before the Federal Regional Court and we are awaiting judgment on appeals we have lodged requesting clarification of the initial decision (which we challenged). The estimated value of the action is R\$ 245 million, based on a calculation made by an expert witness of the court. This sum is subject to interest accruing from September 1993 and inflation since November 1994. Based on the opinion of our legal advisors and recent rulings handed down by the Supreme Court of Justice in favor of airlines in similar cases (specifically, actions filed by Transbrasil and Varig) we believe that our chance of success is probable. We have not recognized these amounts as receivable in these financial statements and will only do so when the decision is made final.

#### **(iii) Additional airport tariffs (“ATAERO”)**

At 2001, TLA filed a claim addressing the legality of the additional airport tariffs (“ATAERO”), which represent an additional 50% on the tariff amount. On December 31, 2008, the amount under discussion totaled approximately R\$ 641,393 (2007 - R\$ 525,716), not recognized in the financial statements.

### **33 Related-party Transactions**

The company is controlled by TAM - Empreendimentos e Participações S.A. (incorporated in Brazil), which is owned by the Amaro family, and which owns 89.26% of the Company's common shares and 24.67% of the Company's preferred shares. The remaining shares are widely held.

The following transactions were carried out with related parties:

#### **(a) Sale and purchases of goods and services**

For the year ended December 31, 2008, TAM received from Táxi Aéreo Marília S.A. (“Marília”), a company under common control, R\$ 130 (2007 - R\$ 820), as reimbursement for the use of its infra-structure being mainly the importation areas and human resources. This amount was credited to “cost of services rendered”. TAM Marília and TAM have common indirect stockholders.

On May 11, 2007, TLA and TAM Marília agreed to share the use of a hangar located by Congonhas airport São Paulo, for a period of 10 years. TLA paid R\$ 15,500 upfront to TAM Marília and is entitled to use the facilities and the infra-structure of the hangar, providing the same cargo services, as those previously provided in the cargo terminal. The total amount was established based on valuation reports performed by independent companies, reflecting the economic premium obtained by the use of such a location in TAM's cargo activities. The amount recognized in the income statement for the year ended December 31, 2008 amounted to R\$ 1,550 (2007 - R\$ 903).

The Company and its subsidiaries signed a contract in March 2005 with TAM Milor Táxi Aéreo, Representações, Marcas e Patentes S.A. (“TAM Milor”) for the right to use the “TAM” brand. This contract is valid for a term equal to the current passenger air transport concession of TAM and establishes a monthly fee, adjusted annually by the IGP-M inflation index, totaling R\$ 15,429 for the year ended December 31, 2008 (2007 – R\$ 14,331), recorded as “Operating expenses”.

## TAM S.A.

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#### (b) Key management compensation

The key management personnel of TAM include the members of the Board of Directors, the president, vice presidents and statutory directors. Their remuneration was as follows:

	<u>2008</u>	<u>2007</u>
Salaries	9,031	9,262
Profit share and bonuses	7,326	18,197
Share-based payment	3,033	604
Other long-term benefits	<u>476</u>	<u>280</u>
	<u>19,866</u>	<u>28,343</u>

#### 34 Consolidation schedules

In accordance with SEC rule SX 3-10 the Company is presenting the consolidation schedules for the following entities: TAM S.A. (parent company and guarantor), TAM Linhas Aéreas S.A. (guarantor), TAM Capital (subsidiary issuer), TAM Financial 1 , TAM Financial 2, TP Participações, TAM Mercosur and TAM Fidelidade (non guarantors).

# TAM S.A.

## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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(a) **Income statement**

(i) **For the year ended December 31, 2008**

	TAM S.A. (parent company and guarantor)	TAM Linhas. Aéreas S.A. (guarantor)	TAM Capital (subsidiary issuer)	Others (non- -guarantors)	Consolidation adjustments	Consolidate
Revenue		10,253,235		293,990	(34,181)	10,513,044
Operating expenses	(4,006)	(9,671,416)	(134)	(243,824)	34,315	(9,885,065)
<b>Operating profit before movements in fair value of fuel derivatives</b>	(4,006)	581,819	(134)	50,166	134	627,979
Movements in fair value of fuel derivatives		(1,273,461)				(1,273,461)
Gains/(losses) on revaluation of aircraft recognized in the income statement		255,617				255,617
<b>Operating (loss)/profit</b>	(4,006)	(436,025)	(134)	50,166	134	(389,865)
Share of earnings (loss) of subsidiaries	(1,348,470)	18,221			1,330,249	
Finance income	48,940	1,335,626	213,804	23,086	(211,095)	1,410,361
Finance costs	(66,265)	(2,907,168)	(393,064)	(30,080)	390,357	(3,006,220)
<b>(Loss)/Profit before income tax</b>	(1,369,801)	(1,989,346)	(179,394)	43,172	1,509,645	(1,985,724)
Income tax and social contribution	9,694	592,104		(7,669)		594,129
<b>(Loss)/Profit after tax (all continuing operations)</b>	(1,360,107)	(1,397,242)	(179,394)	35,503	1,509,645	(1,391,595)
Attributable to						
Minority interest					868	868
Equity holders of TAM	(1,360,107)	(1,397,242)	(179,394)	35,503	1,508,777	(1,392,463)

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## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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### (ii) For the year ended December 31, 2007

	TAM S.A. (parent company and guarantor)	TAM Linhas. Aéreas S.A. (guarantor)	TAM Capital (subsidiary issuer)	Others (non- -guarantors)	Consolidation adjustments	Consolidate
Revenue		7,823,163		225,876	(30,220)	8,018,819
Operating expenses	(7,341)	(7,599,684)	(401)	(215,352)	32,267	(7,790,511)
<b>Operating profit before movements in fair value of fuel derivatives</b>	(7,341)	223,479	(401)	10,524	2,047	228,308
Movements in fair value of fuel derivatives		130,410				130,410
Gains/(losses) on revaluation of aircraft recognized in the income statement		(224,701)				(224,701)
<b>Operating (loss)/profit</b>	(7,341)	129,188	(401)	10,524	2,047	134,017
Share of earnings (loss) of subsidiaries	510,057	3,577	(583)	(9,842)	(503,209)	
Finance income	59,561	942,082	45,105	16,027	(55,907)	1,006,868
Finance costs	(62,048)	(722,547)	(29,024)	(31,585)	90,006	(755,198)
<b>(Loss)/Profit before income tax</b>	500,229	352,300	15,097	(14,876)	(467,063)	385,687
Income tax and social contribution	4,900	(130,777)		(1,241)		(127,118)
<b>(Loss)/Profit after tax (all continuing operations)</b>	505,129	221,523	15,097	(16,117)	(467,063)	258,569
Attributable to						
Minority interest					177	177
Equity holders of TAM	505,129	221,523	15,097	(16,117)	(467,240)	258,392

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## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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### (b) Balance sheet

As at December 31, 2008

	<u>TAM S.A. (parent Company and Guarantor)</u>	<u>TAM Linhas Aéreas S.A. (guarantor)</u>	<u>TAM Capital (Subsidiary Issuer)</u>	<u>Others -(non guarantors)</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Assets						
Non-current assets						
Investments	664,549				(664,549)	
Property, plant and equipment	798	9,310,708		14,665		9,326,171
Pre-delivery payments		426,224				426,224
Intangible assets		152,078			14	152,092
Deferred income tax and social contribution	15,769	244,215				259,984
Other financial assets	847	706,567	108,608	2,147	(111,291)	706,878
	<u>681,963</u>	<u>10,839,792</u>	<u>108,608</u>	<u>16,812</u>	<u>(775,826)</u>	<u>10,871,349</u>
Current assets						
Trade and other receivables	47,866	1,352,902	1,580	136,917	(134,801)	1,404,464
Inventories		168,091		1,331		169,422
Non-current assets held for sale		62,134				62,134
Income taxes recoverable	26,650	84,529		9,533		120,712
Cash and cash equivalents	251,269	372,496	385	33,568	14,067	671,785
Other financial assets	156,837	1,060,274	435,653	39,582	(450,075)	1,242,271
	<u>482,622</u>	<u>3,100,426</u>	<u>437,618</u>	<u>220,931</u>	<u>(570,809)</u>	<u>3,670,788</u>
Total Assets	<u>1,164,585</u>	<u>13,940,218</u>	<u>546,226</u>	<u>237,743</u>	<u>(1,346,635)</u>	<u>14,542,137</u>

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## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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	TAM S.A. (parent Company and Guarantor)	TAM Linhas Aéreas S.A. (guarantor)	TAM Capital (Subsidiary Issuer)	Others -(non guarantors)	Consolidation adjustments	Consolidated
Liabilities and equity						
Liabilities						
Non-current liabilities						
Financial liabilities	500,000	6,678,873	701,100		(701,100)	7,178,873
Derivative financial instruments		107,057				107,057
Deferred income		369,210				369,210
Provisions	(30)	942,039		5,791		947,800
Other non-current liabilities	(10,563)	282,992			10,564	282,993
	<u>489,407</u>	<u>8,380,171</u>	<u>701,100</u>	<u>5,791</u>	<u>(690,536)</u>	<u>8,885,933</u>
Current liabilities						
Trade and other payables	6,612	959,400		123,599	(122,058)	967,553
Deferred income		1,084,544		21,175		1,105,719
Current income tax liabilities		83,002		427		83,429
Financial liabilities	28,542	881,611	9,336		(9,336)	910,153
Derivative financial instruments		1,021,928				1,021,928
Other current liabilities	6	159,160		8,151	(18,226)	149,091
	<u>35,160</u>	<u>4,189,645</u>	<u>9,336</u>	<u>153,352</u>	<u>(149,620)</u>	<u>4,237,873</u>
Total Liabilities	<u>524,567</u>	<u>12,569,816</u>	<u>710,436</u>	<u>159,143</u>	<u>(840,156)</u>	<u>13,123,806</u>
Equity						
Capital and reserves attributable to equity holders of TAM S.A.						
Share capital	675,497	752,727	88	43,728	(796,543)	675,497
Revaluation reserve	133,169	1,235,551		7,866	(132,121)	1,244,465
Other reserves	92,092	25,212		883	(26,095)	92,092
Retained earnings (accumulated deficit)	(260,740)	(643,088)	(164,298)	26,123	444,046	(597,957)
	<u>640,018</u>	<u>1,370,402</u>	<u>(164,210)</u>	<u>78,600</u>	<u>(510,713)</u>	<u>1,414,097</u>
Minority interest					4,234	4,234
Total equity	<u>640,018</u>	<u>1,370,402</u>	<u>(164,210)</u>	<u>78,600</u>	<u>(506,479)</u>	<u>1,418,331</u>
Total liabilities and equity	<u>1,164,585</u>	<u>13,940,218</u>	<u>546,226</u>	<u>237,743</u>	<u>(1,346,635)</u>	<u>14,542,137</u>

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As at December 31, 2007

	<u>TAM S.A. (parent company and guarantor)</u>	<u>TAM Linhas Aéreas S.A. (guarantor)</u>	<u>TAM Capital (subsidiary Issuer)</u>	<u>Others (non- guarantors)</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Assets						
Non-current assets						
Investments	1,992,691				(1,992,691)	
Property, plant and equipment		4,721,929		11,138	(13)	4,733,054
Pre-delivery payments		1,024,297				1,024,297
Intangible assets		34,236			12	34,248
Deferred income tax and social contribution	6,064	6,771				12,835
Other financial assets	<u>1,164</u>	<u>385,202</u>	<u>9,983</u>	<u>1,964</u>	<u>(12,483)</u>	<u>385,830</u>
	<u>1,999,919</u>	<u>6,172,435</u>	<u>9,983</u>	<u>13,102</u>	<u>(2,005,175)</u>	<u>6,190,264</u>
Current assets						
Trade and other receivables	55,797	1,192,951	1,200	63,373	(105,402)	1,207,919
Inventories		99,459		726		100,185
Non-current assets held for sale		62,286				62,286
Income taxes recoverable	16,150	62,213		8,654		87,017
Derivative financial instruments		62,967				62,967
Cash and cash equivalents	386,295	20,407	518	60,759	(1,441)	466,538
Other financial assets	125,470	2,020,057	541,950		(547,138)	2,140,339
	<u>583,712</u>	<u>3,520,340</u>	<u>543,668</u>	<u>133,512</u>	<u>(653,981)</u>	<u>4,127,251</u>
Total Assets	<u>2,583,631</u>	<u>9,692,775</u>	<u>553,651</u>	<u>146,614</u>	<u>(2,659,156)</u>	<u>10,317,515</u>

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## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

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	TAM S.A. (parent company and guarantor)	TAM Linhas Aéreas S.A. (guarantor)	TAM Capital (subsidiary Issuer)	Others (non- guarantors)	Consolidation adjustments	Consolidated
Liabilities and equity						
Liabilities						
Non-current liabilities						
Financial liabilities	500,000	3,408,700	531,390		(531,390)	3,908,700
Deferred income		357,769				357,769
Provisions	(14)	761,077		3,514	5,119	769,696
Other non-current liabilities	(5,442)	185,277			5,442	185,277
	<u>494,544</u>	<u>4,712,823</u>	<u>531,390</u>	<u>3,514</u>	<u>(520,829)</u>	<u>5,221,442</u>
Current liabilities						
Trade and other payables	72,670	729,156		80,621	(77,777)	804,670
Deferred income		1,027,616		21,898		1,049,514
Current income tax liabilities		19,452		629		20,081
Financial liabilities	23,147	1,174,839	7,076		(7,076)	1,197,986
Other current liabilities	<u>2</u>	<u>177,697</u>		<u>10,734</u>	<u>(57,668)</u>	<u>130,765</u>
	<u>95,819</u>	<u>3,128,760</u>	<u>7,076</u>	<u>113,882</u>	<u>(142,521)</u>	<u>3,203,016</u>
	<u><u>590,363</u></u>	<u><u>7,841,583</u></u>	<u><u>538,466</u></u>	<u><u>117,396</u></u>	<u><u>(663,350)</u></u>	<u><u>8,424,458</u></u>
Equity						
Capital and reserves attributable to equity holders of TAM S.A.						
Share capital	675,497	659,701	88	34,288	(694,077)	675,497
Revaluation reserve	135,134	321,280		8,026	(134,892)	329,548
Other reserves	885,383	18,040		319	(18,359)	885,383
Retained earnings (accumulated deficit)	297,254	852,171	15,097	(13,415)	(1,151,107)	1,890,428
	<u>1,993,268</u>	<u>1,851,192</u>	<u>15,185</u>	<u>29,218</u>	<u>(1,998,435)</u>	<u>1,890,428</u>
Minority interest					2,629	2,629
Total equity	<u>1,993,268</u>	<u>1,851,192</u>	<u>15,185</u>	<u>29,218</u>	<u>(1,995,806)</u>	<u>1,893,057</u>
Total and liabilities and equity	<u><u>2,583,631</u></u>	<u><u>9,692,775</u></u>	<u><u>553,651</u></u>	<u><u>146,614</u></u>	<u><u>(2,659,156)</u></u>	<u><u>10,317,515</u></u>

# TAM S.A.

## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

In thousands of reais, unless otherwise indicated

### (c) Cash flow statement

#### For the year ended December 31, 2008

	TAM S.A. (parent company and guarantor)	TAM Linhas Aéreas S.A. (guarantor)	TAM Capital (subsidiary Issuer)	Others (non- guarantors)	Consolidation adjustments	Consolidated
Cash flows from operating activities	349	1,905,969	(167,402)	(19,015)	184,576	1,904,477
Tax paid		(58,443)				(58,443)
Interest paid	(57,393)	(246,132)				(303,525)
Net cash generated from operating activities	(57,044)	1,601,394	(167,402)	(19,015)	184,576	1,542,509
Cash flows from investing activities						
Proceeds from sale property, plant and equipment (PPE)		8,204				8,204
Purchases of property, plant and equipment (PPE)		(627,523)		4,326	(14,286)	(637,483)
Purchases of intangible assets		(133,454)			(15)	(133,469)
Deposits in guarantee						
Reimbursement		106,292				106,292
Deposit made		(30,503)		(12,502)	12,502	(30,503)
Pre-delivery payments						
Reimbursement		261,302				261,302
Payment		(217,688)				(217,688)
Net cash used in investing activities		(633,370)		(8,176)	(1,799)	(643,345)
Cash flows from financing activities						
Purchase of treasury shares	(14,269)					(14,269)
Dividends paid to TAM's stockholders	(63,713)	(8,352)				(72,065)
Short and long-term borrowings						
Issuance		208,692				208,692
Repayment		(471,390)				(471,390)
Capital element of finance leases		(340,092)				(340,092)
Repayment of debentures		(4,793)				(4,793)
Issuance of senior notes			167,269		(167,269)	
Net cash used in financing activities	(77,982)	(615,935)	167,269		(167,269)	(693,917)
Increase in cash and cash equivalents, bank overdrafts and financial investments	(135,026)	352,089	(133)	(27,191)	15,508	205,247
Cash, cash equivalents, bank overdrafts and financial investments at beginning of year	386,295	20,407	518	60,759	(1,441)	466,538
Cash, cash equivalents, bank overdrafts and financial investments at end of year	251,269	372,496	385	33,568	14,067	671,785

# TAM S.A.

## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

In thousands of reais, unless otherwise indicated

### For the year ended December 31, 2007

	TAM S.A. (parent company and guarantor)	TAM Linhas Aéreas S.A. (guarantor)	TAM Capital (subsidiary Issuer)	Others (non- guarantors)	Consolidation adjustments	Consolidated
Cash flows from operating activities	199,651	568,717	(34,832)	38,282	(47,058)	724,760
Tax paid		(65,528)				(65,528)
Interest paid	(65,620)	(220,939)				(286,559)
Net cash generated from operating activities	134,031	282,250	(34,832)	38,282	(47,058)	372,673
Cash flows from investing activities						
Proceeds from sale of property, plant and equipment (PPE)		4,558				4,558
Investments in subsidiaries	(30)				30	
Purchases of property, plant and equipment (PPE)		(311,818)		4,988	(5,022)	(311,852)
Proceeds from sale of PPE						
Purchases of intangible assets		(37,071)				(37,071)
Deposits in guarantee						
Reimbursement		21,011				21,011
Deposit made		(65,383)				(65,383)
Pre-Delivery payment						
Reimbursement		401,977				401,977
Payment		(451,456)				(451,456)
Net cash used in investing activities	(30)	(438,182)		4,988	(4,992)	(438,216)
Cash flows from financing activities						
Proceeds from issuance of common shares	497					497
Purchase of treasury shares						
Dividends paid to TAM's stockholders	(137,106)				(523)	(137,629)
Short and long-term borrowings						
Issuance		638,105				638,105
Repayment		(591,857)				(591,857)
Capital element of finance leases		(263,664)				(263,664)
Repayment of debentures		(19,957)				(19,957)
Issuance of senior notes		607,080				607,080
Funds obtained			607,080		(607,080)	
Net cash used in financing activities	(136,609)	369,707	607,080		(607,603)	232,575

# TAM S.A.

## Notes to the Consolidated Financial Statements at December 31, 2008 and 2007

In thousands of reais, unless otherwise indicated

	<u>TAM S.A. (parent company and guarantor)</u>	<u>TAM Linhas Aéreas S.A. (guarantor)</u>	<u>TAM Capital (subsidiary Issuer)</u>	<u>Others (non- guarantors)</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Increase (decrease) in cash, cash equivalents, bank overdrafts and financial investments	(2,608)	213,775	572,248	43,270	(659,653)	167,032
Cash, cash equivalents, bank overdrafts and financial investments at beginning of year	<u>173,157</u>	<u>22,919</u>	<u>(571,730)</u>	<u>(29,037)</u>	<u>704,197</u>	<u>299,506</u>
Cash, cash equivalents, bank overdrafts and financial investments at end of year	<u>170,549</u>	<u>236,694</u>	<u>518</u>	<u>14,233</u>	<u>44,544</u>	<u>466,538</u>
	*	*	*			