

(A free translation of the original version in Portuguese)

TAM S.A.
Interim Financial Information
At June 30, 2011 and
Review Report of Independent Auditors

Contents

Review Report of Independent Auditors	3
Balance sheet	5
Income statement	7
Statements fo comprehensive income	9
Statements of changes in equity	10
Statements of cash flows – indirect method	12
Statements of value added	14
Notes to the internal financial statements	
1. General information	16
2. Basis of preparation and significant accounting policies	17
3. Adjustments applied retroative by to the period ínterim financial statements consolidated	19
4. Financial instruments	
4.1. Financial risk management	20
4.2. Estimation and fair value hierarchy	29
4.3. Capital management	30
5. Financial instruments by category	31
6. Cash and cash equivalent	
7. Trade accounts receivable - consolidated	33
8. Taxes recoverable	35
9. Related parties	35
10. Derivative financial instruments - consolidated	36
11. Financial assets – bank deposits	37
12. Investments	37
13. Property, plant and equipment – consolidated	40
14. Intangible assets – consolidated	42
15. Financial liabilities	43
15.1. Finance lease obligations	44
15.2. Senior notes	45
15.3. Borrowings	47
15.4. Debentures	48
16. Deferred income – consolidated	50
17. Refinanced taxes payable under Fiscal Recovery Program (REFIS)	50
18. Other liabilities – consolidated	53
19. Provisions - consolidated	54
20. Deferred income tax and social contribution	55
21. Share capital	60
22. Revenue	61
23. Costs and operating expenses by nature – consolidated	64
24. Employee benefits – consolidated	65
24.1. Share-based payment	66
25. Net finance result	69
26. Earnings per share – consolidated	70
27. Cash generated from operations	72
28. Commitments and contingencies	73
29. Segment reporting	76
30. Events occurring after the reporting period	81
Comments on performance	82

Report on Review of Quarterly Information

To the Board of Directors and Shareholders
TAM S.A.

Introduction

We have reviewed the accompanying parent company and consolidated interim accounting information of TAM S.A. included in the Quarterly Information (ITR) Form for the quarter ended June 30, 2011, comprising the balance sheet and the statements of income and the comprehensive income for the quarter and six month periods then ended, and the statements of changes in equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of the parent company interim accounting information in accordance with the accounting standard CPC 21, Interim Financial Reporting, of the Brazilian Accounting Pronouncements Committee (CPC), and of the consolidated interim accounting information in accordance with accounting standard CPC 21 and International Accounting Standard (IAS) 34 - Interim Financial Reporting issued by the International Accounting Standards Board (IASB), as well as the presentation of this information in accordance with the standards issued by the Brazilian Securities Commission (CVM), applicable to the preparation of the Quarterly Information (ITR).

Our responsibility is to express a conclusion on this interim accounting information based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Standards on Reviews of Interim Financial Information (NBC TR 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity and ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Brazilian and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

TAM S.A.

Conclusion on the parent company interim information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying parent company interim accounting information included in the quarterly information referred to above has not been prepared, in all material respects, in accordance with CPC 21 applicable to the preparation of the Quarterly Information, and presented in accordance with the standards issued by the Brazilian Securities Commission (CVM).

Conclusion on the consolidated interim information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim accounting information included in the quarterly information referred to above has not been prepared, in all material respects, in accordance with CPC 21 and IAS 34 applicable to the preparation of the Quarterly Information, and presented in accordance with the standards issued by the Brazilian Securities Commission (CVM).

Other matters

Interim statements of value added

We have also reviewed the parent company and consolidated interim statements of value added for the six month period ended June 30, 2011, which are required to be presented in accordance with standards issued by the Brazilian Securities Commission (CVM) applicable to the preparation of Quarterly Information (ITR) and are considered supplementary information under IFRS, which does not require the presentation of the statement of value added. These statements have been submitted to the same review procedures described above and, based on our review, nothing has come to our attention that causes us to believe that they have not been properly prepared, in all material respects, in relation to the parent company and consolidated interim accounting information taken as a whole.

São Paulo, August 8, 2011

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Carlos Alberto de Sousa
Contador CRC 1RJ 056561/O-0 "S" SP

TAM S.A.
Balance sheet – parent company
(In thousands of Reais)

	<u>Note</u>	<u>June 30, 2011</u>	<u>December 31, 2010</u>		<u>Note</u>	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Assets		(Unaudited)		Liabilities		(Unaudited)	
Current				Current			
Cash and cash equivalent	6	56,082	113,913	Accounts payable			22
Financial assets at fair value through profit and loss	4.2	392,342	125,905	Financial assets	15	182,296	347,800
Accounts receivable			2,000	Salaries and social charges		2,475	2,848
Dividends receivable		140,125	141,103	Taxes, charges and contributions		12,412	12,036
Taxes recoverable		45,567	42,790	Dividends payable		864	152,046
Related parties	9	2,038		Other current liabilities		660	19
Other current assets		515	343				
		<u>636,669</u>	<u>426,054</u>			<u>198,707</u>	<u>514,771</u>
Non-current				Non-current			
Deferred income tax and social contribution	20	29,271	15,531	Financial liabilities	15	166,614	
Related parties	9	99,054	16,504	Provisions		79	30
Judicial deposits		438	174	Related parties	9	4,325	
Investments in subsidiaries	12	2,198,340	2,478,464	Other non-current liabilities		13	13
Property, plant and equipment		63				<u>171,031</u>	<u>43</u>
		<u>2,327,166</u>	<u>2,510,673</u>	Total liabilities		<u>369,738</u>	<u>514,814</u>
				Equity			
				Capital and reserves			
				Share capital	21	819,892	819,892
				Capital reserve		133,919	120,605
				Profit reserve		865,315	895,592
				Carrying value adjustment		586,549	585,824
				Retained earnings		182,422	
						<u>2,594,097</u>	<u>2,421,913</u>
Total assets		<u>2,963,835</u>	<u>2,936,727</u>	Total liabilities and equity		<u>2,963,835</u>	<u>2,936,727</u>

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

TAM S.A.
Balance sheet - consolidated
(In thousands of Reais)

	Note	June 30, 2011 (Unaudited)	December 31, 2010		Note	June 30, 2011 (Unaudited)	December 31, 2010
Assets				Liabilities			
Current				Current			
Cash and cash equivalent	6	892,636	1,012,220	Accounts payable		550,502	522,364
Financial assets at fair value through profit and loss	4.2	1,250,407	1,407,698	Financial liabilities	15	1,506,052	1,572,093
Accounts receivable	7	1,725,741	1,556,781	Salaries and social charges		480,185	466,831
Inventories		208,816	198,760	Deferred income	16	1,623,666	1,801,181
Taxes recoverable	8	267,432	57,557	Taxes, charges and contributions		310,913	285,037
Income tax and social contribution recoverable		20,234	18,424	Income tax and social contribution payable			14,339
Prepaid expenses		136,819	162,788	Dividends payable		864	152,293
Derivative financial instruments	10	32,098	9,895	Derivative financial instruments	10	12,839	20,574
Other current receivable		71,099	81,234	Refinanced taxes payable under Fiscal Recovery Program	17	49,424	23,152
		<u>4,605,282</u>	<u>4,505,357</u>	Other current liabilities	18	144,676	135,658
						<u>4,679,121</u>	<u>4,993,522</u>
Non-current				Non-current			
Restrict cash		40,373	98,305	Financial liabilities	15	6,375,194	5,786,848
Financial assets – securities issued by Banks	11	155,587	50,280	Derivative financial instruments	10	8,253	15,286
Deposits in guarantee		46,947	51,778	Deferred income	16	53,170	66,420
Prepaid aircraft maintenance		427,868	410,306	Provisions	19	231,023	204,271
Other non-current assets		10,738	20,595	Refinanced taxes payable under Fiscal Recovery Program	17	434,390	416,675
Derivatives financial instruments	10	8,726	6,568	Deferred income tax and social contribution	20	264,250	111,178
Property, plant and equipment	13	9,107,584	8,711,850	Other non-current liabilities	18	318,805	237,471
Intangible assets	14	619,437	604,024			<u>7,685,085</u>	<u>6,838,149</u>
		<u>10,417,260</u>	<u>9,953,706</u>	Total liabilities		<u>12,364,206</u>	<u>11,831,672</u>
				Equity			
				Share capital	21	819,892	819,892
				Capital reserve		133,919	120,605
				Profit reserve		865,315	895,592
				Carrying value adjustment		586,549	585,824
				Retained earnings		188,422	
						<u>2,594,097</u>	<u>2,421,913</u>
				Non-controlling interest		64,239	205,478
				Total equity		<u>2,658,336</u>	<u>2,627,391</u>
Total assets		<u>15,022,542</u>	<u>14,459,063</u>	Total liabilities and equity		<u>15,022,542</u>	<u>14,459,063</u>

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

TAM S.A.
Income statement (Unaudited)
Three and six months periods ended June 30, 2011 and 2010
(In thousand of Reais)

	Note	Quarter ended		Parent company Six months ended	
		June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Cost and operating expenses		(11,871)	(1,908)	(20,506)	(2,604)
Equity share of results of investees	12	74,341	(171,915)	214,584	(250,741)
Operating profit / (loss)		62,470	(173,823)	194,078	(253,345)
Finance income	25	2,997	9,005	9,499	18,492
Finance expense	25	(12,450)	(12,363)	(28,145)	(22,930)
Profit / (loss) before income tax and social contribution		53,017	(177,181)	175,432	(257,783)
Income tax and social contribution	20(a)	7,250	2,418	13,740	12,084
Profit / (loss) for the period		60,267	(174,763)	189,172	(245,699)

The accompanying notes are an integral part of these interim financial statements.
(*) See note 3.

TAM S.A.
Income statement (Unaudited)
Three and six months periods ended June 30, 2011 and 2010
(In thousand of Reais)

	Note	Consolidated			
		Quarter ended		Six months ended	
		June 30, 2011	June 30, 2010 (Adjusted*)	June 30, 2011	June 30, 2010 (Adjusted*)
Revenue	22	3,053,211	2,611,448	6,095,740	5,215,292
Cost and operating expenses	23	(3,037,595)	(2,610,046)	(5,969,945)	(5,137,079)
Operating profit before movements in fair value of fuel derivatives		<u>15,616</u>	<u>1,402</u>	<u>125,795</u>	<u>78,213</u>
Movements in fair value of fuel derivatives		<u>(12,856)</u>	<u>(57,196)</u>	<u>42,916</u>	<u>(46,587)</u>
Operating profit / (loss)		<u>2,760</u>	<u>(55,794)</u>	<u>168,711</u>	<u>31,626</u>
Finance income	25	800,769	353,096	1,053,187	869,384
Finance expense	25	(628,179)	(507,118)	(796,043)	(1,207,416)
Profit / (loss) before income tax and social contribution		<u>175,350</u>	<u>(209,816)</u>	<u>425,855</u>	<u>(306,406)</u>
Income tax and social contribution	20(a)	<u>(93,658)</u>	<u>41,178</u>	<u>(195,996)</u>	<u>68,618</u>
Profit / (loss) for the period		<u><u>81,692</u></u>	<u><u>(168,638)</u></u>	<u><u>229,859</u></u>	<u><u>(237,788)</u></u>
Attributable to					
Equity shareholders of TAM S.A.		60,267	(174,763)	189,172	(245,699)
Non-controlling interest		21,425	6,125	40,687	7,911
Earnings per share (common and preferred) – in R\$					
Basic	26	0.39	(1.16)	1.21	(1.63)
Diluted	26	0.39	(1.16)	1.21	(1.63)

The accompanying notes are an integral part of these interim financial statements.
(*) See note 3.

TAM S.A.
Statements of comprehensive income (Unaudited)
Three and six months periods ended June 30, 2011 and 2010
(In thousand of Reais)

	Quarter ended		Parent company Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	Profit / (loss) for the period	60,267	(174,763)	189,172
Other comprehensive income				
Currency translation gains / (losses) on foreign operations	2,109	(2,367)	1,458	1,369
Other comprehensive income / (loss) for the period	<u>2,109</u>	<u>(2,367)</u>	<u>1,458</u>	<u>1,369</u>
Total of comprehensive income / (loss) for the period	<u>62,376</u>	<u>(177,130)</u>	<u>190,630</u>	<u>(244,330)</u>
	Quarter ended		Consolidated Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
		(Adjusted(*) (168,638))		(Adjusted(*) (237,788))
Profit / (loss) for the period	81,692	(168,638)	229,859	(237,788)
Other comprehensive income				
Currency translation gains / (losses) on foreign operations	2,220	(2,367)	1,535	1,381
Other comprehensive income / (loss) for the period	<u>2,220</u>	<u>(2,367)</u>	<u>1,535</u>	<u>1,381</u>
Total of comprehensive income / (loss) for the period	<u>83,912</u>	<u>(171,005)</u>	<u>231,394</u>	<u>(236,407)</u>
Attributable to				
Equity shareholders of TAM S.A.	62,376	(177,130)	190,630	(244,330)
Non-controlling interest	21,536	6,125	40,764	7,923

The accompanying notes are an integral part of these interim financial statements.
(*) See note 3.

TAM S.A.
Statement of changes in equity (Unaudited)
Period ended June 30, 2011 and 2010
(In thousand of Reais)

	Attributable to equity shareholders of TAM						Non-controlling interest	Total	
	Capital	Capital reserve	Profit reserve	Revaluation reserve	Carrying value adjustment	Accumulated deficit			Total
At January 1, 2009 – As originally presented	675,497	99,244	49,134	116,504	(16,796)	(428,577)	495,006	3,408	498,414
Changes of accounting practices – Note 3			353,007	(116,504)	130,542	428,577	795,622		795,622
At January 1, 2009 - Adjusted	675,497	99,244	402,141		113,746		1,290,628	3,408	1,294,036
Loss for the period						(245,699)	(245,699)	7,911	(237,788)
Other comprehensive income									
Foreign exchange gain on foreign operations					1,369		1,369	12	1,381
Total of comprehensive loss					1,369	(245,699)	(244,330)	7,923	(236,407)
Transactions with owners									
Stock option plan		11,176					11,176		11,176
Treasury shares		4,554				(1,739)	2,815		2,815
Dividends of Mercosur paid to non-controlling interests								(1,219)	(1,219)
Transfer to non-controlling shareholders: Effect on equity of the issuance and sale of new shares of Multiplus S.A.					489,115		489,115	179,947	669,062
Total of transactions with owners		15,730			489,115	(1,739)	503,106	178,728	681,834
At June 30, 2010	<u>675,497</u>	<u>114,974</u>	<u>402,141</u>		<u>604,230</u>	<u>(247,438)</u>	<u>1,549,404</u>	<u>190,059</u>	<u>1,739,463</u>

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

TAM S.A.
Statement of changes in equity (Unaudited)
Period ended June 30, 2011 and 2010
(In thousand of Reais)

	Attributable to equity shareholders of TAM						Non-controlling interest	Total
	Capital	Capital reserve	Profit reserve	Carrying value adjustment	Retained earnings / (Accumulated deficit)	Total		
At January 1, 2011	819,892	120,605	895,592	585,824		2,421,913	205,478	2,627,391
Profit for the period					189,172	189,172	40,687	229,859
Other comprehensive income								
Foreign exchange loss on foreign operations				1,458		1,458	77	1,535
Total of comprehensive income				1,458	189,172	190,630	40,764	231,394
Transactions with owners								
Capital reduction of Multiplus – Cash paid to non-controlling interests							(160,984)	(160,984)
Realization of revaluation reserve				(733)	733			
Dividends by TAM			(30,277)			(30,277)		(30,277)
Dividends of Multiplus paid to non-controlling interests							(22,023)	(22,023)
Dividends of Mercosur paid to non-controlling interests							(315)	(315)
Stock option plan		8,880				8,880	1,319	10,199
Sale of treasury shares		4,434			(1,483)	2,951		2,951
Total of transactions with owners		13,314	(30,277)	(733)	(750)	(18,446)	(182,003)	(200,449)
At June 30, 2011	<u>819,892</u>	<u>133,919</u>	<u>865,315</u>	<u>586,549</u>	<u>188,422</u>	<u>2,594,097</u>	<u>64,239</u>	<u>2,658,336</u>

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

TAM S.A.
Statement of cash flows – indirect method (Unaudited)
Six months periods ended June 30, 2011 and 2010
(In thousand of Reais)

	Note	Parent company	
		June 30, 2011	June 30, 20110
Cash generated (used) in operating activities	27	(365,067)	5,462
Interest paid		(18,276)	(21,895)
Net cash used in operating activities		(383,343)	(16,433)
Cash flow from investing activities			
Capital reduction of Multiplus		439,034	
Investments in subsidiaries - – Pantanal			(10,000)
Investments in restricted cash			
Dividends and interest on own capital received		65,047	
Purchases of property, plant and equipment		(60)	
Dividends received			246,055
Dividends and interest on capital own	21(e)	(181,460)	(233,304)
Net cash generated from (used in) investing activities		322,561	2,751
Cash flow from financing activities			
Sale of treasury shares		2,951	2,817
Net cash generated from (used in) financing activities		2,951	2,817
Net increase (decrease) in cash and cash equivalents		(57,831)	(10,865)
Cash and cash equivalents at the beginning of the year		113,913	131,952
Cash and cash equivalents at the end of the p eriod / year		56,082	121,087

The accompanying notes are an integral part of these interim financial statements.
(*) See note 3.

TAM S.A.
Statement of cash flows – indirect method (Unaudited)
Six months periods ended June 30, 2011 and 2010
(In thousand of Reais)

	Note	Consolidated	
		June 30, 2011	June 30, 2010
Cash generated from operating activities	27	288,372	123,055
Taxes paid		(104,707)	(1,446)
Interest paid		(157,161)	(145,888)
Net cash generated from (used in) operating activities		26,501	(24,279)
Cash flow from investing activities			
Capital reduction of Multiplus – cash paid to non-controlling interests		(160,984)	
Restricted cash withdrawal		57,932	
Investment in restricted cash			(35,470)
Cash paid on acquisition of Pantanal, net of cash acquired			(9,545)
Proceeds from sale of property, plant and equipment (PPE)		1,614	18,822
Purchases of property, plant and equipment		(88,061)	(71,368)
Purchases of intangible assets		(36,145)	(57,437)
Deposits in guarantee			
Reimbursements		4,857	5,272
Deposits made		(3,806)	
Pre delivery payment			
Reimbursements	13	90,279	86,323
Payments	13	(245,273)	(102,364)
Net cash used in investing activities		(379,587)	(165,767)
Cash flow from financing activities			
(Repurchase) / Sale of treasury		2,951	2,815
Net cash received in a public offering of shares of Multiplus			657,049
Dividends paid – TAM S.A.	21(e)	(181,460)	(233,304)
Dividends and interest on capital paid to non-controlling shareholders of Multiplus		(22,351)	
Dividends paid to non-controlling shareholders of Mercosur		(315)	
Short and long-term borrowings			
Issuance		79,165	
Payments		(75,232)	(117,198)
Bonds			
Issuance		777,209	
Capital element of finance leases		(346,465)	(261,757)
Net cash generated from financing activities		233,502	47,605
Net increase (decrease) in cash and cash equivalents		(119,584)	(142,441)
Cash and cash equivalents at the beginning of the year		1,012,220	1,075,172
Cash and cash equivalents at the end of the period / year		892,636	932,731
Supplementary information on cash flows:			
Non cash investing and financing activities			
Acquisition of aircraft under finance leases		432,674	569,178
Pre delivery payment reimbursement			18,881
Acquisition of other PPE under financial leases		17,193	
Financing obtained for direct payment to suppliers		60,724	

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

TAM S.A.
Statement of added value (Unaudited)
Six months periods ended June 30, 2011 and 2010
(In thousand of Reais)

	Note	Parent company	
		June 30, 2011	June 30, 2010
Revenue			
Allowance for doubtful accounts		8	
		8	
Inputs acquired from third parties			
Costs of services		(1,392)	(369)
Materials, electricity, outsourced services and other		(12,024)	(1,165)
		(13,416)	(1,534)
Gross value added			
		(13,408)	(1,534)
Net added received through transfer			
		(13,408)	(1,534)
Value added received through transfer			
Equity share of the results of investees	12	214,584	(251,741)
Financial income	26	9,499	18,492
		224,083	(233,249)
Total added value to distribute / (absorb)			
		210,675	(234,783)
Distribution of value added			
		210,675	(234,783)
Personnel			
Direct compensation			
Benefits		6,342	924
FGTS- Employee Government Severance Fund		7	2
		167	27
Taxes, fees and contributions			
Federal			
Estate		(13,246)	(13,003)
Municipal		73	36
Remuneration of third party capital			
Rentals		15	
Financial expenses		28,145	22,930
Remuneration of own capital			
Profit / (loss) for the period		189,172	(245,699)

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

TAM S.A.
Statement of cash flows – indirect method (Unaudited)
Six months periods ended June 30, 2011 and 2010
(In thousand of Reais)

	Note	Consolidated	
		June 30, 2011	June 30, 2010
Revenue			
Sales of services	23	6,345,942	5,434,590
Other revenues		170,497	106,104
Allowance for doubtful accounts		779	10,001
		<u>6,517,218</u>	<u>5,550,695</u>
Inputs acquired from third parties			
Costs of services		(2,509,755)	(1,905,862)
Materials, electricity, outsourced services and other		(1,298,536)	(1,338,994)
		<u>(3,808,291)</u>	<u>(3,244,856)</u>
Gross value added		<u>2,708,927</u>	<u>2,305,839</u>
Deductions			
Impairment		(5,228)	
Depreciation and amortization	24	(356,604)	(346,942)
		<u>(361,832)</u>	<u>(346,942)</u>
Net added received through transfer		<u>2,347,095</u>	<u>1,958,897</u>
Value added received through transfer			
Equity share of the results of investees			
Financial income	26	1,053,187	869,384
		<u>1,053,187</u>	<u>869,384</u>
Total added value to distribute / (absorb)		<u>3,400,282</u>	<u>2,828,281</u>
Distribution of value added		<u>3,400,282</u>	<u>2,828,281</u>
Personnel			
Direct compensation		932,935	744,082
Benefits		102,011	80,407
FGTS- Employee Government Severance Fund		67,565	49,845
Taxes, fees and contributions			
Federal		877,698	656,286
Estate		17,233	14,236
Municipal		20,888	14,084
Remuneration of third party capital			
Rentals		213,281	240,693
Financial expenses		938,812	1,266,436
Remuneration of own capital			
Profit / (loss) for the period		189,172	(245,699)
Non-controlling interest		40,687	7,911

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

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

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 also owns 94.98% of Transportes Aéreos del Mercosur S.A. ("TAM Airlines" or "Mercosur"), an airline headquartered in Assunción, Paraguay, which operates in Paraguay, Argentina, Brazil, Chile, Uruguay and Bolivia. TAM is incorporated and domiciled in Brazil and its registered office is in Av. Jurandir, 856, Lote 4, 1st floor, São Paulo, SP.

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 BM&F – Bolsa de Valores, Mercadorias e Futuros (BM&F Bovespa) and the New York Stock Exchange – NYSE (in the form of American Depositary Shares – ADS), which was concluded on April 6, 2006.

The Company, through its subsidiary TLA, controls the companies TAM Capital Inc, ("TAM Capital"), TAM Capital Inc, 2 ("TAM Capital 2"), TAM Financial Services 1 Limited ("TAM Financial 1") and TAM Financial Services 2 Limited ("TAM Financial 2"), and as from May 2011 also TAM Capital Inc, 3 ("TAM Capital 3") all headquartered in the Cayman Islands, whose main activities involve aircraft acquisition and financing and issuance of debt. Debt issued by these wholly-owned companies is wholly and unconditionally guaranteed by TAM. TLA also controls the company TAM 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.

The Company controls TP Participações Ltda. which on July 20, 2009, changed its name to TP Franchising Ltda. ("TP Franchising") and modified its corporate purpose to the development of franchises.

In the Extraordinary General Meeting (AGE) held on October 28, 2009, it was approved the change of the name of Q.X.S.P.E. Empreendimentos e Participações S.A. to Multiplus S.A. ("Multiplus"). Multiplus's main activity is the development and management of customer loyalty programs. A public offering of shares of this subsidiary was concluded on February 5, 2010.

Since March 15, 2010, the date on which its purchase was approved, the Company controls Pantanal Linhas Aéreas S.A. – "Pantanal", which was the date ANAC – the National Agency of Civil Aviation approved the purchase. Pantanal is currently under bankruptcy protection.

On July 13, 2010, TLA acquired TAM Milor which was the holder of the brand "TAM" and other related brands ("TAM" Brands) which are used by the Company, by TLA and other related companies. On March 1, 2011, the Company legally merged its subsidiary TAM Milor into the Company.

On January 18, 2011, the Company published a significant event, informing that TAM and LAN Airlines S.A. had signed two agreements named *Implementation Agreement* and *Exchange Offer Agreement*, regulating the final terms and conditions for the association contemplated in the Memorandum of Understanding entered into on August 13, 2010. The agreements define the new structure that will be formed by the association of the two companies for formation of the Group LATAM Airlines S.A., as well as the form of corporate management that will coordinate this new structure. The operation agreed between the parties depends on the approval of proper authorities from Brazil and Chile.

On March 29, 2011, the Company and TRIP Linhas Aéreas S/A. ("TRIP") signed a Term Sheet, with no binding effect, in order to identify possible opportunities for strengthening and expanding their businesses through the development of a strategic alliance complementary to the existing Codeshare Agreement. Pursuant to the Term Sheet signed, if and when binding documents are executed, and after meeting conditions precedents that may be mutually agreed (including the approval by the applicable authorities), TAM may ultimately acquire a non-controlling interest in TRIP representing 31% of its total capital comprised by 25% of its voting capital and the remaining interest through non-voting preferred shares.

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

On May 3, 2011, TLA incorporated TAM Capital Inc. 3 for the purpose of issuing US\$ 500,000 8.375% senior guaranteed notes due 2021 as further described in Note 15.2.

This consolidated interim financial information, of TAM and its subsidiaries was approved by the Board of Executive Officers on July 29, 2011.

2. Basis of preparation and significant accounting policies

This interim financial statements for the three and six months periods ended June 30, 2011 and 2010 has been prepared in accordance with CPC 21 / IAS 34 – “Interim financial reporting” and regulations issued by Brazilian Securities Commission (CVM).

The accounting policies applied in the preparation of this interim financial statements are consistent with those of the annual financial statements for the year ended December 31, 2010 and have been applied consistently. The interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2010, which have been prepared in accordance with accounting practices adopted in Brazil (BR GAAP), included in the Brazilian Corporate Law and the Pronouncements, Guidance and Interpretations issued by the Accounting Pronouncements Committee (CPC) and approved by (CVM) and with International Financial Reporting Standards – IFRS issued by International Accounting Standards Board – IASB.

The principal accounting policies applied in the preparation of these interim financial statements are consistent with those of the annual financial statements for the year ended December 31, 2010 and have been applied consistently in all periods presented. This interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2010.

The notes below, are not presented because show no significant change in the period ended June 30, 2011 compared to year ended December 31, 2010. In the annual financial statement of December 31, 2010 these notes are located as follows:

	<u>Note</u>
Significant accounting policies	2
Critical accounting estimates and judgments	3
Inventories	10
Deposits in guarantee	12
Prepaid aircraft maintenance	14
Share premium	25 (i)
Stock option	25 (iii)
Legal reserve	26
Carrying value adjustments	27

2.1. Basis of consolidation and investments in subsidiaries

(a) Consolidated financial statements

The main accounting practices adopted in the preparation of these financial statements are as follows.

(i) Subsidiaries

The consolidated financial statements include the financial statements of TAM and its subsidiaries, including special purpose entities. Control is obtained when the Company has the power to govern the financial and operating policies, as a result of holding more than half of the voting rights. The existence and the effect of potential voting rights, currently exercisable or convertible, are taken into account to assess whether TAM controls another entity. Subsidiaries are fully consolidated as from the date when control is transferred to TAM and are no longer consolidated as from the date

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

when such control ceases.

The results of subsidiaries acquired during the year are included in the consolidated statements of income and of comprehensive income as from the actual acquisition date. The comprehensive income balance is attributable to the Company's owners and to non-controlling interests, even if results in a negative balance of these interests. When necessary, the financial statements of subsidiaries are adjusted to conform their accounting policies to those established by the Company. Intercompany transactions and balances and unrealized gains are eliminated. Unrealized losses are also eliminated, although they are considered as an indicator of impairment of the transferred asset.

(ii) Transactions and non-controlling interests

In the consolidated financial statements, any changes in the Company's interests in subsidiaries that do not result in loss of the Company's control over subsidiaries are recorded as capital transactions. The account balances of the Company's interests and non-controlling interests are adjusted to reflect changes in their interests in subsidiaries. The difference between the fair value of consideration paid or received is recorded directly in equity and attributed to the Company's owners.

When the Company ceases to have control, any retained interest in the entity is remeasured to its fair value, and any change in the carrying amount is recognized in profit or loss. The fair value is the initial carrying amount for subsequent recognition of the retained interest in an associate, a joint venture or a financial asset. Also, any amounts previously recognized in other comprehensive income related to that entity are recorded as if TAM had directly disposed of the related assets or liabilities. This means that the amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Non-controlling interests represent the portion of profit or loss and of equity of subsidiaries that is not held by TAM, and is recorded in a separate line item in the consolidated balance sheet.

(iii) Companies included in the consolidated interim financial statements

	Reporting date	Ownership	June 30, 2011	Ownership and voting power % December 31, 2010
TLA	06.30.2011	Direct	100.00	100.00
TAM Viagens (i)	06.30.2011	Indirect	99.99	99.99
TAM Capital (i)	06.30.2011	Indirect	100.00	100.00
TAM Capital 2 (i)	06.30.2011	Indirect	100.00	100.00
TAM Capital 3 (i)	06.30.2011	Indirect	100.00	100.00
TAM Financial 1 (i)	06.30.2011	Indirect	100.00	100.00
TAM Financial 2 (i)	06.30.2011	Indirect	100.00	100.00
Fundo Spitfire II (Fundo exclusivo) (ii)	06.30.2011	Indirect	100.00	100.00
TP Franchising	06.30.2011	Direct	100.00	100.00
Mercosur	05.31.2011	Direct	94.98	94.98
Multiplus	06.30.2011	Direct	73.17	73.17
Pantanal	06.30.2011	Direct	100.00	100.00
TAM Milor (iii)	06.30.2011			100.00

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

(ii) TAM's investment is held 12% directly, 17% through TLA and 71% through Multiplus, respectively.

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

- (iii) TAM Milor was acquired in July 2010. On March 1, 2011, the Company merged its subsidiary TAM Milor into the Company.

(b) Individual financial statements

In the Company's individual financial statements, the financial information of subsidiaries is accounted for using the equity method. The same adjustments are made both in the individual financial statements and in the consolidated financial statements.

2.2. New and revised standards and interpretations and amendments to existing standards and interpretations.

(a) The following accounting standard is mandatory for the year beginning in January 2011 and have been applied by TAM:

- IFRIC 13 - "Customer Loyalty Programmes". The meaning of "fair value" is clarified in the context of measurement of award credits in customer loyalty programmes effective January 1, 2011. The application of the clarified guidance did not result in any impact on the financial position and results of operations since the Company was measuring the fair value of its award credits.
- IAS 34 amendment effective January 1, 2011 provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around:
 - a) The circumstances likely to affect fair values of financial instruments and their classification;
 - b) Transfers of financial instruments between different levels of the fair value hierarchy;
 - c) Changes in classification of financial assets; and
 - d) Changes in contingent liabilities and assets

The applicable additional disclosures are included in this interim financial information.

3. Adjustments applied retroactive by to the prior period interim financial statements consolidated

As mentioned in Note 2.1 (a), in the annual financial statements for the year ended December 31, 2010, the Company changed the accounting policy related to revaluation of flight equipment at revalued amounts in its consolidated financial statements, in order that the consolidated profit and equity are equal to those presented in the parent company's individual financial statements since the Brazilian corporate law does not permit the revaluation of property, plant and equipment.

The comparative information as of June 30, 2010 and for the quarter ended and six months ended at June 30, 2010 presented herewith is being retroactively adjusted to reflect such change in accounting policies.

The effects of the retroactive adjustments at January 1, 2010 and for ther quarter and for the six months ended June 30, 2010 are as follows :

	January 1, 2010		
	As originally	Retrospective adjustment	Adjusted
Effects on equity			
Revaluation reserve	116,504	(116,504)	
Accumulated deficit and other reserves	(296,995)	912,126	615,131
Total	(180,491)	795,622	615,131

TAM S.A.**Notes to the interim financial information (Unaudited)**

(In thousands of Reais, unless otherwise indicated)

	Quarter ended		
	June 30,		
	2010		
	As originally presented	Retrospective adjustment	Adjusted
Effects on profit or loss			
Operating expenses	(2,578,757)	(31,289)	(2,610,046)
Loss before income tax and social contribution	(178,527)	(31,289)	(209,816)
Income tax and social contribution	30,540	10,638	41,178
Loss for the period	(147,987)	(20,651)	(168,638)
Loss per share - Basic	(1.03)		(1.16)
Loss per share - Diluted	(1.03)		(1.16)
Effects on Statements of Comprehensive Income			
Loss for the period	(147,987)	(20,651)	(168,638)
Comprehensive loss for the period	(150,354)	(20,651)	(171,005)
			Six months ended
			June 30,
			2010
	As originally presented	Retrospective adjustment	Adjusted
Effects on profit or loss			
Operating expenses	(5,086,344)	(50,735)	(5,137,079)
Loss before income tax and social contribution	(255,671)	(50,735)	(306,406)
Income tax and social contribution	51,368	17,250	68,618
Loss for the period	(204,303)	(33,485)	(237,788)
Loss per share - Basic	(1.41)		(1.63)
Loss per share - Diluted	(1.41)		(1.63)
Effects on Statements of Comprehensive Income			
Loss for the period	(204,303)	(33,485)	(237,788)
Comprehensive loss for the period	(202,934)	(33,485)	(236,419)

4. Financial instruments**4.1 Financial risk management**

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

The Company has a formal Risk Management Policy that defines the rules to be followed and authorizes the Treasury Department to enter into derivative transactions in order to reduce the impact that possible fluctuations in fuel prices and foreign exchange and interest rates may have on its cash flows. The management of risk is monitored by the Risk Committee that is, responsible for, among other matters:

- Decide on any increase of the percentage level of protection based on strategic matters and monitor the comparison between the market and budgeted scenarios;
- Manage and monitor the risk exposure;
- Monitor compliance with the risk policy;
- Decide on the exposure level of market risks;

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

- Establish financial limits for all the institutions authorized to carry out financial instruments derivatives transactions; and
- Monitor the performance of derivatives transactions.

Derivatives are contracted in line with TAM's policies, considering liquidity, impact on cash flow and cost/benefit analysis of each position taken. The control over the use of derivatives includes ensuring that the rates in derivative contracts are compatible with market rates.

The Company does not enter into transactions involving financial instruments, including derivative instruments, for speculative purposes.

4.1.1 Market risks

The Company is exposed to market risks arising from its normal business activities. These market risks principally relate to changes in interest rates, exchange rates or aviation kerosene (QAV), and variations can negatively affect its cash flows and future expenses. Market risk is the risk of a possible loss derived from variations in the prices of market prices (rates of exchange, interest rates, prices of commodities, or others) that may affect the Company's cash flow or results. The Company entered into derivative contracts with the purpose of reducing the risks derived from variations in these factors. Policies and procedures have been implemented to evaluate these risks and to monitor the transactions with derivatives. The policies establish minimum and maximum levels of protection, and requires that counterparties have investment grade credit rating as condition for entering into the transactions.

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

One of the most important financial risks of airlines is the volatility of fuel price. The QAV price is linked to the variation of the oil price in the international market. The Company has entered into derivative transactions in order to economically hedge itself against this risk. TAM's Risk Committee has established policies for achieving this. The policy establishes to carry out derivative transactions covering a maximum level of 60% of the fuel consumption projected for the following 24 months and minimum level of 20% of the consumption projected for the first 12 months and 10% for the subsequent twelve months. Swaps, options, or a combination of these instruments, using market prices for crude oil, heating oil or jet fuel as the underlying may be used to achieve TAM's aims.

TAM protects itself against the volatility in its kerosene price by using derivatives based mainly on crude oil (West Texas Intermediate or "WTI"). The choice of this underlying item was based on studies that indicate that the hedge of QAV based on WTI is, historically, highly effective, in addition to the high liquidity of the financial instruments referenced in WTI. At June 30, 2011 all contracted financial instruments are over the counter.

The Company enters into derivative transactions only with counterparties classified by the main risk rating agencies (*Standard & Poors, Fitch and Moody's*) as at a minimum investment grade.

As the consumed volume of kerosene is not fully protected through derivatives, increases in the price of kerosene are not fully offset by the derivatives. In the same way, decreases in the price of kerosene will have positive impact for the Company, considering that they will not be fully offset by changes in the fair value of the derivatives.

The aviation fuel consumed in the periods ended at June 30, 2011 and 2010 accounted for 35.9% and 32.0%, respectively, of the cost of services provided by the Company (Note 23).

(a.1) Outstanding positions of derivatives:

The following table presents the percentages of anticipated consumption covered for the next 12 months after each date and the average strike price for the transactions outstanding as of each of those dates:

TAM S.A.**Notes to the interim financial information (Unaudited)**

(In thousands of Reais, unless otherwise indicated)

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
% of coverage anticipated for the next 12 months	30%	25%
Average strike price for outstanding derivatives	US\$ 93.7/bbl	US\$ 87/bbl
Market price of WTI	US\$ 95.7/bbl	US\$ 89/bbl

The following table presents both the notional amount and fair value of outstanding derivatives as of each date broken down by maturity:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
At June 30, 2011					
Notional amount – thousands of barrels	3,915	5,335	2,125	150	11,525
Fair value, net – R\$ thousand	10,177	11,482	(1,810)	(276)	19,573
At December 31, 2010					
Notional amount – thousands of barrels	3,985	2,710	150		6,845
Fair value, net – R\$ thousand	(9,791)	(8,536)	(182)		(18,509)

(a.ii) Restructuring of derivatives during 2011

On June 13, 2011 the Company made a new restructuring of its derivative transactions. The restructuring basically comprised (i) the spread of the maturity dates over a longer period, extending the term of derivatives, and (ii) reducing the exercise prices. With this action, the Company sought to extend the coverage period of derivatives financial instruments transactions.

The coverage profile was extended over 2011, 2012, 2013, including a small coverage for the first quarter of 2014. For the following 12 months, as from June 30, 2011 the coverage amounts to 30% of the anticipated consumption. The average strike for transactions currently outstanding maturing in the same period is US\$ 93.77. For period beyond 12 months the coverage amounts to 15% of the anticipated consumption, with the average strike price of US\$ 100.39 per barrel.

The derivative financial instruments used to hedge changes in fuel prices are accounted for at fair value, with unrealized gains and losses recognized in the income statement. Restructured derivatives continue to be measured at fair value and, as a result, the impact of the restructuring has been recognized in gains and losses as part of the reassessment of the fair value of the derivatives.

(b) Exchange rate risk**(b.1) TLA**

A significant portion of the operating costs and expenses, such as aircraft and engine maintenance services, aircraft lease payments and aircraft insurance, are denominated in U.S. dollars. The Company may enter into derivative contracts to protect against a possible appreciation or depreciation of the Real against the U.S. dollar.

The notional amount and fair value of the foreign currency derivatives outstanding are presented below by year of maturity:

	<u>2012</u>
At June 30, 2011	
Notional amount – US\$	31,000
Fair value – R\$	(2,719)
At December 31, 2010	
Notional amount – US\$	31,000
Fair value – R\$	(888)

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

In view of the restructuring of derivatives made in the first quarter of 2009 and in the second quarter of 2010, one of the counterparties required a deposit denominated in dollars as collateral guarantee. As deposits in foreign currency are not permitted in Brazil, a foreign exchange collar was entered into with the amount of the deposit as notional and also provided as collateral.

The collar transaction described above is the only foreign currency derivative outstanding at June 30, 2011.

(b.2) Multiplus

The exchange rate risk consists of the risk of changes in the R\$/US\$ exchange rate that affects the selling price of points as part of the contracts are indexed to US\$. These fluctuations may impact the cash flows and the sale price of points.

The following table presents both the notional amount and fair value of outstanding derivatives as of each date broken down by maturity:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
At June 30, 2011					
Notional amount – US\$	48,000	84,000	37,000	2,000	171,000
Fair value, net – R\$	3,798	1,117	(1,831)	(206)	2,878

At December 31, 2010, Multiplus did not have any derivative outstanding.

(c) Distribution of fair value by counterparty credit rating

The distribution of fair value by counterparty credit rating and by type of risk being protected at June 30, 2011 and December 31, 2010 is presented below:

		<u>June 30, 2011</u>			<u>December 31, 2010</u>		
Counterparties with external credit rating (Standard&Price, Moody's or Fitch)	Trading place	TLA	Multiplus	Total	TLA	Multiplus	Total
AAA*	<i>Over the counter</i>	(1,307)	1,898	591	(23,342)		(23,342)
AA+, AA ou AA-*	<i>Over the counter</i>	14,444	980	15,424	3,671		3,671
A+, A ou A-*	<i>Over the counter</i>	3,717		3,717	274		274
		<u>16,854</u>	<u>2,878</u>	<u>19,732</u>	<u>(19,397)</u>		<u>(19,397)</u>
Fuel derivative asset – WTI		35,283		35,283	16,463		16,463
Fuel derivative liability – WTI		<u>(15,710)</u>		<u>(15,710)</u>	<u>(34,972)</u>		<u>(34,972)</u>
Fuel derivative, net – WTI		<u>19,573</u>		<u>19,573</u>	<u>(18,509)</u>		<u>(18,509)</u>
Foreign exchange derivatives asset			5,541	5,541			
Foreign exchange derivatives		<u>(2,719)</u>	<u>(2,663)</u>	<u>(5,382)</u>	<u>(888)</u>		<u>(888)</u>
Foreign exchange derivatives, net –		<u>(2,719)</u>	<u>2,878</u>	<u>159</u>	<u>(888)</u>		<u>(888)</u>
		<u>16,854</u>	<u>2,878</u>	<u>19,732</u>	<u>19,397</u>		<u>19,397</u>

(*) The ratings can be expressed both in the global scale or in local currency. Each agency has a slightly different way to present rating. The table above unifies the presentations in what we believe is the most well known rating international scale.

The Company monitors the concentration of financial instruments on a single counterparty. Internal policies require reporting of excessive concentrations to the Risk Committee. At June 30, 2011 there was one counterparty that exceeded the limit established; however the Company believes this concentration of risk is acceptable.

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

(d) Interest rate risk

TAM's earnings are affected by changes in interest rates due to the impact these changes have on interest expense from variable-rate debt instruments, variable-rate lease 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 the London Interbank Offered Rate "LIBOR" and CDI - Certificate of Deposit Intermediate).

The Company does not have financial instruments to hedge its cash flows against fluctuations in interest rates.

(e) Sensitivity analysis

Presented below is a sensitivity analysis of the financial instruments that demonstrates the impact of changes in financial instruments on the result and equity of the Company by considering:

- Increase and decrease of 10 percent in fuel prices, by keeping constant all the other variables;
- Increase and decrease of 10 percent in R\$/US\$ exchange rate, with all other variables remaining steady; and
- Increase and decrease of one percentage point in interest rate, by keeping constant all the other variables.

(e.1) TLA

Fuel price:

A hypothetical 10% increase/decrease in the price of WTI would lead to an increase/decrease of approximately US\$ 41.2 million / US\$ 45.7 million (equivalent to R\$ 64.3 million / R\$ 71.4 million at June 30, 2011) in the fair value of WTI derivatives. This increase/ decrease would directly affect the Company's net income. In terms of cash flows, however, these changes in WTI price would be more than offset by a decrease/increase in the Company's kerosene-type jet fuel costs. The cash payments for settling the derivatives are due at their respective maturities, distributed from 2011 through 2014.

Exchange rate – U.S. Dollar:

If there was a 10% depreciation/appreciation of the Brazilian against the U.S. dollar and all other variables remained constant, the financial result would have been affected by approximately R\$ 626 million / R\$ 625 million, mainly as a result of foreign exchange gains/losses on the 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 the translation of U.S. dollar-denominated borrowings and finance leases.

Interest rate – LIBOR and CDI:

A hypothetical 100 basis point increase in foreign market (LIBOR) interest rates in the quarter ended June 30, 2011 would increase its aircraft rental and interest expense over a one year period by approximately US\$ 26 million (equivalent to R\$ 41 million).

A hypothetical 100 basis point increase in domestic market (CDI) interest rates in the quarter ended June 30, 2011 would increase loan and financing interest expenses over a one year period by approximately R\$ 9 million.

(e.2) Multiplus

Exchange rate – U.S. Dollar (Derivatives):

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

If there was a 10% depreciation / appreciation of the Brazilian against the U.S. dollar and all other variables remained constant, the financial result would have been approximately R\$ 22 million / R\$ 21 million, mainly as a result of foreign exchange gains / losses on the translation of foreign currency derivatives which are recorded, at fair value through profit or loss.

In addition to the sensitivity analysis above, the Company shall provide a sensitivity analysis of financial instruments, describing the risks that may cause material damage, directly or indirectly by considering the following elements, as determined by CVM Instruction n° 475/08:

- The probable scenario is defined as the one expected by the Company's management and referenced to an independent external source;
- The possible adverse scenario considers a deterioration of 25% in the major variable that determines the fair value of the financial instrument; and
- The remote adverse scenario considers a deterioration of 50% in the major variable that determines the fair value of the financial instrument.

TLA

Fuel price

Derivative transactions referenced to crude oil (WTI) in own portfolio are intended to protect fuel consumption. The behavior of WTI prices is highly correlated to QAV prices.

None of the derivative instruments used by the subsidiary TLA is leveraged, and as the fuel consumption volume is not fully hedged by derivatives, increases and/or decreases in fuel prices will not be fully offset by adjustments of derivatives.

As a result, the effect of these transactions on the TLA cash generation will be compared to the decreased QAV cost against that level (US\$ 95/bbl will be adopted as reference). The projections of QAV prices were built based on the results of a simple linear regression.

The net effects of savings in fuel expenses, as opposed to hedge disbursements for third quarter of 2011, for each of the scenarios, are shown below:

<u>Instrument/transaction</u>	<u>Risk</u>	<u>Scenario I</u> (most probable)	<u>Scenario II</u> (25% fall) US\$	<u>Scenario III</u> (50% fall)
<i>Average price per barrel</i>	High price QVA	US\$ 95/bbl	71.25/bbl	US\$ 47.5/bbl
WTI financial instruments derivative and consumption QVA – Net gain		R\$ 4,259	R\$ 284,752	R\$ 552,125

Exchange rate

Our methodology for the sensitivity analysis of liabilities denominated in foreign currencies includes the probable scenario based on the exchange rate of R\$ 1.5611/US\$ at June 30, 2011. Considering the projected cash flows for third quarter of 2011, we verified an increase in cash flow arising from the variation of 25% and 50% over the current rate, as shown below:

	<u>25%</u> <u>R\$ 1.9514 / US\$</u>	<u>-25%</u> <u>R\$ 1.1708 / US\$</u>	<u>50%</u> <u>R\$ 2.3417 / US\$</u>	<u>-50%</u> <u>R\$ 0.7806 / US\$</u>
Lease agreement	(85,285)	85,285	(170,569)	170,569
FINIMP	(19,235)	19,235	(38,471)	38,471
Loans in foreign currency	(222)	222	(444)	444
Bonds	(5,561)	5,561	(11,123)	11,123

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

Pre-delivery payments	670	(670)	1,340	(1,340)
Hedge	<u>(4,127)</u>	<u>11,828</u>	<u>(13,324)</u>	<u>21,097</u>
Total	<u>(113,760)</u>	<u>121,461</u>	<u>(232,591)</u>	<u>240,364</u>

Interest rate

For the interest scenario in the foreign market LIBOR (USDLIBOR 3 months), based on the closing rate at June 30, 2010 of 0.25% per year. We projected for the third quarter of 2011, the impact on the cash flow arising from the variation of 25% and 50% over the current rate, as shown below:

	<u>25%</u> <u>0.31% a.a.</u>	<u>-25%</u> <u>0.18% a.a.</u>	<u>50%</u> <u>0.37% a.a.</u>	<u>-50%</u> <u>0.12% a.a.</u>
Interest expense (R\$)	<u>(399)</u>	<u>399</u>	<u>(797)</u>	<u>797</u>

For the interest scenario in the domestic market (CDI), based on the closing rate at June 30, 2011 of 12.15% per year, we projected for the third quarter the impact on the cash flow arising from the variation of 25% and 50% over the effective tax, as shown below:

	<u>25%</u> <u>15.19% a.a.</u>	<u>-25%</u> <u>9.11% a.a.</u>	<u>50%</u> <u>18.23% a.a.</u>	<u>-50%</u> <u>6.08% a.a.</u>
Loan and financing interest expense (R\$)	<u>(1,736)</u>	<u>1,736</u>	<u>(3,472)</u>	<u>3,472</u>

Multiplus

Derivatives financial instruments

Our methodology for the sensitivity analysis includes the probable scenario based on the exchange rate of R\$ 1.55 / US\$ at June 30, 2011. Considering the projected cash flows for third quarter of 2011, we verified an increase in cash flow arising from the variation of 25% and 50% over the current rate, as show below:

	<u>25%</u> <u>R\$ 1.9514 / US\$</u>	<u>-25%</u> <u>R\$ 1.1708 / US\$</u>	<u>50%</u> <u>R\$ 2.3417 / US\$</u>	<u>-50%</u> <u>R\$ 0.7806 / US\$</u>
Hedge	(4,126)	11,828	(13,324)	21,097

4.1.2. Credit risk

Credit risk refers to the risk that a counterparty will not fulfill its contractual obligations, leading the Company to incur financial losses. Credit risk arises from the possibility of TAM not recovering amounts receivable from services provided to consumers and/or travel agencies, or from amounts held with financial institutions generated by financial investment operations.

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

TAM only deals with financial institution counterparties which have a credit rating of at least BBB or equivalent issued by S&P, Moody's or Fitch. Each institution has a maximum limit for investments, as determined by the Company's Risk Committee.

Currently, management does not expect losses due to default of its counterparties and does not have any individually significant exposure to any counterparty.

4.1.3. Liquidity risk

TAM S.A.**Notes to the interim financial information (Unaudited)**

(In thousands of Reais, unless otherwise indicated)

Prudent liquidity risk management implies maintaining sufficient cash and short-term investments, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Excess cash is invested mainly through TAM's exclusive investment funds. 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 liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest, except for derivatives, for which the fair value is disclosed.

	<u>Less than one year</u>	<u>Between one and two years</u>	<u>Total</u>	<u>Effect of discounting</u>	<u>Parent company Carrying value</u>
Non-derivative financial liabilities					
At June 30, 2011					
Debentures	212,469	177,528	389,997	(41,087)	348,910
Other (i)	2,475		2,475		2,475
At December 31, 2010					
Debentures	392,142	44,342	436,484	(88,684)	347,800
Other (i)	2,870		2,870		2,870

(i) This amount is recorded under: Accounts payable and salaries and social charges.

TAM S.A.**Notes to the interim financial information (Unaudited)**

(In thousands of Reais, unless otherwise indicated)

	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 June 30, 2011							
Finace lease obligation	681,202	948,456	1,525,787	1,935,070	5,090,515	(568,011)	4,522,504
Senior notes	171,105	211,951	423,912	2,176,391	2,983,359	(1,261,369)	1,721,990
Borrowings	643,863	19,263	3,091	6,057	672,274	(16,984)	655,290
Debentures	384,184	443,463	432,694	112,109	1,372,450	(390,988)	981,462
Refinanced taxes payable under Fiscal Recovery Program	52,032	95,415	176,308	798,530	1,122,285	(638,471)	483,814
Other (i)	1,030,687				1,030,687		1,030,687
At December 31, 2010							
Finace lease obligation	684,006	1,279,397	1,140,715	2,315,571	5,419,689	(661,766)	4,757,923
Senior notes	108,701	164,241	164,241	1,238,874	1,676,057	(667,000)	1,009,057
Borrowings	617,525	8,297	2,199	7,228	635,249	(20,209)	615,040
Debentures	418,926	339,085	292,758	237,014	1,287,783	(310,862)	976,921
Refinanced taxes payable under Fiscal Recovery Program	31,156	73,724	146,360	887,023	1,138,263	(698,436)	439,827
Other (i)	989,195				989,195		989,195

(i) This amount is recorded under: Accounts payable and salaries and social charges.

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

	<u>Less than one year</u>	<u>Between one and two</u>	<u>Total (equal carrying value)</u>	<u>Carrying value</u>
Derivative financial liabilities				
At June 30, 2011				
Fuel price risk	9,992	5,718	15,710	15,710
Exchange rate risk	7,653	(2,271)	5,382	5,382
At December 31, 2010				
Fuel price risk	(19,686)	(15,286)	(34,972)	(34,972)
Exchange rate risk	(888)		(888)	(888)

In the analysis of net current assets it should be noted that current liabilities include the balance of Deferred income which is composed by advanced ticket sales, deferred income with respect to TAM loyalty program and deferred gains on sale and leaseback amounting to R\$ 1,623,666 (December 31, 2010 – R\$ 1,801,181).

4.2. Fair value estimation and fair value hierarchy

The Company discloses the fair value of financial instruments by level of the following fair value measurement hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs). None of the financial instruments carried at fair value by the Company of its subsidiaries fall into this category at June 30, 2011.

The table below presents the Company's financial instruments measured at fair value in the statement of financial position:

	<u>Parent company</u>					
	<u>June 30, 2011</u>			<u>December 31, 2010</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Financial assets at fair value through profit or loss						
Brazilian government	315,468		315,468	96,064		96,064
Corporate securities (2)		75,747	75,747		29,049	29,049
Other bank deposits (3)		1,127	1,127		792	792
	<u>315,468</u>	<u>76,874</u>	<u>392,342</u>	<u>96,064</u>	<u>29,841</u>	<u>125,905</u>

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

	June 30, 2011			Consolidated December 31, 2010		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	Financial assets at fair value through profit or loss/valor justo					
Brazilian government securities (1)	808,041		808,041	812,515		812,515
Corporate securities (2)		198,404	198,404		297,424	297,424
Bank deposit certificates – CDB (3)		112,341	112,341		34,199	34,199
Other bank deposits (3)		131,621	131,621		263,650	263,650
	<u>808,041</u>	<u>442,366</u>	<u>1,250,407</u>	<u>812,515</u>	<u>595,183</u>	<u>1,407,698</u>
Derivative financial assets						
Fuel hedge – WTI (4)		35,283	35,283		16,463	16,463
Foreign exchange derivatives (4)		5,541	5,541			
		<u>40,824</u>	<u>40,824</u>		<u>16,463</u>	<u>16,463</u>
Derivative financial liabilities						
Fuel hedge – WTI (4)		(15,710)	(15,710)		(34,972)	(34,972)
Foreign exchange derivatives (4)		(5,382)	(5,382)		(888)	(888)
		<u>(21,092)</u>	<u>(21,092)</u>		<u>(35,860)</u>	<u>(35,860)</u>

No transfer of assets or liabilities between the levels of the fair value hierarchy took place during the period ended June 30, 2011 for the year ended December 31, 2010.

The financial instruments recognized at fair value are determined as follows:

Financial assets measured at fair value through profit and loss:

- (1) Brazilian Government securities – Corresponds to highly liquid Brazilian government securities that have prices available and correspond to transactions in an active market.
- (2) Corporate securities – Correspond, typically, to debt securities for which fair value has been determined based upon actual transactions observed in organized markets (when available) or discounted cash flows using interest rates when actual transactions are not available.
- (3) Certificates of deposit and other bank deposits - Fair value has been estimated by discounting estimated cash flows using market interest rates as inputs.
- (4) Derivative financial instruments not traded in an exchange, for example, over-the-counter derivatives. TAM estimates its fair value using a series of techniques such as Black&Scholes, Garman & Kohlhagen, Monte Carlo or even discounted cash flow models commonly used in the financial market, depending on the nature of the derivative. All models used are widely accepted in the market and reflect the contractual terms of the derivative. Those models do not contain a high level of subjectivity, since the methodologies used in the models do not require significant judgment, and all inputs to the model are readily observable from actively quoted markets.

4.3. 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 S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

Capital is managed by means of a leverage ratio. The Company's capital structure is made up of its net indebtedness, defined as the total of loans, debentures and lease agreements (finance and operating), net of cash and cash equivalents and other short-term financial assets, and of the capital that is defined as the total net equity of shareholders and net indebtedness.

The Company is not subject to any externally imposed capital requirements.

The leverage ratios are as follows:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Cash and cash equivalents (Note 6)	(892,636)	(1,012,220)
Financial assets at fair value through profit and loss (Note 4.2)	(1,250,407)	(1,407,698)
Borrowings	655,290	615,040
Debentures and senior notes	2,703,452	1,985,978
Operating lease commitments (Note 28)	1,030,145	1,120,697
Finance lease obligations (Note 4.1.3)	4,522,504	4,757,923
Net debt (1)	<u>6,768,348</u>	<u>6,059,720</u>
Total equity	<u>2,658,336</u>	<u>2,627,391</u>
Total capital (2)	<u>9,426,684</u>	<u>8,687,111</u>
Leverage ratio (1) / (2)	71.8%	69.8%

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 2011 fiscal year.

5. Financial instruments by category

(a) Parenty company

Assets, per balance sheet:

	<u>June 30, 2011</u>		
	<u>Loans and receivables</u>	<u>Financial assets at fair value through profit and loss</u>	<u>Total</u>
Financial assets at fair value through profit and loss		392,342	392,342
Cash and cash equivalents	56,082		56,082
Total	<u>56,082</u>	<u>392,342</u>	<u>448,424</u>

	<u>December 31, 2010</u>		
	<u>Loans and receivables</u>	<u>Financial assets at fair value through profit and loss</u>	<u>Total</u>
Financial assets at fair value through profit and loss		125,905	125,905
Accounts receivable	2,000		2,000
Cash and cash equivalents	113,913		113,913
Total	<u>115,913</u>	<u>125,905</u>	<u>241,818</u>

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

Liabilities, per balance sheet:

	June 30, 2011	
	Liabilities measured at amortized cost	Total
Debentures	348,910	348,910
Accounts payable and other obligations, excluding statutory liabilities	2,475	2,475
Total	351,385	351,385

	December 31, 2010	
	Liabilities measured at amortized cost	Total
Debentures	347,800	347,800
Accounts payable and other obligations, excluding statutory liabilities	2,870	2,870
Total	350,670	350,670

(b) Consolidated

Assets, per balance sheet:

	June 30, 2011			
	Loans and receivables	Financial assets at fair value through profit and loss	Derivatives	Total
Derivative financial instruments			40,824	40,824
Financial assets at fair value through profit and loss		1,250,407		1,250,407
Accounts receivable	1,725,741			1,725,741
Financial assets - securities issued by banks	155,587			155,587
Restricted cash	40,373			40,373
Cash and cash equivalents	892,636			892,636
Total	2,814,337	1,250,407	40,824	4,105,568

	December 31, 2010			
	Loans and receivables	Financial assets at fair value through profit and loss	Derivatives	Total
Derivative financial instruments			16,463	16,463
Financial assets at fair value through profit and loss		1,407,698		1,407,698
Accounts receivable	1,556,781			1,556,781
Financial assets - securities issued by banks	50,280			50,280
Restricted cash	98,305			98,305
Cash and cash equivalents	1,012,220			1,012,220
Total	2,717,586	1,407,698	16,463	4,141,747

Liabilities, per balance sheet:

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

	June 30, 2011		
	Liabilities measured at		Total
	amortized cost	Derivatives	
Finance lease obligations	4,522,504		4,522,504
Senior notes	1,721,990		1,721,990
Borrowings	655,290		655,290
Debentures	981,462		981,462
Derivative financial instruments		21,092	21,092
Accounts payable and other obligations, excluding statutory liabilities	<u>1,030,687</u>		<u>1,030,687</u>
Total	<u><u>8,911,933</u></u>	<u><u>21,092</u></u>	<u><u>8,933,025</u></u>

	December 31, 2010		
	Liabilities measured at		Total
	amortized cost	Derivatives	
Finance lease obligations	4,757,923		4,757,923
Senior notes	1,009,057		1,009,057
Borrowings	615,040		615,040
Debentures	976,921		976,921
Derivative financial instruments		35,860	35,860
Accounts payable and other obligations, excluding statutory liabilities	<u>989,195</u>		<u>989,195</u>
Total	<u><u>8,348,136</u></u>	<u><u>35,860</u></u>	<u><u>8,383,996</u></u>

6. Cash and cash equivalent

	Parent company		Consolidated	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Cash and bank accounts	705	15,967	181,253	279,280
Short-term deposits	<u>55,377</u>	<u>97,946</u>	<u>711,383</u>	<u>732,940</u>
Total	<u><u>56,082</u></u>	<u><u>113,913</u></u>	<u><u>892,636</u></u>	<u><u>1,012,220</u></u>

At June 30, 2011 and December 31, 2010 no amounts have been used as part of overdraft facilities.

Cash and cash equivalent are maintained in the following currencies:

	Parent company		Consolidated	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Reais	56,082	113,913	254,077	278,594
US dollars			588,967	655,906
Euros			30,170	56,196
Pounds sterling			4,539	6,084
Other			<u>14,883</u>	<u>15,440</u>
	<u><u>56,082</u></u>	<u><u>113,913</u></u>	<u><u>892,636</u></u>	<u><u>1,012,220</u></u>

7. Trade accounts receivable - consolidated

(a) Breakdown of balances

TAM S.A.**Notes to the interim financial information (Unaudited)**

(In thousands of Reais, unless otherwise indicated)

	<u>June 30, 2011</u>				<u>December 31, 2010</u>	
	<u>Domestic</u>	<u>International</u>	<u>Total</u>	<u>%</u>	<u>Total</u>	<u>%</u>
Credit cards	1,131,379	73,886	1,205,265	62.5	1,039,576	62.8
Travel agents	243,632	53,474	297,106	15.4	263,661	15.9
Partners – Loyalty						
Program - Multiplus	85,570		85,570	4.4	81,091	4.9
On current account	41,649	570	42,219	2.2	76,657	4.6
Cargo	10,625	50,354	60,979	3.2	53,720	3.2
Other	107,207	27,088	134,295	7.0	140,397	8.6
Total	<u>1,620,062</u>	<u>205,372</u>	<u>1,825,434</u>	<u>100.0</u>	<u>1,655,102</u>	<u>100.0</u>
Provision for impairment	<u>(69,332)</u>	<u>(30,361)</u>	<u>(99,693)</u>		<u>(98,321)</u>	
Total	<u>1,550,730</u>	<u>175,011</u>	<u>1,725,741</u>		<u>1,556,781</u>	

Trade accounts receivable are maintained in the following currencies:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Reais	1,557,561	1,448,826
US dollars	23,862	26,187
Euros	73,833	81,028
Pounds sterling	12,927	14,187
Other	157,251	84,874
	<u>1,825,434</u>	<u>1,655,102</u>

(b) Aging list – Receivables by due date

<u>Breakdown</u>	<u>June 30, 2011</u>	<u>%</u>	<u>December 31, 2010</u>	<u>%</u>
Not yet due	1,670,364	91.4	1,329,848	80.3
Overdue				
Up to 60 days	35,499	1.9	101,616	6.2
From 61 to 90 days	8,412	0.5	61,418	3.7
From 91 to 180 days	6,413	0.4	25,032	1.5
From 181 to 360 days	1,041	0.1	19,515	1.2
Over 360 days	103,705	5.7	117,673	7.1
	<u>1,825,434</u>	<u>100.0</u>	<u>1,655,102</u>	<u>100.0</u>

(c) Provision for impairment of trade receivables

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Balance at the beginning of the year	98,321	80,409
Charge for the period	1,465	30,799
Amounts reversed	<u>(93)</u>	<u>(12,887)</u>
Balance at the end of the period / year	<u>99,693</u>	<u>98,321</u>

The additions and recovery of accrued receivables were included in "Selling expenses" in the consolidated

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

income statement.

The maximum exposure to credit risk at the reporting date is the carrying value of each type of receivable mentioned above.

Based on the types of receivables and the related risk, management understands that there is only one class of receivables.

8. Taxes recoverable

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
ICMS	25,551	25,808
Taxes recoverable	20,498	16,729
PIS and COFINS (i)	183,876	5,561
IRPJ and CSLL	46,685	
IRRF	4,463	21,658
Other	2,303	3,745
	<u>283,376</u>	<u>73,501</u>
Provision for impairment - ICMS	<u>(15,944)</u>	<u>(15,944)</u>
	<u>267,432</u>	<u>55,557</u>

- (i) During the quarter ended June 30, 2011 TLA recognized a change in estimated related to PIS and COFINS credits corresponding to credits over purchases measured considering the relationship between revenue subject to the cumulative and to the non-cumulative regime and to taxes paid in excess in prior periods. The amount of R\$ 173 million which represents the minimum initial estimate and has been recorded as a reduction in Operating costs – Fuel (R\$ 143 milion) and finance income (R\$ 30 million).

9. Related parties

(a) Parent company

(i) Balances

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Current assets		
Dividends receivable		
Multiplus S.A.		896
TAM Linhas Aéreas	140,125	140,207
Related parties		
Pantanal Linhas Aéreas S.A.	2,038	
	<u>142,163</u>	<u>141,103</u>
Non current assets		
Intercompany loans		
Pantanal Linhas Aéreas S.A.	21,320	14,051
TAM Linhas Aéreas	77,734	2,453
	<u>99,054</u>	<u>16,504</u>
Non current liabilities		
Related parties		
TAM Linhas Aéreas	4,325	
	<u>4,325</u>	

(b) Consolidated

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

The company is controlled by TAM - Empreendimentos e Participações S.A. (incorporated in Brazil), which is owned by the Amaro family, and which owns 89.42% of the Company's common shares and 24.67% of the Company's preferred shares. The remaining shares are widely held.

As of June 30, 2011 there no outstanding balances with related parties and they were no transactions with related parties for the three months ended June 30, 2011.

(c) 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:

	Quarter ended		Consolidated	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Salaries and profit sharing and bonus	16,182	1,668	21,075	3,589
Director's fee	419	327	767	445
Share-based payment	4,811	2,976	8,880	11,173
	<u>21,412</u>	<u>4,971</u>	<u>30,722</u>	<u>15,207</u>

10. Derivative financial instruments - consolidated

	June 30, 2011	December 31, 2010
Assets		
West Texas Intermediate crude oil derivatives		
Seagulls	24,387	10,620
Collar	<u>10,896</u>	<u>5,843</u>
	<u>35,283</u>	<u>16,463</u>
Foreign currency derivatives		
Collar	<u>5,541</u>	
	<u>40,824</u>	
Current	<u>(32,098)</u>	<u>(9,895)</u>
Non-current	<u>8,726</u>	<u>6,568</u>
Liabilities		
West Texas Intermediate crude oil derivatives		
Seagulls	6,447	34,090
Collar	<u>9,263</u>	<u>882</u>
	<u>15,710</u>	<u>34,972</u>
Foreign currency derivatives		
Swaps		888
Collar	<u>5,382</u>	
	<u>21,092</u>	<u>35,860</u>
Current	<u>(12,839)</u>	<u>(20,574)</u>
Non-current	<u>8,253</u>	<u>15,286</u>

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

The derivative financial instruments included above are described in Note 4.

11. Financial assets –bank deposits

On June 30, 2011, the balance of bank deposits consists of financial notes issued by banks, totaled R\$ 155,587 (December 31, 2010 – R\$ 50,280) and all are denominated in Reais.

12. Investments

(a) Balance breakdown – parent company

	<u>TLA</u>	<u>Mercosur</u>	<u>TP</u>	<u>Multiplus</u>	<u>Pantanal</u>	<u>Total</u>
Balances at December 31, 2010	<u>1,879,111</u>	<u>36,790</u>	<u>(743)</u>	<u>555,069</u>	<u>8,237</u>	<u>2,478,464</u>
Equity share of results of investees	157.426	(2.071)	299	111.259	(52.329)	214.586
Reduction capital - Multiplus				(439,034)		(439,034)
Stock option plan	5,280			3,598		8,878
Exchange variation on foreign subsidiary		1,458				1,458
Dividends proposed				(47,667)		(47,667)
Dividends paid		(5,951)				(5,951)
Dividends proposed						
Interest on capital payable				(12,392)		(12,392)
Balances at June 30, 2011	<u><u>2,041,817</u></u>	<u><u>30,226</u></u>	<u><u>(444)</u></u>	<u><u>170,833</u></u>	<u><u>(44,092)</u></u>	<u><u>2,198,340</u></u>

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reals, unless otherwise indicated)

(b) Information on subsidiaries

	TLA		Mercosur		TP		Multiplus		Pantanal		Total	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Capital	897,123	752,727	46,183	48,280	30	30	92,370	669,063	22,649	22,649		
Number of shares – total common	2,064,602	2,064,602	87,653	87,653	30,100	30,100	161,294,000	161,294,000	117,778,942	117,778,942		
Held common	2,065,602	2,064,602	83,252	83,252	30,100	30,100	118,018,820	118,018,820	117,778,942	117,778,942		
Ownership %												
In total capital	100	100	94.98	94.98	100	100	73.17	73.17	100	100		
In voting capital	100	100	94.98	94.98	100	100	73.17	73.17	100	100		
Equity (shareholder's deficit)	2,041,817	1,879,111	31,823	38,740	(444)	(743)	233,479	758,602	(44,089)	8,237		
Equity share of results of investees	157,426	590,001	(2,071)	4,150	2,99	(773)	111,259	87,069	(52,329)	(4,653)	214,584	675,821
Carrying value adjustment	2,041,817	1,879,111	30,226	36,790	(444)	(743)	170,833	555,069	(44,092)	8,237	2,198,340	2,478,464

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reals, unless otherwise indicated)

The main captions of the consolidated financial statement of TAM Linhas Aéreas S.A., included in the consolidated financial statements of TAM S.A., are:

	TLA		Multiplus		Mercosur		Pantanal	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Asset	13,786,598	13,439,450	1,013,420	1,403,549	71,132	73,635	182,035	172,762
Liability	11,744,781	11,560,339	779,941	644,947	38,309	34,895	226,124	164,525
Equity	2,041,817	1,879,111	233,479	758,602	31,823	38,740	(44,089)	8,237
Revenue	5,899,713	11,266,455	527,043	469,843	90,871	163,586	128,018	99,936
Profit / (loss)for the period / year	157,426	590,001	111,259	87,069	(2,071)	4,150	(52,329)	(4,653)

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reals, unless otherwise indicated)

13. Property, plant and equipment - consolidated

	<u>Flight equipment (i)</u>	<u>Land and buildings</u>	<u>Computer equipment</u>	<u>Machinery and equipment</u>	<u>Construction in progress</u>	<u>Pre-delivery payments (ii)</u>	<u>Other (iii)</u>	<u>Total</u>
Cost	10,722,269	254,572	152,665	135,873	16,121	476,514	214,138	11,972,152
Accumulated depreciation	<u>(2,921,821)</u>	<u>(44,901)</u>	<u>(120,934)</u>	<u>(69,617)</u>			<u>(103,029)</u>	<u>(3,260,302)</u>
Net book amount December 31, 2010	<u>7,800,448</u>	<u>209,671</u>	<u>31,731</u>	<u>66,256</u>	<u>16,121</u>	<u>476,514</u>	<u>111,109</u>	<u>8,711,850</u>
Reimbursement of pre-delivery payments (iv)						(90,279)		(90,279)
Additions (iv)	518,282	3,253	6,975	3,453	334	245,273	5,631	783,201
Transfers	41,280	1,258	4,046	341	11,786	(28,409)	(9,316)	20,986 (v)
Disposals/write-offs	(4,775)						(28)	(4,803)
Capitalized interest /other						5,389		5,389
Others		(50)	(45)	(27)			(42)	(164)
Depreciation	<u>(292,203)</u>	<u>(3,006)</u>	<u>(8,527)</u>	<u>(5,766)</u>			<u>(9,094)</u>	<u>(318,596)</u>
Net book amount June 30, 2011	<u>8,063,032</u>	<u>211,126</u>	<u>34,180</u>	<u>64,257</u>	<u>28,241</u>	<u>608,488</u>	<u>98,260</u>	<u>9,107,584</u>
Cost	11,277,056	259,033	163,641	139,640	28,241	608,488	210,383	12,686,482
Accumulated depreciation	<u>(3,214,024)</u>	<u>(47,907)</u>	<u>(126,461)</u>	<u>(75,383)</u>			<u>(112,123)</u>	<u>(3,578,898)</u>
Net book amount June 30, 2011	<u>8,063,032</u>	<u>211,126</u>	<u>34,180</u>	<u>64,257</u>	<u>28,241</u>	<u>608,488</u>	<u>98,260</u>	<u>9,107,584</u>

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

(i) Includes aircraft, engines and spare parts. Aircraft includes aircraft leased under finance leases, in accordance with to CPC 6/ IAS 17. As of June 30, 2011 TAM has 82 aircraft under finance leases (12.31.2010 – 79 aircraft).

During the period ended June 30, 2011, the subsidiary TLA received three aircraft classified as finance lease.

(ii) Amounts disbursed under the aircraft acquisition program are recorded as advances, since upon the disbursement the form of lease agreement that will be used is not yet defined. The Company's past experience shows that the refund by manufactures of prepaid amounts upon the delivery of aircraft acquired under leases is probable.

(iii) Basically furniture and vehicles.

(iv) Transfers of pre-delivery payments occur when the aircraft are delivered and amounts are either returned to TAM or capitalized within flight equipment as "Additions".

(v) Transfers from items classified as intangible assets to property, plant and equipment.

Properties and improvements of TLA are pledged as collateral for loans in the total amount of R\$ 110,499 (12.31.2010 – R\$ 110,499).

Other than aircraft, there are no significant amounts of property, plant and equipment outside of Brazil. Aircraft are based in Brazil but fly both domestically and internationally.

The depreciation expense is recorded in the consolidated income statement within operating expenses as follows:

	<u>Quarter ended</u>		<u>Six months ended</u>	
	<u>June 30,2011</u>	<u>June 30, 2010</u>	<u>June 30,2011</u>	<u>June 30,2010</u>
Cost of services rendered	141,035	136,650	266,617	283,244
Selling expenses	366	349	680	774
General and administrative	26,058	17,939	51,299	38,449
	<u>166,459</u>	<u>154,938</u>	<u>318,596</u>	<u>322,468</u>

TAM S.A.**Notes to the interim financial information (Unaudited)**

(In thousands of Reais, unless otherwise indicated)

14. Intangible assets - consolidated

	<u>IT Projects (i)</u>	<u>Softwares (i)</u>	<u>Other intangibles</u>	<u>License – Slots</u>	<u>Trademarks and patents</u>	<u>Goodwill (ii)</u>	<u>Total</u>
Cost	325,803	58,690	47,684	124,927	168,312		725,416
Accumulated amortization	(68,716)	(52,676)					(121,392)
Net book amount	<u>257,087</u>	<u>6,014</u>	<u>47,684</u>	<u>124,927</u>	<u>168,312</u>		<u>604,024</u>
As June 30, 2011							
Additions	11,968	19,826	4,351			38,262	74,407
Transfer	(11,068)	11,143	(21,061)				(20,986) (iii)
Amortization	(30,144)	(7,864)					(38,008)
Net book amount	<u>227,843</u>	<u>29,119</u>	<u>30,974</u>	<u>124,927</u>	<u>168,312</u>	<u>38,262</u>	<u>619,437</u>
At June 30, 2011							
Cost	326,703	89,659	30,974	124,927	168,312	38,262	778,837
Accumulated amortization	(98,860)	(60,540)					(159,400)
Net book amount	<u>227,843</u>	<u>29,119</u>	<u>30,974</u>	<u>124,927</u>	<u>168,312</u>	<u>38,262</u>	<u>619,437</u>

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

- (i) 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. The anticipated amortization period is five years, depending on the useful life of each project.
- (ii) When the acquisition of Pantanal in March 2010, the management has identified as separable intangible, regarding assets the airport operation rights. The fair value was estimated in R\$ 124,927 and the asset considered indefinite useful. For details of the transition, see Note 1.2 of annual financial statements year ended December 31, 2010. The Company concluded in the first quarter ended March 31, 2011 the valuation the business combination from the acquisition of Pantanal, which began on March 15, 2010. The Company concluded during the first quarter of 2011 to evaluate the combination of business from the acquisition of Pantanal Linhas Aereas SA, which began on March 15, 2010. As a result of this valuation, it was recorded the value of R\$ 38,262 in respect of income tax and social contribution liabilities originated from the difference between the value of intangible fiscal and fair value recorded for the business combination. The resulting deferred tax liability was recorded in contrast to the goodwill derived from the expected future profitability (goodwill).
- (iii) Transfers from items classified as intangible assets to property, plant and equipment.

The amortization expense is recorded in the consolidated income statement within operating expenses as follows:

	<u>Quarter ended</u>		<u>Six months ended</u>	
	<u>June 30,2011</u>	<u>June 30, 2010</u>	<u>June 30,2011</u>	<u>June 30,2010</u>
Cost of services rendered	16,181	10,386	31,812	21,509
Selling expenses	42	27	81	58
General and administrative expenses	<u>2,973</u>	<u>1,362</u>	<u>6,115</u>	<u>2,938</u>
	<u>19,196</u>	<u>11,775</u>	<u>38,008</u>	<u>24,505</u>

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:

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

	Fair value		Parent company Carrying value	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
	Current			
Debentures	188,202	342,977	182,296	347,800
Non-current				
Debentures	157,799		166,614	
	<u>346,001</u>	<u>342,977</u>	<u>348,910</u>	<u>347,800</u>
	Fair value		Consolidated Carrying value	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
	Current			
Finance lease obligations	582,995	567,419	582,995	567,419
Senior notes	27,621	25,477	26,703	24,350
Borrowings	547,678	581,323	629,439	600,382
Debentures	279,304	399,604	266,915	379,942
	<u>1,437,598</u>	<u>1,573,823</u>	<u>1,506,052</u>	<u>1,572,093</u>
Non-current				
Finance lease obligations	3,939,509	4,190,504	3,939,509	4,190,504
Senior notes	1,753,546	1,030,287	1,695,287	984,707
Borrowings	22,492	14,191	25,851	14,658
Debentures	747,713	627,873	714,547	596,979
	<u>6,463,260</u>	<u>5,862,855</u>	<u>6,375,194</u>	<u>5,786,848</u>

15.1 Finance lease obligations

	Monthly payments expiring	June 30, 2011	December 31, 2010
Local currency			
IT equipment	2012	33,378	21,261
Foreign currency – US\$			
Aircraft	2022	4,328,055	4,596,119
Engines	2017	157,023	136,601
Machinery and equipment	2012	4,048	3,942
		<u>4,522,504</u>	<u>4,757,923</u>
Current		<u>(582,995)</u>	<u>(567,419)</u>

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

	<u>Monthly payments expiring</u>	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Non-current		3,939,509	4,190,504

TAM has provided letters of guarantee and deposits in guarantee with respect to finance leases.

The minimum payments under finance leases are classified:

<u>Year</u>	<u>June 30, 2011</u>	<u>December 31, 2010</u>
No later than one year	681,202	684,008
Later than one year and no later than five years	2,474,243	2,420,112
Later than five years	1,935,070	2,315,571
Effect of discounting	(568,011)	(661,768)
	<u>4,522,504</u>	<u>4,757,923</u>

At June 30, 2011, the Company through its subsidiaries TLA, Mercosur and Pantanal, has 82 aircraft (12.31.2010 – 79 aircraft) under finance leases.

15.2 Senior notes

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
TAM Capital, Inc. (i)	468,408	499,380
TAM Capital 2, Inc. (ii)	478,045	509,677
TAM Capital 3, Inc. (iii)	775,537	
	<u>1,721,990</u>	<u>1,009,057</u>
Current	<u>(26,703)</u>	<u>(24,350)</u>
Non-current	<u>1,695,287</u>	<u>984,707</u>

- (i) On April 25, 2007, TAM Capital Inc. concluded the offering of 3,000 senior notes, with a nominal value of US\$ 100 thousand each, in the total amount of US\$ 300 million (equivalent to R\$ 710.4 million using the exchange rate as of the date of the transaction), incurring debt issuance costs of R\$ 13.7 million, carrying interest at 7.375% p.a. (resulting in an effective interest rate of 7.70%). Interest is payable semiannually and with principal payable in a bullet payment, in 2017. The notes were issued outside Brazil under an exemption from registration with the Brazilian CVM. The Company registered the notes with the United States Securities and Exchange Commission ("SEC") on October 30, 2007.
- (ii) On October 22, 2009, TAM Capital 2 Inc. concluded the offering of 3,000 senior notes, with nominal value of US\$ 100 thousand each, in the total amount of US\$ 300 million (equivalent to R\$ 523.2 million using the exchange rate as of the date of the transaction), carrying interest at 9.5% p.a. (resulting in an effective interest rate of 9.75%). The notes were issued outside Brazil under an exemption from registration with the Brazilian CVM and with the SEC. TAM Capital 2 has the option to early redeem the Senior Notes at any time prior to January 29, 2015. In the event of early prepayment, a redemption price must be paid.

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

Management has concluded that the redemption price compensates the lender for loss of interest and, as such the redemption option is considered clearly and closely related to the Senior Notes.

- (iii) On June 3, 2011, TAM Capital 3 Inc. concluded the offering of 5,000 senior notes, with nominal value of US\$ 100 thousand each, in the total amount of US\$ 500 million (equivalent to R\$ 787.2 million using the Exchange rate as of the date of the transaction), incurring debt issuance costs of R\$ 10.0 million, carrying interest at 8.375% p.a. (resulting in an effective interest rate of 8.570% p.a.) payable semi-annually from December 2011 with the principal payable in full on June 2021. The notes were issued outside Brazil under an exemption from registration with the Brazilian CVM and with the SEC. TAM, the senior notes at any time prior to June 3, 2016. In the event of early prepayment, a redemption price must be paid. Management has concluded that the redemption price compensates the lender for loss of interest and, as such the redemption option is considered and closely related to the Senior Notes.

TAM S.A.

Notes to the interim financial information (Unaudited)

(In thousands of Reais, unless otherwise indicated)

15.3. Borrowings

(a) Balance composition

	<u>Guarantees</u>	<u>Interest rate (effective rates for 2011 and 2010)</u>	<u>Payment term and the year of last payment</u>	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Local currency					
FINEM – Sub credit A (i)	Mortgage of assets and accounts receivable	TJLP + 4.5% p.a. (10.5% p.a. and 10.8%p.a.)	Monthly until November, 2011	6,226	13,704
FINEM –Sub credit B (ii)	Mortgage of assets and accounts receivable	Basket of currencies BNDES + 3.0% p.a. (12.2% p.a. 10.5% p.a.)	Monthly until 2012	1,043	2,026
Others			Monthly until 2013	2,371	3,640
				<u>9,640</u>	<u>19,370</u>
Foreign currency					
FINIMP (iii)	Promissory notes from a minimum of US\$ 1,111 thousand to a maximum at US\$ 18,707 thousand	6 and 12 months LIBOR +1% p.a. to 1.85% p.a. (4.3% p.a. and 5.3% p.a.)	Annually until June, 2011	546,299	506,913
<i>International Finance Corporation – IFC (Working capital) (iv)</i>					
Leasing renegotiation (v)	Deposits in guarantee US\$ 2,500 thousand	6 months LIBOR + 3% p.a. (3.4% p.a. and 6.6%p.a.)	Half-yearly until 2012	4,603	7,272
	Letter of guarantee	Fixed installments of US\$ 55 thousand	Monthly until 2022	8,089	8,921
Financing – Pre-delivery payment (vi)	Unconditional guarantee	Monthly LIBOR + 0.6% p.a. (0.3% p,a and 2.6% p.a)	Second semester 2011	83,575	68,649
Other (vii)				3,084	3,915
				<u>645,650</u>	<u>595,670</u>
				<u>655,290</u>	<u>615,040</u>
			Current	<u>(629,439)</u>	<u>(600,382)</u>
			Non-current	<u>25,851</u>	<u>14,658</u>

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

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

Non-current maturities are as follows:

<u>Year</u>	<u>June 30, 2011</u>	<u>December 31, 2011</u>
2012	17,258	6,027
2013	1,195	1,068
2014	652	696
2015	692	739
After 2015	6,054	6,128
	<u>25,851</u>	<u>14,658</u>

(b) Description of the loans and financings:

- (i) Loan obtained in order to finance the investment plan of 2004 and 2005 focused on expanding the São Carlos technology center, the acquisition of equipment and materials made in Brazil, the development of software technical and managerial training and environmental projects.
- (ii) TAM signed financing agreements for the acquisition of machines and equipment. The transaction was entered into in 2006, with Unibanco – União de Bancos Brasileiros, Banco Bradesco S.A. and Banco do Brasil S.A.
- (iii) TAM obtained loans of the FINIMP-type, to finance imports of aircraft parts. Among currently active transactions, loans from banks Safra, Banco do Brasil, Santander, Itaú and Bradesco have maturities through December 2011.
- (iv) On December 16, 2005, TLA entered into a loan agreement with the International Finance Corporation (IFC) to finance up to US\$ 33 million of PDP (pre-delivery payment) for Airbus aircraft.
- (v) Debt resulting from, renegotiation of a contract for airplanes and parts TAM and Fokker Aircraft BV entered into in June 25, 1982.
- (vi) On December 28, 2007, TLA entered into a loan agreement of loan with Banco BNP Paribas to finance up to US\$ 117.1 million of PDP (pre-delivery payment) with respect to Airbus aircraft.
- (vii) Contract for acquisition of IT equipment software and related services.

15.4 Debentures

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>June 30, 2011</u>	<u>December 31, 2010</u>	<u>June 30, 2011</u>	<u>December 31, 2010</u>
TAM S.A. (i)	348,910	347,800	348,910	347,800
TAM Linhas Aéreas S.A. (ii)			632,552	629,121
	<u>348,910</u>	<u>347,800</u>	<u>981,462</u>	<u>976,921</u>
Current	<u>(182,296)</u>	<u>(347,800)</u>	<u>(266,915)</u>	<u>(379,942)</u>
Non-current	<u>166,614</u>		<u>714,547</u>	<u>596,979</u>

TAM S.A.
Notes of the interim financial statements
(In thousands of Reais, unless otherwise indicated)

Non-current maturities are as follows:

Year	June 30, 2011	December 31, 2010
2012	215,660	98,092
2013	98,887	98,887
2014	100,000	100,000
2015	100,000	100,000
After 2015	200,000	200,000
	714,547	596,979

(i) TAM S.A.

On July 7, 2006 the Board of Directors approved the issuance for public distribution of simple, nonconvertible and unsecured debentures, with no preference but with a guarantee provided by the subsidiary TLA.

On August 1, 2006, TAM S.A. concluded the offering of 50,000 simple debentures in a single series, with a nominal value of R\$ 10 each, totaling an amount of R\$ 500,000, incurring debt issue costs of R\$ 1,906. The debentures expire in six (6) years. Principal is repayable in 3 annual payments, the first installment was paid on August 1, 2010.

Interest is payable on a semiannual basis, at a rate equivalent to 104.5% of the CDI (effective interest rate at the date of issuance of 15.38%) calculated and published by CETIP (the custodian and liquidation agent). At June 30, 2011 the effective interest rate was 11.93% 12.31.2010 – 10.19%.

The debenture indenture provides for the compliance with certain covenants based on financial ratios calculated based on Brazilian accounting practices in effect up to 2007. With the application of the new accounting practices defined by IFRS, especially the one that requires the recognition in the Company's financial statements of finance lease agreements, the coverage ratio of the company's debt has increased. It should be noted that at December 31, 2010 this ratio has exceeded the limit agreed. As a result the debentures were subject to be declared matured early although this was not automatic and it required to be approved at a General Meeting of debenture holders.

At the debenture holders' meeting on February 7, 2011, the issuer's proposal for authorizing the trustee not to decree the accelerated maturity was approved, solely as of the measurement date of December 31, 2010. In connection with this waiver, the issuer agreed to pay a waiver award to debenture holders, equivalent to 1.70% of the unit price at the payment date, which was paid on March 1, 2011. As a result at December 31, 2010 the Company reclassified the long-term portion with maturity scheduled for 2012 to current, in the amount of R\$ 166,376. Additionally, the Company evaluated its other financing agreements, including leases, and concluded that there are no other balances that should be reclassified to current liabilities. At June 30, 2011, the Company is not in breach of any covenant with respect to the debentures and the installment due on August 1, 2012 is classified under non current liabilities. The next measurement date of the financial indices will be at December 31, 2011.

(ii) TAM Linhas Aéreas S.A.

On July 16, 2009 the Board of Directors approved the issuance for public distribution of simple and nonconvertible debentures, with a guarantee provided by TAM S.A.

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

On July 24, 2009 TAM Linhas Aéreas S.A. concluded the offering of 600 simple debentures in a single series, with a nominal value of R\$ 1,000 each for a total amount of R\$ 600,000 and debt issue costs of R\$ 7,631. On July 22, 2010 the Extraordinary Shareholders Meeting approved the change in the maturity dates. The final maturity was changed from July 24, 2013 to July 24, 2017, the principal repayments were changed from quarterly payments to semi-annual payments with the date for the first repayment of principal originally due on July 24, 2010 to January 24, 2012. The cost of this renegotiation was R\$ 3,000.

Payment of interest has been modified from monthly payments to semiannual payments, at a rate equivalent to 124% of the CDI (interest rate at the date of issuance of 13.25%), calculated and published by CETIP (the custodian and liquidation agent). The effective interest rate was 14.16% p.a at June 30, 2011 (12.31.2010 – 12.09%).

The Company may exercise early redemption at any time, at its discretion, by sending or publishing a notice to debenture holders 10 days in advance. The early redemption can be total or partial. The debentures subject to this procedure are mandatorily canceled. Management has concluded that the amount payable upon early redemption is approximately equal to the amortized cost of the debentures and, as such, the redemption option is considered clearly and closely related to the debentures.

16. Deferred income - consolidated

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Advance ticket sales	802,817	942,167
TAM loyalty program	787,797	825,265
Sale and leaseback – deferred gains (i)	<u>86,222</u>	<u>100,169</u>
	<u>1,676,836</u>	<u>1,867,601</u>
Current	<u>(1,623,666)</u>	<u>(1,801,181)</u>
Non-current	<u>53,170</u>	<u>66,420</u>

- (i) 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. On March 4, 2011, the Company entered into a sale and leaseback related to one engine. The gain from this transaction was R\$ 4,832 and will be amortized on a straight-line basis through to 2015.

17. Refinanced taxes payable under Fiscal Reovery Program (REFIS)

In November 2009, TLA and Pantanal applied to the Fiscal Recovery Programa (REFIS), established by Law n° 11,941/09 and Provisional Measure, n° 449/2009. REFIS has the purpose of allowing to settle tax debt through a special mechanism for paying and refinancing tax and social security liabilities. The general conditions of the effects to applying to REFIS are summarized below:

- Payment will be made in 180 monthly installments depending on the nature of the debt;
- Reduction of penalties and interest;
- Obligation to make the monthly payments and not become overdue more than three months; and

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

- Withdraw all lawsuits the participant has initiated with respect to the taxes included in REFIS. If those commitments are not honored the Company will be excluded from the REFIS and a new tax debt will be determined based on the amounts originally due.

During the six months ended June 30, 2011 the tax authorities concluded the final processing of the REFIS application and the total amounts of the debt under REFIS consists of the following:

TAM S.A.**Notes of the interim financial statements**

(In thousands of Reais, unless otherwise indicated)

					June 30, 2011	December 31, 2010
	<u>Original amount</u>	<u>Penalties</u>	<u>Interest</u>	<u>Fees</u>	<u>Total</u>	<u>Total</u>
Cofins (i)	193,771	7,345	133,900		335,016	308,823
Pis (i)	37,301	2,724	40,561		80,586	89,861
Refinanced taxes payable under Fiscal Reovery Program from Pantanal(ii)	20,215	1,911	24,880	3,096	50,102	
Other	<u>15,475</u>	<u>799</u>	<u>6,112</u>		<u>22,386</u>	<u>41,143</u>
	<u>266,762</u>	<u>12,779</u>	<u>205,453</u>	<u>3,096</u>	<u>488,090</u>	<u>439,827</u>
(-) Payments made					<u>(4,276)</u>	
					<u>483,814</u>	<u>439,827</u>
Current (*)					<u>(49,424)</u>	<u>(23,152)</u>
Non-current					<u>434,390</u>	<u>416,675</u>

(*) The amount is recorded under "Taxes, charges and contribuion" in current liabilities.

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

(i) Refers to the increase in the tax base of the PIS tax and the increase in the contribution and basis of calculation of COFINS tax, established by Law n° 9,718/98. In accordance with the requirements of the REFIS the Company has already filed a dismissal of the lawsuits it had begun challenging the unconstitutionality of such increases.

(ii) Refers to the remaining balance of previous tax refinancing program of Pantanal with respect to years 2000 to 2006

The total consolidated debt under REFIS classified as non-current has the following maturities:

<u>Ano</u>	<u>R\$ mil</u>
2012	23,729
2013	34,743
2014	34,744
2015	34,743
2016	34,744
2017	34,743
2018	34,744
2019	34,744
2020	34,744
2021	34,744
2022	34,744
2023	34,744
2024	28,480
Total	<u>434,390</u>

18. Other liabilities - consolidated

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Reorganization of Fokker 100 Fleet (i)	4,738	13,860
Maintenance provision – “Power by the hour”	369,549	252,534
Other liabilities	89,194	106,736
	<u>463,481</u>	<u>373,130</u>
Current	<u>(144,676)</u>	<u>(135,658)</u>
Non-current	<u>318,805</u>	<u>237,472</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 for an 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 rescheduled overdue installments for an original amount of R\$ 49,599.

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

19. Provisions - consolidated

(a) Changes in the reserve for contingencies

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 March 31, 2011 the value of provisions and the corresponding judicial deposits recognized were as follows:

	<u>December 31, 2010</u>	<u>Additional Provisions (Deposits)</u>	<u>Payments</u>	<u>Financial charges</u>	<u>June 30, 2011</u>
Airline staff fund (i)	174,226	17,339		7,369	198,934
Labor contingencies	20,930	2,901	(230)		23,601
Civil litigation	86,271	8,123			94,394
Other tax contingencies	48,131	12,161	(16)	652	60,928
Total	<u>329,558</u>	<u>40,524</u>	<u>(246)</u>	<u>8,021</u>	<u>377,857</u>
(-) Judicial deposits	<u>(125,287)</u>	<u>(21,570)</u>	<u>23</u>		<u>(146,834)</u>
Total	<u>204,271</u>	<u>18,954</u>	<u>(223)</u>	<u>8,021</u>	<u>231,023</u>

- (i) 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.

(b) Possible contingencies

The Company and its subsidiaries are also parties to tax, labor and civil lawsuits, involving risks of loss that management, based on the assessment made by its legal counsel, classified as possible and, therefore, no provision was required. The estimated amounts are as follows:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Tax contingencies		
ICMS (State Value Added Tax)	402,815	383,374
IRPJ and CSLL (Income taxes)	151,702	136,216
Special customs regime for temporary	102,644	102,594
Others (i)	936,794	134,026
	<u>1,593,955</u>	<u>756,210</u>
Civil litigation	45,659	30,911
Labor contingencies	357,143	316,485
	<u>1,996,757</u>	<u>1,103,606</u>

- (i) The increase relates to the following tax assessments:

- (a) Administrative process (n. 10314.720023/2011-15) resulting from a tax assessment through which the tax inspector requires payment of Tax on Industrialized Products (Imposto sobre Produtos

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

Industrializados (IPI) on import of aircrafts from April 2006 through February 2009. The tax authorities claim that IPI exemption depends on certain requirements being met including proving that the entity is in full compliance with its tax obligations a requirement allegedly not met by TAM considering that for certain periods the following certificates allegedly were not presented: Compliance Certificate of FGTS, Joint Certificate of Tax Debts and of Federal Outstanding Debts (either a certificate indicating non-existence of debt - negative - or a certificate indicating debts but with same effects of a negative certificate) in certain periods.

- (b) Administrative processes (AI 10314.720018/2011-75) resulting from a tax assessment through which the tax inspector requires payment of Tax on Industrialized Products (Imposto sobre Produtos Industrializados (IPI), payment of IPI on imports and COFINS on imports on the import of spare parts for aircrafts to be used for repairs, checks and maintenance of aircrafts from June 2006 through July 2010. The tax authorities claim that IPI exemption and taxation at zero rate for IPI and COFINS on imports depends on certain requirements being met including proving that the entity is in full compliance with its tax obligations a requirement allegedly not met by TAM considering that for certain periods the following certificates allegedly were not presented: Compliance Certificate of FGTS, Joint Certificate of Tax Debts and of Federal Outstanding Debts (either a certificate indicating non-existence of debt - negative - or a certificate indicating debts but with same effects of a negative certificate) in certain periods.

Those assessments amounted to R\$ 819,270 of which R\$ 770,652 corresponds to IPI on aircrafts. TAM has presented defense to the processes and tax advisors estimate that the probability of success is possible in both cases.

20. Deferred income tax and social contribution

Deferred income tax and social contribution assets and liabilities are offset when there is a legal right of offsetting tax credits against taxes payable and provided that they refer to the same tax authority.

The movement in deferred income tax and social contribution assets and liabilities during the period ended June 30, 2011, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

Deferred income tax and social contribution	December 31, 2010	Charged/(credited) to the income statement	March 31, 2011	Parent company	
				Charged/(credited) to the income statement	June 30, 2011
Income tax loss carry forwards	8,812	5,056	13,868	5,118	18,986
Social contribution carry forwards	4,401	1,820	6,221	1,842	8,063
Temporary differences:					
Provision for contingencies	1,642	33	1,675	45	1,720
Others	676	(419)	257	245	502
Total deferred income tax and social contribution asset	<u>15,531</u>	<u>6,490</u>	<u>22,021</u>	<u>7,250</u>	<u>29,271</u>
			<u>December 31, 2010</u>	<u>June 30, 2011</u>	
Deferred income tax and social contribution expected to be recovered within 12 months - Netted			13,213	2,787	
Deferred income tax and social contribution expected to be recovered within more than 12 months – Netted			<u>2,318</u>	<u>26,484</u>	
			<u>15,531</u>	<u>29,271</u>	

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

Deferred income tax and social contribution asset	Consolidated				
	December 31, 2010	Charged/(credited) to the income statement	March 31, 2011	Charged/(credited) to the income statement	June 30, 2011
Income tax loss carry forwards	62,288	4,766	67,054	5,773	72,827
Social contribution carry forwards	22,548	2,576	25,124	3,470	28,594
Temporary differences:					
Provision for derivatives loss / gains	6,096	(20,080)	(13,984)	7,275	(6,709)
Provision for contingencies	94,008	8,512	102,520	8,323	110,843
Allowance for losses on inventories and receivables accounts	39,165	(1,444)	37,721	1,144	38,865
Deferred income from sale leaseback transaction	28,312	(1,084)	27,228	(2,810)	24,418
TAM loyalty program	66,008	(27,749)	38,259	(22,370)	15,889
Finance leases	(432,885)	(5,399)	(438,284)	(54,979)	(493,263)
Other	48,796	(24,158)	24,638	2,968	27,606
Sub-total	(65,664)	(64,060)	(129,724)	(51,206)	(180,930)
Property, plant and equipment	(45,514)	74	(45,440)	382	(45,058)
Sub-total	(111,178)	(63,986)	(175,164)	(50,824)	(225,988)
Deferred income tax and social contribution liability – intangible assets on acquisition of Pantanal		(38,262)	(38,262)		(38,262)
Total deferred income tax and social contribution	<u>(111,178)</u>	<u>(102,248)</u>	<u>(213,426)</u>	<u>(50,824)</u>	<u>(264,250)</u>

TAM S.A.
Notes of the interim financial statements
(In thousands of Reais, unless otherwise indicated)

	<u>December 31, 2010</u>	<u>June 30, 2011</u>
Deferred income tax and social contribution expected to be recovered within 12 months - Netted	(65,714)	(57,948)
Deferred income tax and social contribution expected to be recovered within more than 12 months – Netted	<u>(45,464)</u>	<u>(206,302)</u>
	<u>(111,178)</u>	<u>(264,250)</u>

Deferred tax assets resulting from income tax and social contribution losses and temporary differences are recognized to the extent that the realization of the related tax benefit through the future taxable profits is probable. Tax loss carryforwards in Brazil do not expire.

At June 30, 2011, there were unrecognized deferred tax assets relating to the tax losses of foreign subsidiaries in the amount of R\$ 100,029 (12.31.2010 – 66,183).

(a) Income tax and social contribution expense

	<u>Quarter ended</u>		<u>Parent company</u> <u>Six months ended</u>	
	<u>June 30,2011</u>	<u>June 30, 2010</u>	<u>June 30,2011</u>	<u>June 30, 2010</u>
Current tax				
Deferred tax	7,250	2,418	13,739	12,084
	<u>7,250</u>	<u>2,418</u>	<u>13,739</u>	<u>12,084</u>
	<u>Quarter ended</u>		<u>Consolidated</u> <u>Six months ended</u>	
	<u>June 30,2011</u>	<u>June 30, 2010</u> (Adjusted *)	<u>June 30,2011</u>	<u>June 30, 2010</u> (Adjusted *)
Current tax	(42,834)	(12,745)	(81,186)	(13,700)
Deferred tax	(50,824)	53,923	(114,810)	82,318
	<u>(93,658)</u>	<u>41,178</u>	<u>(195,996)</u>	<u>68,618</u>

The tax on TAM's profit before taxes differs from the theoretical amount that would arise using the tax rate applicable to TAM, TLA and its brazilian subsidiaries as follows:

(*) See note 3.

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

	Parent company			
	June 30, 2011	June 30,2010	June 30,2011	June 30, 2010
Profit / (loss) before income tax and social contribution	53,017	(177,181)	175,432	(257,783)
Tax calculated at Brazilian tax rates applicable to profits	34%	34%	34%	34%
Taxes calculated at statutory rates	(18,026)	60,242	(59,647)	87,646
Tax effects of permanent (additions) deductions:				
Equity in the results of investees	25,305	(58,452)	72,959	(85,252)
Non deductible expenses		(69)		(37)
Tax credit on interest paid on own capital		2		8,501
Other	(29)	695	428	1,226
Income tax and social contribution tax charge (credit)	7,250	2,418	13,740	12,084
Effective rate %	13.7	1.36	7.83	4.69
				Consolidated
	June 30, 2011	June 30,2010	June 30, 2011	June 30, 2010
		(Adjusted(*)		(Adjusted(*)
Profit / (loss) before income tax and social contribution	175,350	(209,816)	425,855	(306,406)
Tax calculated at Brazilian tax rates applicable to profits	34%	34%	34%	34%
Taxes calculated at statutory rates	(59,619)	71,337	(144,791)	104,178
Tax effects of permanent (additions) deductions:				
Equity in the results of investees				
Non deductible expenses	(8,188)	(9,163)	(15,307)	(15,289)
Tax credit on interest paid on own capital				8,499
Unrecognized deferred tax assets on tax losses	(8,335)	(1,252)	(17,791)	(1,483)
Unrecognized tax deferred tax assets on profits earned abroad	(6,746)	(11,737)	(9,524)	(20,281)
Share-based compensation	(2,084)	(2,415)	(3,468)	(3,799)
Other	(8.686)	(5,592)	(5.115)	(3,207)
Income tax and social contribution tax charge (credit)	(93,658)	41,178	(195,996)	68,618
Effective rate %	53.4	19.6	46.0	22.4

The years from 2005 to 2010 are open to review by Brazilian tax authorities.

(a) Transitional Tax Regime - RTT

(*) See note 3.

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

The Transitional Tax Regime has been established by Law 11638/07 in order to maintain the same tax rules for determining taxable income irrespective of any changes introduced to accounting practices adopted in Brazil.

21. Share Capital

(a) Authorized capital

At June 30, 2011 the authorized capital was R\$ 1,200,000 (12.31.2010 – 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.

(b) Subscribed share capital

At June 30, 2011 the subscribed share capital is comprised of 156,206,781 shares (12.31.2010 – 156,206,781) fully paid nominative shares without nominal value, of which 55,816,683 (12.31.2010 – 55,816,683) are common shares and 100,390,098 (12.31.2010 – 103,390,098) are preferred shares.

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

The preferred shares do not have the right to vote in general meetings, except in relation to certain matters while the Company is listed in Level 2 of BOVESPA. However, they have priority in the distribution of dividends, and in capital reimbursement, without any premium, in the event the Company is liquidated and the right to participate, under the same terms as the common shares, in the distribution of any benefits to the stockholders.

As per the Adhesion Agreement executed with BOVESPA, the Company complies with the requirement to have a free float in the market of 25% of its shares. Since August, 2007 the free float has been 53.85%.

	<u>Number of shares</u>	<u>Common shares</u>	<u>Preferred shares</u>	<u>Capital</u>
At December 31, 2009	<u>150,585,147</u>	<u>50,195,049</u>	<u>100,390,098</u>	<u>675,497</u>
At June 30, 2010	<u>150,585,147</u>	<u>50,195,049</u>	<u>100,390,098</u>	<u>675,497</u>
At December 31, 2010	<u>156,206,781</u>	<u>55,816,683</u>	<u>100,390,098</u>	<u>819,892</u>
At June 30, 2011	<u>156,206,781</u>	<u>55,816,683</u>	<u>100,390,098</u>	<u>819,892</u>

(c) Treasury shares

The movement of treasury shares during the quarter ended June 30, 2011 is presented below.

	<u>Quantity of shares</u>	<u>Thousand of R\$</u>	<u>Average price per share - Reais</u>
At December 31, 2010	212,580	(6,008)	28.26
Resale of treasury shares	<u>156,901</u>	<u>4,434</u>	<u>28.26</u>

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

At June 30, 2011	55,679	(1,574)	28.26
-------------------------	--------	---------	-------

During the quarter ended March 31, 2011, 156,901 shares held in treasury were sold to be issued to beneficiaries of the stock option plan. The shares sold relate to the executive compensation plan approved at the Extraordinary General Meeting (AGE) of May 16, 2005.

The market value of shares based on the closing quote in the São Paulo stock exchange at June 30, 2011, is R\$ 33.50 (12.31.2010 – R\$ 39.14). The book value of each share is R\$ 16.97 (31.12.2010 – R\$ 16.82).

(d) Reduction of capital of Multiplus

On March 18, 2011, Multiplus approved a capital reduction from R\$ 692,385 to R\$ 92,371, resulting in a reduction of R\$ 600,014, equivalent to R\$ 3.72 per share without the cancellation of any shares and without any change in the percentage of interest held by the shareholders of Multiplus. The distribution process to was finalized on June 22, 2011 when cash was distributed to shareholder. Out of the total cash distribution TAM received R\$ 439,030 and the non-controlling shareholder received R\$ 160,984.

(e) Payment of dividends

On April 2011, the Company paid dividends corresponding to the balance of retained earnings at the end of 2010 totalling the amount of R\$ 181,460.

22. Revenue

TAM had no major customers which represented more than 10% of revenue in any of the periods presented. The Company utilizes its gross revenue information by type of service rendered and by region, as follows:

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

(a) By type of service rendered

	June 30, 2011		June 30, 2010		Quarter ended Period – Variation (%)		June 30, 2011		June 30, 2010		Six months ended Period – Variation (%)	
		%		%				%		%		%
Domestic												
Passenger	1,472,007	46.4	1,427,874	52.4	3.1	2,983,206	47.0	2,824,643	52.0	5.7		
Cargo	140,253	4.4	127,137	4.7	10.3	257,998	4.1	242,681	4.5	6.3		
	<u>1,612,260</u>	<u>50.8</u>	<u>1,555,011</u>	<u>57.0</u>	<u>3.7</u>	<u>3,241,204</u>	<u>51.1</u>	<u>3,067,324</u>	<u>56.4</u>	<u>5.7</u>		
International												
Passenger	865,417	27.3	732,170	26.9	18.2	1,727,035	27.2	1,547,927	28.5	11.5		
Cargo	156,597	4.9	157,614	5.8	(0.7)	293,997	4.6	298,029	5.5	(1.4)		
	<u>1,022,014</u>	<u>32.2</u>	<u>889,784</u>	<u>32.6</u>	<u>14.9</u>	<u>2,021,032</u>	<u>31.8</u>	<u>1,845,956</u>	<u>34.0</u>	<u>9.4</u>		
Other												
Loyalty Program (TAM)	77,017	2.4	108,092	4.0	(28.8)	180,317	2.8	242,752	4.5	(25.7)		
Loyalty Program (Multiplus)	265,908	8.4	69,073	2.5	285.0	492,919	7.8	69,214	1.3	612.2		
Travel and tourism agencies	21,230	0.7	14,509	0.5	46.3	35,544	0.6	27,409	0.5	29.7		
Others (includes expired tickets)	176,714	5.6	89,512	3.3	97.4	374,926	5.9	181,935	3.3	106.1		
	<u>540,869</u>	<u>17.0</u>	<u>281,186</u>	<u>10.3</u>	<u>92.4</u>	<u>1,083,706</u>	<u>17.1</u>	<u>521,310</u>	<u>9.6</u>	<u>107.9</u>		
Total gross	<u>3,175,143</u>	<u>100.0</u>	<u>2,725,981</u>	<u>100.0</u>	<u>16.5</u>	<u>6,345,942</u>	<u>100.0</u>	<u>5,434,590</u>	<u>100.0</u>	<u>16.8</u>		
Sales taxes and other deductions	(121,932)		(114,533)			(250,202)		(219,298)				
Revenue	<u>3,053,211</u>		<u>2,611,448</u>			<u>6,095,740</u>		<u>5,215,292</u>				

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

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

	Quarter ended					Six months ended				
	June 30, 2011	%	June 30, 2010	%	-Variation (%)	June 30, 2011	%	June 30, 2010	%	Variation (%)
Brasil	2,153,129	67.8	2,336,375	85.7	(7.8)	4,324,910	68.2	4,657,652	85.7	(7.1)
Europe	508,038	16.0	185,267	6.8	174.2	957,011	15.1	369,453	6.8	159.0
North America	331,032	10.4	144,400	5.3	129.3	680,988	10.7	287,956	5.3	136.5
South America (excluding Brazil)	182,944	5.8	59,939	2.2	205.2	383,033	6.0	119,529	2.2	220.5
Total gross	<u>3,175,143</u>	<u>100.0</u>	<u>2,725,981</u>	<u>100.0</u>	<u>16.5</u>	<u>6,345,942</u>	<u>100.0</u>	<u>5,434,590</u>	<u>100.0</u>	<u>16.7</u>
Sales taxes and other deductions	<u>(121,932)</u>		<u>(114,533)</u>			<u>(250,202)</u>		<u>(219,298)</u>		
Revenue	<u>3,053,211</u>		<u>2,611,448</u>			<u>6,095,740</u>		<u>5,215,292</u>		

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

(c) Seasonality

The following table presents our revenue in the first and second quarter of 2011 and 2010 as a percentage of annual revenue for the year ended December 31, 2010.

	% of 2010 net revenue	
	2011	2010
First quarter	26.7	22.9
Second quarter	26.8	23.0

23. Costs and operating expenses by nature - consolidated

(a) Quarter ended June 30:

	2011				
	Cost of services rendered	Sales	General and administrative	Total	%
Personnel	551,005	57,983	59,218	668,206	22.1
Director's fees			419	419	0,0
Fuel	1,085,392			1,085,392	35.8
Depreciation and	157,217	408	29,030	186,655	6.1
Maintenance and repairs	124,541			124,541	4.1
Aircraft insurance	12,673			12,673	0.4
Take-off, landing and navigation aid charges	155,267			155,267	5.1
Leasing of aircraft, engines and equipment under	100,924	2,961	6,619	110,504	3.6
Third party services	52,160	84,079	88,764	225,003	7.4
Marketing and related		239,777		239,777	7.9
Other	117,873	43,513	67,772	229,158	7.5
	<u>2,357,052</u>	<u>428,721</u>	<u>251,822</u>	<u>3,037,595</u>	<u>100.0</u>

	2010				
	Cost of services rendered	Sales	General and administrative	Total	%
Personnel	438,650	48,085	45,836	532,571	20.4
Director's fees	393		1,687	2,080	0.1
Fuel	847,000			847,000	32.5
Depreciation and amortization	147,036	376	19,301	166,713	6.4
Maintenance and repairs	172,164			172,164	6.6
Aircraft insurance	13,193			13,193	0.5
Take-off, landing and navigation aid charges	140,188			140,188	5.4
Leasing of aircraft, engines and equipment under	114,854	2,393	3,808	121,055	4.6
Third party services	38,294	64,385	90,300	192,979	7.4
Marketing and related		225,608		225,608	8.6
Other	63,683	73,539	59,273	196,495	7.5
	<u>1,975,455</u>	<u>414,386</u>	<u>220,205</u>	<u>2,610,046</u>	<u>100.0</u>

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

(b) Six months ended June 30:

	2011				
	<u>Cost of services rendered</u>	<u>Sales</u>	<u>General and administrative</u>	<u>Total</u>	<u>%</u>
Personnel	1,101,339	120,995	121,433	1,343,767	22.5
Director's fees			767	767	0.0
Fuel	2,142,644			2,142,644	35.9
Depreciation and amortization	298,429	761	57,414	356,604	6.0
Maintenance and repairs (excluding aircraft insurance)	314,754			314,754	5.23
Take-off, landing and navigation aid charges	24,603			24,603	0.4
Leasing of aircraft, engines and equipment under operating leases	319,277			319,277	5.3
Third party services	195,213	4,752	10,867	210,832	3.5
Marketing and related expenses	99,492	154,161	158,022	411,675	6.9
Other	213,552	477,376	81,464	477,376	8.0
	<u>4,709,303</u>	<u>830,675</u>	<u>429,967</u>	<u>5,969,945</u>	<u>100.0</u>

	2010				
	<u>Cost of services rendered</u>	<u>Sales</u>	<u>General and administrative</u>	<u>Total</u>	<u>%</u>
Personnel	880,588	97,586	90,578	1,068,752	20.8
Director's fees	1,268		2,936	4,204	0.1
Fuel	1,641,812			1,641,812	32.0
Depreciation and	304,753	832	41,357	346,942	6.8
Maintenance and repairs	326,268			326,268	6.4
Aircraft insurance	26,320			26,320	0.5
Take-off, landing and navigation aid charges	286,514			286,514	5.6
Leasing of aircraft, engines and equipment	228,987	4,505	7,169	240,661	4.7
Third party services	75,547	128,400	184,464	388,411	7.6
Marketing and related	155,027	437,952		437,952	8.5
Other	100,812	113,404		369,243	7.2
	<u>3,927,084</u>	<u>770,087</u>	<u>439,908</u>	<u>5,137,079</u>	<u>100.0</u>

24. Employee benefits - consolidated

Personnel costs (presented under Personnel and Director fees in Note 23) are composed of the following amounts:

	<u>Quarter ended</u>		<u>Six months ended</u>	
	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Salaries and bonuses	558,287	447,193	1,125,549	896,855
Defined contribution pension plan	8,222	6,490	16,439	12,853
Share based payment	6,130	2,976	10,199	11,176
Taxes and social contributions	95,986	77,992	192,347	152,072
	<u>668,625</u>	<u>534,651</u>	<u>1,344,534</u>	<u>1,072,956</u>

TAM S.A.
Notes of the interim financial statements
(In thousands of Reais, unless otherwise indicated)

24.1. Share-based payment

(a) TAM Linhas Aéreas

The Extraordinary Stockholders' Meeting held on October 4, 2010 authorized that the Board of Directors may grant stock options to employees up to 3% of outstanding shares.

These transactions can be summarized as follows:

	<u>Number of stock options outstanding</u>	<u>Weighted average exercise price - R\$</u>
At January 1, 2010	<u>1,667,440</u>	<u>36.55</u>
Granted	821,465	23.49
Exercised	(161,087)	17.52
Forfeited	<u>(15,758)</u>	<u>44.00</u>
At June 30, 2010	<u><u>2,312,060</u></u>	<u><u>33.18</u></u>
At January 1, 2011	<u>2,209,115</u>	<u>37.11</u>
Exercised	(156,901)	19.97
Forfeited	<u>(10,245)</u>	<u>53.45</u>
At June 30, 2011	<u><u>2,041,969</u></u>	<u><u>37.86</u></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 various option grants, together with the variables used in valuing the options granted :

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

	<u>1st grant</u>	<u>2nd grant</u>	<u>3rd grant</u>	<u>4th grant</u>	<u>1st special grant</u>	<u>2nd special grant</u>	<u>3rd special grant</u>	<u>4th special grant</u>	<u>Total or weighted average</u>
Date	12/28/2005	11/30/2006	12/14/2007	05/28/2010	09/27/2007	02/29/2008	04/01/2010	11/03/2010	
Number of options granted	715,255	239,750	780,311	591,463	230,000	11,595	230,000	230,000	
Exercise price at grant date	14.40	43.48	39.67	25.11	38.36	30.24	24.59	20.53	
Risk free interest rate - %	17.93%	13.13%	10.95%	9.38%	10.82%	10.82%	8.34%	10.69%	
Average term	5.5	5.5	5.5	5.5	4.5	4.5	4.5	4.5	
Expected dividend yield - %	0.00%	0.32%	0.58%	0.55%	0.58%	0.56%	0.55%	0.55%	
Share price volatility - %	34.24%	41.29%	42.30%	51.47%	40.48%	43.66%	51.32%	52.14%	
Market share price - R\$	45.00	61.00	44.03	24.30	50.10	35.48	30.31	41.92	
Fair value at grant date – R\$	39.64	41.11	25.09	13.57	28.28	19.33	17.95	29.91	
Number of options outstanding (i)	109,818	150,672	488,417	591,467	230,000	11,595	230,000	230,000	2,041,969
Number of options exercisable (i)	109,818	70,755	51,543		230,000	3,865			465,981
Exercise price (adjusted by IGP-M) (i)	19.70	58.68	50.03	27.48	19.85	53.30	21.59	22.49	
Remaining average term (i)	0.03	0.85	1.95	4.88		1.12	3.24	3.98	1.94

(i) At June 30, 2011.

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

TAM S.A.
Notes of the interim financial statements
(In thousands of Reais, unless otherwise indicated)

(b) Multiplus

The Extraordinary Stockholders' Meeting held on October 4, 2010 authorized that the Board of Directors may grant stock options to employees up to 3% of outstanding shares.

These transactions can be summarized as follows:

	<u>Number of stock options outstanding</u>	<u>Weighted average exercise price - R\$</u>
At December 31, 2009		
Options granted	1,660,759	18.07
At December 31, 2010	<u>1,660,759</u>	<u>18.07</u>
Forfeited	(6,196)	29.80
At June 30, 2011	<u>1,654,563</u>	<u>14.87</u>

Under the plan, options assigned for regular grants are divided into three equal parts and employees can exercise one third of their options of two, three and four years, respectively if they are still employed by the Company at that time. The contractual life of the options is seven years after the grant of option. The 1st extraordinary grant was divided into two equal parts that can be exercised as follows: half of the options after three years, and another half after four years. The 2nd extraordinary grant was also divided into two equal parts that can be exercised after one year and two years, respectively.

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.

During the three months ended June 30, 2011, the Company fixed the exercise price of R\$ 20.00 (twenty reais) per share, for the extraordinary grant related to the hiring of the current Chief Executive Officer of Multiplus and the reduction in the exercise price by R\$ 3.72 (three reais and seventy-two centavos per share, due to the reduction of the Company's capital. The modification of the options granted as result of the reduction in the exercise price resulted in additional compensation (R\$ 3,114). Considering that no options were vested as of June 30, 2011 the additional compensation will be recognized prospectively through the vestion period of the options.

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

(b.1) Assumptions Assumptions used to estimate the fair value of the options at the original grant date:

	<u>1st grant</u>	<u>2nd grant</u>	<u>1st extraordinary grant^a</u>	<u>2nd extraordinary grant^a</u>	<u>Total or weighted average</u>
Date	10/04/2010	11/08/2010	10/04/2010	10/04/2010	
Number of options granted	98,391	36,799	1,370,999	154,570	1,660,759
Exercise price at grant date	27.33	31.55	16.00	27.33	

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

Risk free interest rate - %	10.16	10.16	10.16	10.16
Average term	5.0	5.0	5.25	4.25
Expected dividend yield - %	0.67	0.57	0.67	0.67
Share price volatility - %	30.25	31.21	30.25	30.25
Market share price - R\$	26.90	31.55	26.90	26.90
Fair value at grant date – R\$	11.58	14.06	16.91	10.53

(b.2) Considering the modification in the exercise price, the following assumptions were used to measure the additional compensation:

	<u>1st grant</u>	<u>2nd grant</u>	<u>1st extraordinary grant^a</u>	<u>2nd extraordinary grant^a</u>	<u>Total or weighted average</u>
Date	06/30/2011	06/30/2011	06/30/2011	06/30/2011	
Number of options granted	92,195	36,799	1,370,999	154,570	1,654,563
Exercise price at grant date	23.61	27.83	12.28	20.00	
Risk free interest rate - %	15.12	12.15	12.15	12.15	
Average term	4.63	4.67	4.88	3.50	
Expected dividend yield - %	2.60	2.60	2.60	2.60	
Share price volatility - %	33.79	33.79	33.79	33.79	
Market share price - R\$	27.20	27.20	27.20	27.20	
Fair value immediately before modification– R\$	10.84	9.55	15.56	9.46	
Fair value immediately after modification– R\$	12.17	10.71	17.35	12.66	
Incremental fair value	1.33	1.16	1.79	3.20	

(b.3) Other information at June 30, 2011

	<u>1st grant</u>	<u>2nd grant</u>	<u>1st extraordinary grant^a</u>	<u>2nd extraordinary grant^a</u>	<u>Total or weighted average</u>
	06/30/2011	06/30/2011	06/30/2011	06/30/2011	
Number of options outstanding (i)	92,195	36,799	1,370,999	154,570	1,654,563
Number of options exercisable (i)	25.13	29.32	13.07	21.28	
Remaining average term (i)	4.63	4.67	4.88	3.50	

(i) At June 30, 2011.

Share price volatility is determined based on historical share price volatility of Multiplus quoted shares.

25. Net finance result

	<u>Parent company</u>			
	<u>Quarter ended</u>		<u>Six months ended</u>	
	<u>June 30,2011</u>	<u>June 30,2010</u>	<u>June 30,2011</u>	<u>June 30, 2010</u>
Finance income				
Interest income from financial	1,811	8,605	7,244	16,608
Exchange gains	41	399	640	1,066
Other	1,145	1	1,615	818
	<u>2,997</u>	<u>9,005</u>	<u>9,499</u>	<u>18,492</u>
Financial expenses				
Interest expense (i)	(10,221)	(12,209)	(25,468)	(22,674)
Other	(2,229)	(154)	(2,677)	(256)

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

	Quarter ended		Parent company Six months ended	
	June 30,2011	June 30,2010	June 30,2011	June 30, 2010
		(12,450)	(12,363)	(28,145)
Finance result, net	<u>(9,453)</u>	<u>(3,358)</u>	<u>(18,646)</u>	<u>(4,438)</u>
			Consolidated	
	June 30, 2011	June 30, 2010	June 30, 2010	June 30, 2010
Finance income				
Interest income from financial	40,563	32,081	78,576	62,110
Exchange gains	721,262	317,643	930,497	797,849
Other	38,944	3,372	44,114	9,425
	<u>800,769</u>	<u>353,096</u>	<u>1,053,187</u>	<u>869,384</u>
Financial expenses				
Exchange losses	(484,617)	(392,060)	(542,406)	(977,467)
Interest expense (i)	(132,584)	(103,054)	(230,512)	(207,139)
Other	(10,978)	(12,004)	(23,125)	(22,810)
	<u>(628,179)</u>	<u>(507,118)</u>	<u>(796,043)</u>	<u>(1,207,416)</u>
Finance result, net	<u>172,590</u>	<u>(154,022)</u>	<u>257,144</u>	<u>(338,032)</u>

(i) The average monthly rate for capitalized interest at June 30, 2011 was 0.04% (06.30.2010 – 0.08 %).

The Exchange gain recognized at June 30, 2011 with respect to finance lease liabilities amounted R\$ 304,285 (30.06.2010 – net expense R\$ 144.994), while interest expense on those finance lease liabilities amounted to R\$ R\$ 47,902 (30.06.2010 –R\$ 56.005).

26. Earnings per share - consolidated

(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 shares (common and preferred) issued and outstanding during the year excluding shares purchased by the Company and held as treasury shares.

TAM S.A.**Notes of the interim financial statements**

(In thousands of Reais, unless otherwise indicated)

	Quarter ended		Six months ended	
	June 30, 2011	June 30, 2010 (Adjusted(*))	June 30, 2011	June 30, 2010 (Adjusted(*))
Profit / (loss) attributable to equity holders of the company	60,267	(174,763)	189,172	(245,699)
Weighted average number of shares issued (in thousands)	156,207	150,585	156,207	150,585
Weighted average Treasury shares (in thousands)		(263)	(113)	(263)
Weighted average number of shares outstanding (in thousands)	156,207	150,322	156,094	150,322
Basic earnings / (loss) per share (Reais per share)	0.39	(1.16)	1.21	(1.63)

(b) Diluted

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

	Quarter ended		Six months ended	
	June 30, 2011	June 30, 2010 (Adjusted(*))	June 30, 2011	June 30, 2010 (Adjusted(*))
Profit / (loss) attributable to equity holders of the company	60,267	(174,763)	189,172	(245,699)
Weighted average number of shares outstanding (in thousands)	156,207	150,322	156,094	150,322
Adjustments for share options (in thousands)			282	
Weighted average number of shares for diluted earnings per share calculation (in thousands)	156,207	150,322	156,376	150,322
Diluted earnings / (loss) per share (Reais per share)	0.39	(1.16)	1.21	(1.63)

(*) See note 3.

TAM S.A.
Notes of the interim financial statements
(In thousands of Reais, unless otherwise indicated)

27. Cash generated from operations

	<u>Parent company</u>	
	<u>Six months ended</u>	
	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Profit / (loss) for the year	189,172	(245,699)
Adjustments for		
Deferred income tax and social contribution (Note 20 (a))	(13,740)	(12,084)
Depreciation and amortization (Note 23)		
(Profit)/loss on disposal of property, plant and equipment (see below)		
Foreign exchange losses/(gains) and interest expense	19,078	21,482
Equity share of the results of investees	(214,585)	250,741
Other provisions		
Provision for contingencies	50	
Stock options plan		
Changes in working capital		
Financial assets measurement at fair value through profit and loss	(266,437)	(13,724)
Inventories		
Accounts receivable		
Taxes recoverable	(836)	(3,328)
Prepaid expenses		
Judicial deposits	(264)	392
Prepaid expenses		(465)
Related parties	(77,957)	10,779
Other accounting receivables		
Other receivables	(171)	
Accounts payable	(22)	
Salaries and social charges	(373)	241
Taxes, charges and contributions	376	(2,873)
Other current liabilities	642	
Cash generated from (used in) operations	<u>(365,067)</u>	<u>5,462</u>

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

	Six months ended	
	June 30,2011	June 30,2010 (Adjusted(*))
Profit / (loss) for the year	229,859	(237,788)
Adjustments for		
Deferred income tax and social contribution (Note 20 (a))	114,810	(82,318)
Depreciation and amortization (Note 23)	356,604	346,942
Loss on disposal of property, plant and equipment (see below)	3,189	11,617
Foreign exchange losses/(gains) and interest expense	(197,978)	401,495
Other provisions	74,578	113,599
Provision for contingencies	16,523	50,733
Stock options plan	10,199	11,176
Changes in working capital		
Financial assets measurement at fair value through profit and loss	51,984	(299,656)
Inventories	(10,138)	33,380
Accounts receivable	(170,332)	(349,944)
Taxes recoverable	(211,603)	(24,925)
Prepaid expenses	25,969	4,259
Prepaid aircraft maintenance	(17,562)	(21,099)
Other accounting receivables		36,947
Other receivables	29,008	
Accounts payable	28,138	(90,309)
Salaries and social charges	(8,287)	46,820
Taxes, charges and contributions	116,244	67,850
Deferred income	(190,765)	66,603
Other current liabilities	81,334	102,578
Derivative financial instruments	(39,129)	(64,905)
Payment – REFIS	(4,276)	
Cash generated from (used in) operations	<u>288,369</u>	<u>123,055</u>

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

	Six months ended	
	June 30,2011	June 30,2010
Net book amount – property, plant and equipment	4,803	30,439
Loss on disposal of property, plant and equipment	<u>(3,189)</u>	<u>(11,617)</u>
Proceeds from disposal of property, plant and equipment	<u>1,614</u>	<u>18,822</u>

28. Commitments and contingencies

(a) Operating lease commitments

TLA has obligations arising under operating lease contracts. The amounts of these commitments are not recorded in the financial statements. TLA has obligations arising from 69 aircraft under operating leases (12.31.2010 – 69 aircraft). These agreements have an average term of 97 months and are denominated in U.S. dollars with interest rates based on LIBOR. The lease expense, recognized in the consolidated statement of income in "Cost of services rendered", for period ended June 30, 2011 was R\$ 195,213 (June 30, 2010 – R\$ 228,987), equivalent to approximately US\$ 125,048 thousand (June 30, 2010 –US\$ 127,109 thousand), respectively.

(*) See note 3.

TAM S.A.**Notes of the interim financial statements**

(In thousands of Reais, unless otherwise indicated)

For most of the transactions, TAM has given letters of guarantee or deposits as a guarantee.

In addition, to meet the payment conditions established by contract, promissory notes guaranteed by Company were issued, totaling R\$ 7,542 at June 30, 2011 (12.31.2010 – R\$ 21,033).

Future aggregate payments denominated in US dollars under these contracts are as follows:

	<u>Monthly payments</u>	<u>June 30, 2011</u>	<u>December 31,</u>
In foreign currency – US\$ (*)			
Aircraft	2017	1,009,192	1,093,507
Engines	2014	<u>20,953</u>	<u>27,190</u>
Total		<u><u>1,030,145</u></u>	<u><u>1,120,697</u></u>

(*)Operating leases are denominated in U.S. dollars and the future aggregate payments are presented in R\$ translated at the period-end exchange rate.

Operating lease obligations fall due as follows:

<u>Year</u>	<u>June 30, 2011</u>	<u>December 31, 2010</u>
No later than one year	326,630	348,454
Later than one year and no later than five years	588,212	702,206
Later than five years	<u>115,303</u>	<u>70,037</u>
	<u><u>1,030,145</u></u>	<u><u>1,120,697</u></u>

(b) Commitments for future aircraft leases**(i) Airbus**

In 2005, the Company executed an amendment to an existing contract with Airbus for the firm order of 20 Airbus A320, the remaining nine of which are to be delivered in 2010, with an option for an additional 20 of the same aircraft family (including A319, A320 and A321). In 2006, the Company finalized a contract to acquire a further 37 Airbus aircraft (31 aircraft narrow body aircraft family A320 and six A330 aircraft), with the option for an additional 20, to be delivered in 2012 and 2013.

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, TLA confirmed the exercise of four options for Airbus A330, two delivered in the first half in 2010, and the other two to be delivered 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 anticipated delivery before the end of 2014.

On June 8, 2010, TLA, announced the order of additional 20 brand-new Airbus A320 family aircraft and five A350-900, thus increasing the total number of orders for Airbus aircraft to 176 – including 134 aircraft of A320 family, 15 A330-200 and 27 A350 WXB. The objective of this order is to meet the plan of fleet already disclosed by the Company in the year 2009. In respect of the 20 orders from A320 family (A319, A320 and A321), ten shall be delivered in 2014 and the remaining ten in 2015.

(ii) Boeing

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

In 2006, the Company ordered four Boeing 777-300ERs with options for four aircraft, which were converted to firm orders in 2007. Upon receipt of the four aircraft in 2008, the Company has signed an amendment to an existing contract for two more aircraft and has six firm orders outstanding contracted with Boeing for this type of aircraft, of which four are expected to be delivered in 2012 and two in 2013.

(iii) Fleet renewal and expansion

On February 28, 2011, the Company announced the order of 32 aircraft from the Airbus A320 family and two Boeing 777-300ER aircraft to prepare the Company to meet the expected growing demand for air travel. The combined value of these new orders, based on list prices, is approximately US\$ 3.2 billion. Of the 32 aircraft ordered from Airbus, 22 are new model A320neo and ten are from the A320 Family. The aircraft are scheduled to be delivered between 2016 and 2018.

The two Boeing 777-300ERs are expected to be delivered in 2014. This order of two more aircraft brings the total number of aircraft ordered from the U.S. manufacturer to eight, including four aircraft to be delivered in 2012 and the two in 2013. Once all the aircraft are delivered, we will have 12 Boeing aircraft in our fleet.

(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 June 30, 2011, 193 (12.31.2010 – 192) compensation payments have been 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 19.

(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. At June 30, 2011, the provision maintained by the Company totaled R\$ 3,273 (12.31.2010 – R\$ 4,355), recorded in "Taxes, charges and contributions".

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. Our policy is to only adjust the value of these claims for inflation at the time that payment is recorded in our financial statements.

(ii) Indemnification for losses on regulated fares

(* See note 3.

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

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 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 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”)

In 2001 TLA filed a claim addressing the legality of the additional airport tariffs (“ATAERO”), which represent an additional 50% on the tariff amount.

29. Segment reporting

The Company has two operating and reportable segments: Aviation operations and Loyalty Program operations (“Multiplus”). Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (“CODM”).

	June 30, 2011				
	<u>Aviation</u>	<u>Loyalty Program (Multiplus)</u>	<u>Total reported – Segment information</u>	<u>Eliminations</u>	<u>Consolidated</u>
Total assets	<u>18,155,339</u>	<u>1,013,420</u>	<u>19,168,759</u>	<u>(4,146,217)</u>	<u>15,022,542</u>

	December 31, 2010				
	<u>Aviation</u>	<u>Loyalty Program (Multiplus)</u>	<u>Total reported – Segment information</u>	<u>Eliminations</u>	<u>Consolidated</u>
Total do ativo	<u>17,821,680</u>	<u>1,437,896</u>	<u>19,259,576</u>	<u>(4,824,972)</u>	<u>14,459,063</u>

(* See note 3.

TAM S.A.**Notes of the interim financial statements**

(In thousands of Reais, unless otherwise indicated)

(a) Quarter ended at June 30, 2011 and 2010

	June 30, 2011				
	Aviation	Loyalty Program (Multiplus)	Total reported – Segment information	Eliminations	Consolidated
Revenue	3,090,417	285,063	3,375,480	(322,269)	3,053,211
Cost and operating expenses	(3,090,793)	(194,730)	(3,285,523)	247,928	(3,037,595)
Operating profit / (loss) before movements in fair value of fuel derivatives	(376)	90,333	89,957	(74,341)	15,616
Movements in fair value of fuel derivatives	(12,856)		(12,856)		(12,856)
Operating profit / (loss)	(13,232)	90,333	77,101	(74,341)	2,760
Finance income	766,795	33,974	800,769		800,769
Finance expense	(628,030)	(149)	(628,179)		(628,179)
Profit / (loss) before income tax and social contribution	125,533	124,158	249,691	(74,341)	175,350
Income tax and social contribution	(50,668)	(42,990)	(93,658)		(93,658)
Profit / (loss) for the period	74,865	81,168	156,033	(74,341)	81,692

TAM S.A.**Notes of the interim financial statements**

(In thousands of Reais, unless otherwise indicated)

June 30, 2010

	Aviation	Loyalty Program (Multiplus)	Total reported – Segment information	Eliminations	Consolidated
Revenue	2,644,339	93,508	2,737,847	(126,399)	2,611,448
Cost and operating expenses	(2,846,690)	(62,335)	(2,909,025)	298,979	(2,610,046)
Operating profit / (loss) before movements in fair value of fuel derivatives	(202,351)	31,173	(171,178)	172,580	1,402
Movements in fair value of fuel derivatives	(57,196)		(57,196)		(57,196)
Operating profit / (loss)	(259,547)	31,173	(228,374)	172,580	(55,794)
Finance income	349,219	3,877	353,096		353,096
Finance expense	(507,094)	(24)	(507,118)		(507,118)
Profit / (loss) before income tax and social contribution	(417,422)	35,026	(382,396)	172,580	(209,816)
Income tax and social contribution	53,075	(11,897)	41,178		41,178
Profit / (loss) for the period	(364,347)	23,129	(341,218)	172,580	(168,638)

(*) See note 3.

TAM S.A.

Notes of the interim financial statements

(In thousands of Reais, unless otherwise indicated)

(b) Six months ended June 30, 2011 and 2010

	June 30, 2011				
	Aviation	Loyalty Program (Multiplus)	Total reported – Segment information	Eliminations	Consolidated
Revenue	6,154,057	527,043	6,681,100	(585,360)	6,095,740
Cost and operating expenses	(5,987,572)	(353,150)	(6,340,722)	375,776	(5,969,945)
Operating profit / (loss) before movements in fair value of fuel derivatives	166,485	173,893	340,378	(214,584)	125,794
Movements in fair value of fuel derivatives	42,916		42,916		42,916
Operating profit / (loss)	209,401	173,893	383,294	(214,584)	168,710
Finance income	993,434	59,753	1,053,187		1,053,187
Finance expense	(795,298)	(744)	(796,042)		(796,042)
Profit / (loss) before income tax and social contribution	407,537	232,902	640,439	(214,584)	425,855
Income tax and social contribution	(115,150)	(80,846)	(195,996)		(195,996)
Profit / (loss) for the period	<u>292,387</u>	<u>152,056</u>	<u>444,443</u>	<u>(214,584)</u>	<u>229,859</u>

TAM S.A.**Notes of the interim financial statements**

(In thousands of Reais, unless otherwise indicated)

June 30 2010

	Aviation	Loyalty Program (Multiplus)	Total reported – Segment information	Eliminations	Consolidated (Adjusted (*))
Revenue	5,292,031	134,296	5,426,327	(211,035)	5,215,292
Cost and operating expenses	(5,507,528)	(92,180)	(5,599,708)	462,629	(5,137,079)
Operating profit / (loss) before movements in fair value of fuel derivatives	(215,497)	42,116	(173,381)	251,594	78,213
Movements in fair value of fuel derivatives	(46,587)		(46,587)		(46,587)
Operating profit / (loss)	(262,084)	42,116	(219,968)		31,626
Finance income	865,149	4,235	869,384		869,384
Finance expense	(1,207,360)	(56)	(1,207,416)		(1,207,416)
Profit / (loss) before income tax and social contribution	(604,295)	46,295	(558,000)	251,594	(306,406)
Income tax and social contribution	84,303	(15,685)	68,618		68,618
Profit / (loss) for the period	(519,992)	30,609	(489,383)	251,594	(237,788)

(*) See note 3.

TAM S.A.**Notes of the interim financial statements**

(In thousands of Reais, unless otherwise indicated)

30. Events occurring after the reporting period**TRIP Linhas Aéreas**

On March 29th, 2011 together with TRIP Linhas Aéreas we signed a Term Sheet, with no binding effect, in order to acquire the a minority stake in TRIP representing 31% of its total capital stock and 25% of its voting capital stock and the remaining in preferred shares.

TRIP concluded last week, the implementation of a new technology platform for reservations, sales and check-in. This platform will allow the expansion and consolidation of the codeshare agreement between the companies.

We inform that the due diligence process was complete and satisfactory. We will keep our shareholders and the market informed about the possible conclusion of the negotiations.

Advance for the purchase of air tickets

On August 8, 2011, the Company and Multiplus (subsidiary) have agreed to make an advance for the purchase of air tickets for future delivery, totaling R\$ 400 millio, with a discount on the price established in the_agreement_based_on_market_conditions.

Management Report

Gross Revenue

Increase of 16.5% in 2Q11 compared to 2Q10, reaching R\$ 3,175.1 million, due to:

Domestic Revenue

Revenues from our domestic passenger business increased by 3.1% to R\$1,472.0 million in the second quarter 2011. This was due to a 30.5% increase in RPKs, combined with a 21% decrease in yield. Our supply in ASKs rose 15.4%, increasing the load factor by 8.0 p.p., to 69.2%. The combination of these factors led our RASK to decrease 9.9% to R\$11.7 in the second quarter 2011. The creation of Multiplus encourage the use of award tickets and this revenue is eliminated in the consolidation of companies, but the ASK and RPK are registered, as a result we see a dilution in both yield and RASK.

International Revenue

Revenues from our international passenger increased by 18.2% to R\$865.4 million in the second quarter 2011. This was a result from a 21.1% growth in demand measured in RPKs, combined with an increase in our international yield in dollar of 9.6%. Expressed in Reais, our scheduled international yield decreased by 2.4%. The increase in supply was 13.6%, which raised our load factor by 5.1 percentage points to 81.4% in the quarter. As a result our RASK in dollars raised 16.9%, while in reais the increase was of 4.1%.

Cargo Revenue

Revenues from our cargo business increased by 4.2% to R\$296.9 million in the second quarter of 2011, as a result of a 10.3% increase in our domestic cargo business and a 0.6% decrease in our international cargo business, due to the appreciation of the real by 11% when comparing the average value of the real in the second quarter of, 2011 and 2010.

Other Revenues

Revenues from our other businesses increased by 92.4% to R\$540.9 million in the second quarter 2011, primarily due to the creation of our subsidiary Multiplus S.A. in February 2010, which generated a revenue of R\$265.9 million, an increase of 285% comparing with the second quarter of 2010.

Operational expenses

Our operating expenses increased by 16.4% to R\$3,037.6 million in the second quarter of 2011, due to the increase in fuel expenses, personnel expenses, outsourced services and others expenses. Our operating expenses per ASK, or CASK, increased 1.5% to R\$15.6, and CASK excluding fuel expenses decreased 3.5% to R\$10.0 cents.

Fuel

Fuel expenses increased by 28.1% to R\$1,085.4 million in the second quarter, 2011, primarily due to a 9.8% increase in the average fuel price per liter, related to an increase of 31.1% in the average price per barrel of WTI oil. Also, we had an increase of 16.8% in liters consumed, due to the 9.1% increase in flown hours and 6.8p.p. increase in the load factor. These factors were partially offset by an increase of 0.9% in the stage length (which is the average distance flown, per flight), and an 11% appreciation of the real against the U.S. dollar, besides the impact of the PIS and COFINS credit of R\$143 million, according to note 8 to our financial statements. Fuel expenses per ASK increased by 11.7%.

Sales and marketing

Sales and marketing expenses increased by 6.3% to R\$239.8 million, representing 7.6% of our gross revenue in the second quarter of 2011, compared to 8.3% in the second quarter of 2010, primarily due to our new assisted sales method for international flights implemented in October 2010. Previously, travel agent compensation was included in the total price of flights, but under our new assisted sales method, service fees for assisted sales channels in Brazil are paid directly by passengers at the time of purchase. Sales and marketing expenses per ASK decreased by 7.3%.

Aircraft, engine and equipment leasing

Leasing of aircraft, engine and equipment expenses decreased by 8.7% to R\$110.5 million in the second quarter 2011, mainly due to the appreciation of the real by 11%. This decrease was partially offset by three

TAM S.A.

Comments on performance

additional aircraft (excluding ATRs) classified as operating leases. Leasing of aircraft, engine and equipment expenses per ASK decreased by 20.4%.

Personnel

Personnel expenses increased by 25.1% to R\$668.6 million in the second quarter 2011, principally due to an 11.6% increase in the number of employees and an 8.75% increase in wages negotiated in the end of 2010. Personnel expenses per ASK increased by 9.0%.

Maintenance and repair (except personnel)

Maintenance and repair expenses (excluding personnel expenses) decreased by 27.7% to R\$124.5 million in the second quarter 2011, principally due to the 11% appreciation of the real against the U.S. dollar and a 0.9% growth in stage length during the second quarter 2011, besides the impact of relocation of 34 engines from the contract mode "Time Material" to "Power by the Hour". This decrease was partially offset by 13 aircraft increase in our fleet, and a 9.1% increase in total flown hours. Maintenance and repair expenses (excluding personnel expenses) per ASK decreased by 36.9%.

Third party services

Third-party services expenses increased by 16.6% to R\$225.0 million in the second quarter 2011, mainly due to: i) an increase in GDS costs due to the increase of 24.7% in the volume of passengers transported and ii) increase in handling costs related to the increase of our operation, mainly in the international market. Third-party services expenses per ASK increased by 1.6%.

Landing, take-off and navigation charges

Take-off, landing and navigation charges increased by 10.8% to R\$155.3 million in the second quarter 2011, due to a 13% increase the number of take-offs and a 9.1% increase in flown hours, along with our expansion in the international market, where fees are higher. This increase was partially offset by 11% appreciation of the real against the U.S. dollar during the second quarter of 2011, comparing with the same period last year, which impacted fees for international flights. Take-off, landing and navigation charges per ASK decreased by 3.4%.

Depreciation and amortization

Depreciation and amortization expenses increased by 12% to R\$186.7 million in the second quarter 2011, principally due to the addition of 10 new aircraft to our fleet classified as financial leases, partially offset by the change in our accounting policies as to the determination of the estimate useful life of our fixed assets (since the fourth quarter of 2010), Depreciation and amortization expenses per ASK decreased by 2.4%.

Aircraft insurance

Aircraft insurance expenses decreased by 3.9% to R\$12.7 million in the second quarter 2011, principally due to an 11% appreciation of the real against the U.S. dollar and to the negotiation of more favorable contractual conditions, compared to 2010. This reduction was partially offset by (i) the addition of 13 aircraft to our fleet, (ii) a 24.7% increase in the number of passengers transported, and (iii) a 13% increase in take-offs during the second quarter 2011. Aircraft insurance expenses per ASK decreased by 16.3%.

Other

Other expenses increased by 16.6% to R\$229.2 million in the second quarter 2011, mainly due to increased on board services costs, associated with the 24.7% increase in the number of passengers. Other expenses include general provisions, passenger-related expenses (including food and lodging expenses relating to cancelled flights), interrupted flight expenses, crew-related expenses and other expenses. Other expenses per ASK increased by 1.7%.

Movements in fair value of fuel derivatives

Fuel derivatives gains (losses) resulted in a net loss of R\$12.9 million for the second quarter 2011 against a net loss of R\$57.2 million in the second quarter 2010. The details are available below in the section: Financial result and fuel derivatives.

Net Financial Result

Financial income of R\$ 172.6 million in 2Q11 against an expenditure of R\$ 154.0 million in 2Q10. The details are available below in the section: Financial result and fuel derivatives.

Net income

TAM S.A.
Comments on performance

Net income of R\$ 60.3 million due to the above explained, which represented a margin of 2.0% in the 2Q11, versus a negative margin of 6.7% in the 2Q10.

EBIT

Our EBIT margin reached 0.5% to R\$ 15.6 million in the 2Q11, representing an increase of 0.5 percentage points compared to 2Q10, as a consequence of the increase of 16.9% on net revenue and 16.4% on operational expenses.

EBITDAR

The EBITDAR margin reached 10.2% to R\$ 312.8 million in 2Q11, representing an 8.2% growth compared to 2Q10, mainly due to all the factors described above about revenues and expenses.