



## ANDRÉ WHITAKER SALLES

TRADUTOR PÚBLICO E INTÉRPRETE COMERCIAL - CERTIFIED PUBLIC TRANSLATOR

Idioma: Inglês - English

Matrícula Jucesp nº 612 - CPF 579.221.441-72 - CCM 2.397.020-0  
Praça da Sé, nº 21 - Conj. 1101 - Centro - São Paulo, SP - CEP 01001001  
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THE UNDERSIGNED, PUBLIC TRANSLATOR, DULY SWORN AND REGISTERED WITH THE BOARD OF TRADE OF THE STATE OF SÃO PAULO UNDER Nº 612 CERTIFIES THAT A DOCUMENT, WRITTEN IN PORTUGUESE WAS PRESENTED FOR TRANSLATION INTO ENGLISH, WHICH HAS BEEN DONE TO THE BEST OF HIS KNOWLEDGE AS FOLLOWS:

**TAM S.A**  
**TAM S.A. and its subsidiaries**  
**Separate and Consolidated Financial Statements**  
**On December 31, 2013.**  
**and Public Accountants Report**  
**TAM S.A**  
**TAM S.A. and its subsidiaries**  
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### TAM S.A

#### TAM S.A. and its subsidiaries

#### Balance Sheet on December 31, 2013 and 2012

(Amounts in thousands of Brazilian reais)

	Note	2013	Holding 2012
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents	6	251	150
Financial Assets measured at the fair value by the income.	4.3 (a)	5,105	5,289
Taxes recoverable		2,593	2,593
Recoverable Income Tax And Social Contribution		30,150	37,840
Related parties	10 (a)	4,002	
Other Accounts Receivable		551	440
		42,652	46,312
<b>Non-current</b>			
<b>Long-term receivables</b>			
Deferred Income Tax And Social Contribution	22	41,560	74,874
Related parties	10	182	182
Dividends receivable	10	15,226	15,226
Court deposits		1,117	909
		58,085	91,191
Investments	15 (a)	1,103,073	157,571
Fixed Assets		103	123
Intangible	17 (a)	163,189	
		1,324,450	248,885
<b>Total assets</b>		<b>1,367,102</b>	<b>295,197</b>
<b>Liabilities</b>			
<b>Current</b>			
Suppliers		3,393	243
Salaries and social burdens		5,874	6,154
Deferred income		6	6
Taxes and fees payable		15,127	15,858
Dividends payable		858	861
Related parties	10	715	1,410
Other Accounts Payable		461	70
		26,434	24,602



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<b>Non-current</b>				
Provisions			287	287
Related parties	10		199,595	
Provision for investment losses	15 (a)			1,214,007
			199,882	1,214,294
<b>Total Liabilities</b>			226,316	1,238,896
<b>Net worth (unsecured liabilities)</b>				
Corporate Capital	23 (b)		4,453,926	830,768
Capital Reserve			151,313	147,771
Accrued loss			(3,991,549)	(2,487,638)
Adjustment on Assets Evaluation			527,096	565,400
			1,140,786	(943,699)
<b>Total liabilities and net worth (unsecured liability)</b>			1,367,102	295,197

Management explanatory notes are integral part to the financial statements.

	Note	2013	Consolidated 2012
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents	6	688,500	654,553
Financial Assets measured at the fair value by the income.	4.3 (b)	1,526,697	897,428
Financial assets maintained up to the maturity.			150,426
Accounts Receivable	7	2,275,828	1,592,477
Inventories	8	358,438	262,419
Taxes recoverable	9	161,465	114,680
Recoverable Income Tax And Social Contribution		76,192	117,494
Deposits in warranty.	13	47,193	47,210
Maintenance prepayment	14	357,943	256,557
Expenses from subsequent year		86,885	59,047
Related parties	10	1,092,654	71,780
Derivative financial instruments	11		3,315
Other Accounts Receivable		127,399	86,097
		6,799,194	4,313,483
<b>Non-current assets available for sale</b>	12	4,151	18,221
<b>Non-current</b>			
Long-term receivables			
Restrict cash		27,531	59,965
Related parties	10	2,662,567	70,715
Deferred Income Tax And Social Contribution	22	694,234	266,587
Deposits in warranty.	13	75,594	35,077
Maintenance prepayment	14	181,445	301,006
Derivative financial instruments	11		2,286
Other Accounts Receivable		25,579	38,272
		3,666,950	773,908
<b>Investments</b>	15 (b)	7,083	4,369
Fixed Assets	16	6,721,487	9,132,284
Intangible	17 (b)	545,672	599,126
		10,941,192	10,509,687



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<b>Total assets</b>				17,744,537	14,841,391

**TAM S.A**  
**TAM S.A. and its subsidiaries**  
**Balance Sheet on December 31, 2013 and 2012**  
 (Amounts in thousands of Brazilian reais)

	Note	2013	Consolidated 2012
<b>Liabilities</b>			
<b>Current</b>			
Suppliers		944,079	840,872
Financial liability	18	1,883,780	2,250,932
Salaries and social burdens		545,215	499,950
Deferred income	19	3,361,516	2,912,787
Taxes and fees payable		446,175	417,049
Related parties	10	1,254,631	93,701
Derivative financial instruments	11	3,870	48,772
Tax recovery program		41,326	39,206
Other Accounts Payable	20	470,018	384,384
		8,950,610	7,487,653
<b>Non-current</b>			
Financial liability	18	5,794,366	6,665,761
Related parties	10	6,100	
Dividends payable		861	861
Derivative financial instruments	11		13,267
Deferred income	19	178,930	188,422
Provisions	21	386,284	353,439
Tax recovery program		406,284	423,186
Other Accounts Payable	20	825,906	609,412
		7,598,731	8,254,348
<b>Total Liabilities</b>		16,549,341	15,742,001
<b>Net worth (unsecured liabilities)</b>			
Corporate Capital	23 (b)	4,453,926	830,768
Capital Reserve		151,313	147,771
Accrued loss		(3,991,549)	(2,487,638)
Adjustment on Assets Evaluation		527,096	565,400
		1,140,786	(943,699)
Non-controlling stockholders share		54,410	43,089
<b>Total net worth (unsecured liability)</b>		1,195,196	(900,610)
<b>Total liabilities and net worth (unsecured liability)</b>		17,744,537	14,841,391

**TAM S.A**  
**TAM S.A. and its subsidiaries**  
**Income Statement of the year**



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### Years ended on December 31, 2013 and 2012

(Amounts in thousands of Brazilian reais)

	Note	2013	Holding 2012	2013	Consolidated 2012
<b>Net Income</b>	27			15,034,851	13,791,513
Operational costs and expenses	28	(57,117)	(159,901)	(15,510,872)	(14,413,395)
Results from controlled equity adjustment	15	(1,444,083)	(1,242,665)	(8,314)	(2,203)
<b>Operational loss before the variations of the fuel derivatives fair value.</b>		(1,501,200)	(1,402,566)	(484,335)	(624,085)
Fair value variations of fuel derivatives				5,671	(31,018)
<b>Operational losses</b>		(1,501,200)	(1,402,566)	(478,664)	(655,103)
Financial income	30	3,872	22,668	1,122,611	2,265,065
Financial expenses	30	(13,231)	(8,351)	(2,388,189)	(3,269,823)
<i>Derivative designated as hedge of cash flow</i>	30			(16,326)	17,715
<b>Loss before income tax and social contribution</b>		(1,510,559)	(1,388,249)	(1,760,568)	(1,642,146)
Income Tax And Social Contribution	22 (a)	4,948	44,899	319,493	359,805
<b>Losses of the year</b>		(1,505,611)	(1,343,350)	(1,441,075)	(1,282,341)
<b>Attributed to</b>					
TAM S.A. stockholders				(1,505,611)	(1,343,350)
Non-controlling stockholders				64,536	61,009

	2013	Holding 2012	2013	Consolidated 2012
<b>Losses of the year</b>	(1,505,611)	(1,343,350)	(1,441,075)	(1,282,341)
<b>Other components of comprehensive income</b>				
Gain on investment conversion abroad	1,302	6,685	1,371	7,038
Cash flow Hedge recognized in other comprehensive results	34,264	(73)	47,034	(298)
Cash flow Hedge performed by results	(7,573)	(3,572)	(10,395)	(4,896)
Deferred Income tax and social contribution on cash flow hedge	(9,075)	1,239	(12,457)	1,766
<b>Total Other components of comprehensive income</b>	18,918	4,279	25,553	3,610
<b>Total on the comprehensive results of the year</b>	(1,486,693)	(1,339,071)	(1,415,522)	(1,278,731)
<b>Attributed to</b>				
TAM S.A. stockholders			(1,486,693)	(1,339,071)
Non-controlling stockholders			71,171	60,340

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TAM S.A. and its subsidiaries  
Statement of changes in net worth position  
Years ended on December 31, 2013 and 2012  
(Amounts in thousands of Brazilian reais)

	Attributed to TAM stockholders						Non-controlling	Total
	Corporate Capital	Capital Reserve	Profits Reserve	Adjustment on Assets	Accrued loss	Total		Total



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					Evaluation			interest	
<b>On January 1st, 2012</b>	819,892	140,414	191,595		562,491		1,714,392	71,303	1,785,695
Losses of the year						(1,343,350)	(1,343,350)	61,009	(1,282,341)
<b>Other comprehensive incomes</b>									
Gain on investment conversion abroad					6,685		6,685	353	7,038
Cash flow hedges					(73)		(73)	(225)	(298)
Cash flow Hedge performed by results					(3,572)		(3,572)	(1,324)	(4,896)
Deferred income tax and social contributions - actual					1,239		1,239	527	1,766
<b>Total of Comprehensive results</b>					4,279	(1,343,350)	(1,339,071)	60,340	(1,278,731)
<b>Stockholders contribution and distribution to stockholders:</b>									
Recapitalization	10,876						10,876		10,876
Multiplus dividends distribution paid to non-holding								(93,897)	(93,897)
Capital gain on disposal of shareholding - Multiplus					6,034		6,034	3,131	9,165
Written off of the revaluation reserve - land					(5,907)		(5,907)		(5,907)
Realization of revaluation reserve					(1,497)	1,497			
Stocks compensation plan		11,097					11,097	2,212	13,309
Compensation plan based on stocks - transfer to liabilities		(6,299)					(6,299)		(6,299)
Cancelling of stocks in treasury		2,559	3,790				6,349		6,349
Cancelling of outstanding stocks			(344,717)				(344,717)		(344,717)
Absorption of reserve by losses of the year			149,332			(149,332)			
<b>Total Stockholders contribution and distribution to stockholders:</b>	10,876	7,357	(191,595)		(1,370)	(147,835)	(322,567)	(88,554)	(411,121)
<b>On December 31, 2012.</b>	830,768	147,771			565,400	(1,491,185)	52,754	43,089	95,843
Adjustment regarding deferred income (i)						(996,453)	(996,453)		(996,453)
<b>On December 31, 2012.</b>	830,768	147,771			565,400	(2,487,638)	(943,699)	43,089	(900,610)



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(i)After TAM and LAN combination, reviews were carried out in several procedures adopted by both Companies in order to identify the best practices and best solutions from systems view. Income recognition was among the areas analyzed. Company has developed before the suppliers a new tool of extraction of the tickets inventory. After detailed analyzes of such extraction differences were identified affecting the historic balance of the deferred income (transportation to be flown) recognized in the financial statements of the previous years for R\$ 1,102,930 (R\$ 975,643 net of the effect of change in the recognition policy of the income from tickets to be flown. The effects of such adjustment affected the following accounts: R\$ 97,671 as debt to "Accounts receivable" account, R\$ 151,829 as credit to "Anticipated Expenses (commissions and incentives)" account, R\$ 33,524 as debt to "Taxes and Rates payable", R\$ 975,643 as credit to "Deferred income" account, R\$ 176 as credit to "Other accounts payable" account and R\$ 1,123,740 as debit to net worth in account "Accrued Losses" (R\$ 996,453 net of the effects of change in recognition policy of the income from tickets to be flown. In view of the changes in the booking system (SABRE to AMADEUS at the end of 2009) and the change on income recognition system during 2009 and 2010, as well as the systemic limits on the replaced modules, the effects determination was unfeasible in respect to the periods prior to December 31, 2012. For the same reasons described above, the determination of any tax effects was unfeasible on such identified adjustments. Consequently, Company concluded that the proper way to reflect such adjustment is to record such amount on the opening balance of the accrued loses on December 31, 2012 as determined by 44 paragraph of CPC 23 - Accounting Policies, Changes on Estimates and Remedy of Error and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors.

**TAM S.A**

**TAM S.A. and its subsidiaries**

**Statement of changes in net worth position**

**Years ended on December 31, 2013 and 2012**

(Amounts in thousands of Brazilian reais)

	Attributed to TAM stockholders						Non-controlling interest	Total
	Corporate Capital	Capital Reserve	Adjustment on Assets Evaluation	Accrued loss	Total			
<b>On December 31, 2012.</b>	830,768	147,771	565,400	(2,487,638)	(943,699)	43,089	(900,610)	
Losses of the year				(1,505,611)	(1,505,611)	64,536	(1,441,075)	
<b>Other comprehensive incomes</b>								
Gain on investment conversion abroad			1,302		1,302	69	1,371	
Cash flow hedges			34,264		34,264	12,770	47,034	
Cash flow Hedge performed by results			(7,573)		(7,573)	(2,822)	(10,395)	
Deferred income tax and social contributions - actual			(9,075)		(9,075)	(3,382)	(12,457)	
<b>Total of Comprehensive results</b>			18,918	(1,505,611)	(1,486,693)	71,171	(1,415,522)	
<b>Stockholders contribution</b>								



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<b>and distribution to stockholders:</b>								
Capital increase - Note 23 [b]	3,623,486					3,623,486		3,623,486
Adjustment of corporate capital - Note 23 [b]	(328)			328				
Investment Acquisition – ABSA			(56,269)			(56,269)		(56,269)
Multiplus dividends distribution paid to non-holding							(61,071)	(61,071)
TAM Airlines holding dividends distribution paid to non-holding							(235)	(235)
Gain on disposal of Multiplus shareholding			419			419	136	555
Realization of revaluation reserve			(1,372)		1,372			
Stocks compensation plan		3,542				3,542	1,320	4,862
<b>Total Stockholders contribution and distribution to stockholders:</b>	3,623,158	3,542	(57,222)	1,700		3,571,178	(59,850)	3,511,328
<b>On December 31, 2013.</b>	4,453,926	151,313	527,096	(3,991,549)		1,140,786	54,410	1,195,196

**TAM S.A.**  
**TAM S.A. and its subsidiaries**  
**Cash flow statements - indirect method**  
**Years ended on December 31, 2013 and 2012**  
**(Amounts in thousands of Brazilian reais)**

	2013	Holding 2012
Losses of the year	(1,505,611)	(1,343,350)
<b>Income adjustments</b>		
Deferred income tax and social contributions (Note 22)	(4,948)	(44,899)
Depreciation and amortization	13	18
Interest and exchange variations on assets and liabilities	11	4,741
Results from equity adjustment	1,444,083	1,242,665
Provision for contingencies		168
<b>Variations on current assets</b>		
Financial Assets measured at the fair value by the income.	184	324,836
Tax Recoverable / Income Tax And Social Contribution recoverable	7,690	306
Court deposits	(208)	(362)
Related parties	101,304	1,637
Other Accounts Receivable		(229)
Other assets	(114)	
Suppliers	3,150	(249)
Salaries and social burdens	(280)	2,292
Taxes and fees payable	(731)	1,303
Deferred income		6
Other Accounts Payable	387	40





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<b>Cash generated by (invested on) operations</b>		44,930	188,730
Interest paid			(12,727)
<b>Net cash generated by operational activities</b>		44,930	176,003
<b>Cash Flow of the Investment Activities</b>			
Capital increase - Tam S.A.			10,876
Disposal of Multiplus stocks - exercise of options			6,034
Advancements for future recapitalization - AFAC	(3,835,717)		(112,000)
Dividends received from <i>Multiplus subsidiary</i>	164,033		
Dividends received from <i>TAM Airlines subsidiary</i>	4,452		
Investment Acquisition - ABSA	(1,083)		
Dividends and interests on received equity			423,282
Fixed assets purchase			(39)
<b>Net cash used in (generated by) investment activities</b>	(3,668,315)		328,153
<b>Cash Flow of the Financing Activities</b>			
Capital increase - Tam S.A. Note 23 (b)	3,623,486		6,349
Cancelling of outstanding stocks - TAM S.A.			(344,717)
Debentures - payment			(166,667)
<b>Net cash generated by (used on) financing activities</b>	3,623,486		(505,035)
<b>Increase in cash and cash equivalents</b>	101		(879)
<b>Cash and cash equivalents in the beginning of the year</b>	150		1,029
<b>Cash and cash equivalents at the end of the year</b>	251		150

### TAM S.A

#### TAM S.A. and its subsidiaries

#### Cash flow statements - indirect method

Years ended on December 31, 2013 and 2012

(Amounts in thousands of Brazilian reais)

	2013	Consolidated 2012
Losses of the year	(1,441,075)	(1,282,341)
<b>Income adjustments</b>		
Deferred income tax and social contributions (Note 22)	(440,037)	(476,189)
Depreciation and amortization [Note 28]	719,796	776,798
Write off of financial leasing operations	(1,168,325)	501,848
Results from fixed assets disposal [ Note 31]	1,823,620	1,184,278
Results from non-current assets disposal available for sale	1,728	
Interest and exchange variations on assets and liabilities	1,285,364	101,236
Other Provisions	48,869	2,203
Results from Equity accounting (Note 15).	8,314	267,473
Provisions for contingencies (Note 21)	139,986	13,309
Compensation plan based on stocks	4,862	(6,299)
Non-effective portion of hedge operations	(16,326)	(37,639)
<b>Variations on current assets</b>		
Financial Assets measured at the fair value by the income.	(629,269)	787,505
Inventories	(102,950)	(49,355)



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Accounts Receivable:		(625,426)	235,373
Taxes recoverable		26,100	261,782
Expenses from subsequent year		(27,599)	62,931
Maintenance prepayment		18,175	(9,701)
Related parties		(42,353)	(48,215)
Court deposits		(38,862)	(219,237)
Other Accounts Receivable		4,792	(700)
Other assets		(24,598)	
Suppliers		59,999	195,192
Salaries and social burdens		(6,930)	(14,043)
Taxes and fees payable		144,614	124,225
Deferred income		439,237	328,974
Other liabilities		302,128	
Other Accounts Payable		(121,777)	356,291
Derivative financial instruments		397	53,559
Tax Recovery Program (Refis) - Payment		(40,186)	(49,806)
<b>Cash generated by (invested on) operations</b>		<b>302,268</b>	<b>3,059,452</b>
Taxes paid		(118,184)	(77,374)
Interest paid		(409,304)	(431,124)
<b>Net cash used in (generated by) investment activities</b>		<b>(225,220)</b>	<b>2,550,954</b>
<b>Investments Cash Flow</b>			
Investment Acquisition - ABSA		(1,083)	
Cash Acquisition - ABSA		23,381	
Prismah Fidelização S.A. Investment (Note 15 (b))		(11,028)	10,876
Financial assets maintained up to the maturity.		150,426	
Investment in restrict cash		32,434	(6,572)
Financial assets maintained up to the maturity.			33,859
Related parties		(2,314,185)	(12,417)
Funds received from ( invested on) fixed assets sale [Note 31]		62,787	(584)
Funds received from sale of non-current assets available for sale		13,316	
Acquisition of fixed assets		(79,940)	(707,127)
Intangible acquisitions		(67,737)	(98,952)
Deposit in guarantee - refund		17,371	35,879
Deposit in guarantee - deposits made		(60,219)	(59,563)
Aircrafts prepayments - refund		447,823	450,987
Aircrafts prepayments - payments		(143,548)	(383,157)
<b>Net cash used in investment activities</b>		<b>(1,930,202)</b>	<b>(736,771)</b>
<b>Cash Flow of the Financing Activities</b>			
Capital increase - TAM S.A.		3,623,486	
Disposal of TAM S.A. stocks - exercise of options		555	6,349
Capital increase of Multiplus by non-holding stockholders - issuance of stocks in the exercise of stocks option.			9,165
Cancelling of outstanding stocks - TAM S.A.			(344,717)
Dividends and interests on equity paid to non-holding stockholders of Multiplus		(61,071)	(112,342)
Dividends and interests on equity paid to non-holding stockholders of TAM Airlines		(235)	
Short and long term loans - raising		200,000	
Short and long term loans - payments		(413,577)	(358,075)
Debentures - payment		(500,001)	(266,667)
Financial Leasing - payments		(659,788)	(743,424)
<b>Net cash generated by (used on) financing activities</b>		<b>2,189,369</b>	<b>(1,809,711)</b>
<b>Increase in cash and cash equivalents</b>		<b>33,947</b>	<b>4,472</b>



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Cash and cash equivalents in the beginning of the year		654,553		650,081
Cash and cash equivalents at the end of the year		688,500		654,553

### TAM S.A

#### TAM S.A. and its subsidiaries

#### Management Explanatory notes to financial statements

Year ended on December 31, 2013

(Amounts expressed in thousands of Brazilian reais, except as otherwise informed).

#### 1. Operational Context

TAM S.A ("TAM" or "Company" and its subsidiaries) was incorporated on May 12, 1997, which corporate object firstly was the direct interest on companies' capital dedicated to air transportation activity. Company is integral holding of TAM Linhas Aéreas S.A. ("TLA") operates mainly the regular lines of the passenger and cargo air transportation in the domestic territory and international and Pantanal Linhas Aéreas S.A. ("Pantanal"), operates mainly the regular lines of the passenger air transportation in Brazil and was incorporated by TLA in July 2013. It has 94.98% of Transportes Aéreos del Mercosur S.A. ("TAM Airlines"), regular flight company headquartered in Assumption, in Paraguay, operating in such country in addition to Argentina, Brazil, Chile, Uruguay and Bolivia and 72.85% of Multiplus S.A. ("Multiplus") which corporate object is the development and management of the customers loyalty programs. TAM is registered and domiciled in Brazil and has the main office at Av. Jurandir, 856, Lote 4, primeiro andar, São Paulo, SP. On June 22, 2012, after concluding successfully the Public Offer for Stocks Exchange for the Cancelling of Publicly-held Company Registration, Company has been controlled by Holdco I S.A. ("Holdco I"). Holdco I is controlled by TEP Chile S.A. and has 80.58% voting stocks of Holdco I.

Company by its subsidiary TLA, controls the companies TAM Capital Inc. ("TAM Capital"), TAM Capital Inc. 2 ("TAM Capital 2"), TAM Capital Inc 3 ("TAM Capital 3"), TAM Financial Services 1 Limited ("TAM Financial 1"), TAM Financial Services 2 Limited ("TAM Financial 2") e TAM Financial Services 3 Limited ("TAM Financial 3"), all headquartered in Cayman Islands which activities are related to the funds raising to finance the purchase of aircrafts. Funds raised by the subsidiaries are totally and unconditionally guaranteed by TAM. TLA is the holder of Fidelidade Viagens e Turismo Ltda. ("TAM Viagens") which corporate purpose is the exclusive development of the travels and tourism agency activities.

On February 1st, 2012, Company incorporated the corporation TAM MRO – Manutenção Aeronáutica S.A. ("TAM MRO") which purpose is rendering maintenance, repairs, and restoration services of aircrafts, engines, parts, accessories and equipment either its own or from civil or military third parties. TAM MIRO had no operational activities in the year ended on December 31, 2013.

On November 1st, 2013, TAM acquired the stocks of ABSA Linhas Brasileiras S.A. ("ABSA"), which purpose is the exploitation of regular air transportation services of passengers, cargo and mail freight; auxiliary air transportation services, cargo monitoring, operational dispatch of mercantile and operational leasing and aircrafts chartering, rendering of maintenance services and marketing of aircrafts parts and pieces.



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Company controls TP Franchising Ltda, which purpose is the franchise development.

### 1.1. Incorporation of Pantanal Linhas Aéreas

Company controls Pantanal Linhas Aéreas S.A. (Pantanal) since March 15, 2010, the date the purchase was approved by ANAC – Brazilian Civil Aviation Agency. (ANAC). On December 22, 2011, board of Directors approved the incorporation of subsidiary named Corsair Participações S.A. (“Corsair”). On December 27, 2011, Pantanal combination was approved by which the liabilities should be transferred to Corsair as subject to the payment in tax recovery proceeding. The effects of such operation were affective from March 28, 2012.

On November 30, 2012, Company approved in the General Extraordinary Meeting the Protocol and Justification of the Incorporation of Pantanal Linhas Aéreas S.A. On March 26, 2013, ANAC granted the prior authorization for incorporation. On July 23, 2013, the minutes of General Extraordinary Meeting was registered before the Board of Trade of the State of São Paulo (JUCESP). The reflex of such incorporation on Company’s financial statements is described in Note 17 (a).

### TAM S.A

#### TAM S.A. and its subsidiaries

#### Management Explanatory notes to financial statements

#### Year ended on December 31, 2013

(Amounts expressed in thousands of Brazilian reais, except as otherwise informed).

### 1.2. The acquisition of ABSA Linhas Brasileiras S.A

On October 23, 2012, Board of Directors approved the purchase of 2,707,135 preferred stocks and 1,353,567 common stocks issued by ABSA corresponding to 100% the corporate capital of such company.

On October 30, 2013 and November 1st, 2013, the stocks were transferred from ABSA stockholders to TAM. As of November 1st, 2013, ABSA become a company controlled by TAM S.A. Transaction amount was established on R\$ 4,061 corresponding to 100% ABSA corporate capital on October 31, 2013. ABSA unsecured liabilities was R\$ 52,208 on date of purchase. The premium determined on acquisition was R\$ 56,269.

The total paid by ABSA stocks was R\$ 4,061, as follows R\$ 1,083 to minority stockholders already paid, and R\$ 2,978 to Lan Cargo Overseas Limited that is recognized as accounts payable on December 31, 2013.

According to CPC 15 / IFRS 3 (R) - Business combination in the B.1 paragraph of appendix B, the business combination involving entities or business under joint control is the business combination wherein all entities or business thereof are controlled by the same party or parties before and after the business are combination, this is not a transitory control.

Taking into account ABSA was directly controlled before acquisition by Lan Cargo Overseas Limited and indirectly by LATAM Airlines Group S.A., there was no change on control. Therefore, such operation was classified as acquisition under joint control.

As consequence of the above, Company used the purchased balance at the books value to determine the operation premium. The unsecured liability difference and purchase value (premium at acquisition) was recognized for R\$ 56,269 as equity evaluation in the net worth.

Consolidated balances on January 1st, 2013 were:

R\$ thousand



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Assets		
<b>Current Assets</b>		
Cash and cash equivalents		23,381
Financial assets measured at fair value by results		4,011
Accounts Receivable		58,893
Related parties		86,921
Suppliers advances		1,477
Income tax and social contributions to be offset		31,583
Prepaid expenses		239
Other Accounts Receivable		5,070
		211,575
<b>Non-current assets</b>		
Court deposits		11,751
Investments		831
Fixed Assets		5,940
		18,522
<b>Total assets</b>		230,097

**TAM S.A**

**TAM S.A. and its subsidiaries**

**Management Explanatory notes to financial statements**

**Year ended on December 31, 2013**

(Amounts expressed in thousands of Brazilian reais, except as otherwise informed).

		RS thousand
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Suppliers		44,686
Salaries and social burdens		14,963
Taxes and fees payable		2,696
Related parties		163,566
		225,911
<b>Non-current liability</b>		
Provisions		51,841
Related parties		4,553
		56,394
<b>Total Liabilities</b>		282,305
<b>Unsecured liabilities</b>		
Corporate Capital		4,061
Accrued loss		(56,269)
<b>Total unsecured liabilities</b>		(52,208)
<b>Total liabilities and unsecured liability</b>		230,097

**1.3. Approval Of Financial Statements.**



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The issue of TAM and the controlled companies (holding and consolidated) financial statements was approved by the Company's Board of Directors on April 7, 2014.

### **2. Summary of main accounting policies**

The main accounting practices adopted to prepare the consolidated and separate financial statements are defined hereunder: Such policies are applied consistently in all previous years except as otherwise informed.

#### **2.1. Preparation base**

Financial statements preparation took into account the historic cost as the basis of amount and non-current assets available for sale and financial assets (including the derivative instruments) measured at fair value.

The financial statements preparation required the use of certain critical accounting estimates and the judgment by Management of the Company to establish the Company's accounting policies. The areas requiring the highest judgment level and having more complexity and the areas, which premise and estimates are significant to the consolidated financial statements are disclosed in Note 3.

The Company's financial statement comprises:

#### **(a) Separate Financial Statements**

TAM separate financial statements were prepared according to the accounting practices adopted in Brazil and issued by Accounting Pronouncements Committee ("CPCs").

Subsidiaries are booked by equity accounting method in the separate financial statements. The same adjustments were carried out in the separate financial statements and the consolidated financial statements in order to obtain the same results and net worth attributable to the holding's stockholders. Therefore, such financial statements differ from IFRS applicable to separate financial statements only on such subsidiaries investment evaluation by equity accounting method, while fair value or cost should be for IFRS purposes.

#### **(b) Consolidated Financial Statements**

The consolidated financial statements were prepared and are submitted according to the accounting practices adopted in Brazil issued by Accounting Statements Committee (CPCs) and the International Financial Reports Standards (IFRSs) issued by International Accounting Standards Board – IASB.

#### **(c) Changes on the accounting standards and disclosure.**

There is no new accounting pronouncement or interpretation in force form 2013 that could affect significantly the company's financial statements.

### **2.2 Consolidation**

The following accounting policies are applied to the preparation of the consolidated financial statements.

#### **(a) Subsidiaries**

Subsidiaries are all entities (including the specific purpose entity) wherein Company has the power to determine the financial and operational policies usually holding more than half the voting rights (voting capital). The existence and the effects of the potential vote rights, currently exercisable or convertible are taken into account when evaluation the TAM control on other entity. The subsidiaries are totally consolidated from the date the control is transferred to TAM and are not consolidated from the date such control terminates.

The controlled accounting practices are changed as required to ensure the consistency with the



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practices adopted by the Company.

The results of the subsidiaries acquired during the year are included in the consolidated statements of the results and the comprehensive results from the date of the effective acquisition. The comprehensive results balance and interests of non-controlling although resulting in negative balance of such interests are attributed to the Company's owners. When required, the subsidiaries financial statements are adjusted to adapt the accounting policies to those issued by the Company. The transactions, balances, non-realized gains originating from the transactions between the Company and the subsidiaries are eliminated. The non-realized losses are also eliminated, however, they are deemed an indication of the reduction on the realizable amount (impairment) of the transferred assets.

Company uses the acquisition method to record the business combination. The consideration transferred to the subsidiary acquisition is the fair value of transferred assets, incurred liabilities and equity instruments issued by the Group. The transferred consideration includes fair value of assets, and liabilities from the contingent counter entry agreement as applicable. Costs related to the acquisition are recorded in year's results as incurred. the identified assets acquired and liabilities and contingent liabilities undertaken in the business combination are measured firstly by the fair valued on the purchase date. Company recognizes the non-controlling interests in purchased both by the fair value and the prorated portion of the non-controlled interests in fair value of the purchased company's net assets. The measurement of the non-controlling interests is determined on each acquisition made.

The exceeding consideration transferred and the fair value on the acquisition date of any previous equity interests in the purchased company in respect to the fair value of the Group's interests in net assets identifiable and acquired is record as premium (goodwill). In the acquisitions that Group attributes the fair value to the non-controlling, the premium determination includes the value of any interest of the non-controlling in the purchased company. The premium is determined taking into account the Group's interests and non-controlling. If the consideration is lower than the fair value of the net assets of the purchased subsidiary, the difference is recognized directly in the income statement of the year.

**(b) Non-holding transactions and shares.**

Company handles the transactions with non-controlling interests as transactions with the owners of Company's assets. Regarding the purchase of the non-controlling interests, the difference between the paid consideration and the purchased portion of the accounting value of net assets of subsidiary is recorded in net worth. the gain or losses on the disposal of non-controlling interests are recorded directly in net worth in "equity evaluation adjustment".

**(c) Loss of control in subsidiaries**

When the Company loses the control, any withhold share in the entity is measured again on the fair value, and the change in the accounting value is recognized in the results. The fair value is the initial accounting value for subsequent booking of the withhold share in the associated company, joint venture or financial assets. Moreover, any amounts previously recognized in other comprehensive results related to such entity are recorded as the related assets and liabilities were directly disposed by the Company. This means, the amounts previously recognized in other comprehensive results are classified again in the results.

**(d) Jointly controlled enterprise (joint venture)**



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Joint ventures are all entities where in Company has the shared controlled with one or more parties. The investments in joint ventures are recorded by the equity accounting method. Company's shareholding in joint ventures is recognized in income statement. If the Company's share on joint venture's loss is equal to or higher than the investment accounting value, including any receivables, Company does not recognize the additional losses unless incurred in obligation or payment made on joint venture's behalf. (Note 15 (b))

**(e) Companies included in the consolidated financial statements.**

	Base date of financial statements	shareholding	% - shareholding	
			2013	2012
TLA	12/31/2013	Direct	100.00	100.00
TAM Viagens (i)	12/31/2013	indirect	100.00	99.99
TAM Capital (i)	12/31/2013	indirect	100.00	100.00
TAM Capital 2 (i)	12/31/2013	indirect	100.00	100.00
TAM Capital 3 (i)	12/31/2013	indirect	100.00	100.00
TAM Financial (i)	12/31/2013	indirect	100.00	100.00
TAM Financial 2 (i)	12/31/2013	indirect	100.00	100.00
TAM Financial 3 (i)	12/31/2013	indirect	100.00	100.00
Fundo Spitfire II (ii)	12/31/2013	indirect	100.00	100.00
TP Franchising	12/31/2013	Direct	100.00	100.00
TAM Airlines	12/31/2013	Direct	94.98	94.98
Multiplus	12/31/2013	Direct	72.85	72.87
Prismah Fidelidade S.A. (joint venture)	12/31/2013	indirect	50.00	50.00
Corsair	12/31/2013	Direct	100.00	100.00
Pantanal (iii)	12/31/2013			100.00
TAM MRO	12/31/2013	Direct	100.00	100.00
ABSA (iv)	12/31/2013	Direct	100.00	

- (i) Investments indirectly through TLA On December 2013, TAM Viagens changed the company's type from "limited liability company" to "corporation".
- (ii) Investment fund restricted to TAM and its subsidiaries. On December 31, 2013, TSA held 0.3% direct interest, 26.7%, 72.8%, 0.2% by TLA, Multiplus and TAM Airlines indirect interest, respectively.
- (iii) Pantanal was incorporated by TLA in July 2013.
- (iv) Company controlled by TAM from November 01, 2013.

**2.3. Conversion into foreign currency**

**(a) Functional Currency and presentation currency.**

The items included in the financial statement of each Company's entity are measured by the currency in the main economic environment where the entity does business (herein referred to as "functional currency"). The separate and consolidated financial statements are showed in Reais, the Company's functional currency. Origin country and functional currency of subsidiaries are showed hereunder:

Company	Location:	Functional currency
TLA	Brazil	Real
TAM Viagens	Brazil	Real
TAM Capital	Cayman Islands	Real
TAM Capital 2	Cayman Islands	Real
TAM Capital 3	Cayman Islands	Real
TAM Financial	Cayman Islands	Real
TAM Financial 2	Cayman Islands	Real





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TAM Finacial 3		Cayman Islands	Real
TP Franchising		Brazil	Real
Fundo Spitfire II		Brazil	Real
TAM Airlines		Paraguay	Guarani
Multiplus		Brazil	Real
Corsair		Brazil	Real
Prismah S.A.			
		Brazil	Real
ABSA		Brazil	Dollar

### (b) Transactions and balances

Foreign currency transactions are converted to functional currency of each company and records use the exchange rate in force on each transaction date. The monetary items in foreign currency are exchanged at the end of each report period by the closing rates.

Exchange gains and losses from the settlement of such transactions and the exchange rate conversion at the end of the year regarding the monetary assets and liabilities denominated in foreign currencies are recognized in income statement as financial income or expense, except when qualified as accounting hedge, therefore, deferred in equity as cash flow hedge operations.

### (c) Entity with different functional currency

The results and financial position of the entities with functional currency differing from the presentation are converted to the presentation currency as follows:

- Assets and liabilities of each submitted balance sheet are converted by the rate at the closing date of balance sheet.
- The results statements and the cash flows and all other assets and liabilities transaction of TAM Airlines and ABSA subsidiary (the subsidiary which functional currency differs from the Company's functional currency) are exchanged by the annual average exchange rate taking into account the amount close to the exchange rate in fore on the date of the correspondent transactions. The balance sheet is exchanges at the exchange rate at the conclusion of the year.
- The effects of the exchange rate variations during the year on the subsidiaries net worth at the beginning of the year are recorded as the net worth transaction in "Equity Evaluation Adjustment" likewise the difference between the accrued profits of the year exchanged at the average exchange rates and the exchange rate at the end of the year.
- The accrued exchange differences are showed as a separate component from other reserves. In any total or partial disposal of the Company or subsidiary's shareholding, by sale or from the capital reduction, the accrued exchange difference is recognized in the results statement as part of the profit or losses in the disposal.

### 2.4. Cash and cash equivalents.

Cash and cash equivalents include the money in cash, bank deposits, short-term and highly liquidity investments up to three months original maturities or shorter and subject to insignificant risk of change of the amount (Note 6).

### 2.5. Restrict cash

The restrict cash represents the guarantee deposits to guarantee certain hedge and long-term financing operations.

### 2.6. Financial assets

#### 2.6.1. Classification



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Company classifies the financial assets according to the following categories: fair value measured by the results, loans and receivables and maintained up to the maturity. The classification depends on the nature and purpose for the acquisition of the financial assets. Management determines the classification at the initial recognition.

**(a) Financial Assets measured at the fair value by the income.**

The financial assets measured at the fair value by the income are the financial assets maintained for negotiation. Financial assets are classified in this category when purchased mainly for short term sale. Derivatives are also classified as kept to the negotiation unless they are designated as the protection instruments (hedge). The assets in this category are classified as current assets.

The gains or losses arising from the variations on the fair value are recognized in the results statement under "Financial Income/ financial expense" title in the period they occur; unless the instrument had been contracted for other operation. In such event, the variations are recognized in the same income line booking the protected operation.

**(b) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed and determined payments and are not quoted in the active market. They are measured by the amortized cost amount using the actual interest method deducting any loss from reduction on the recoverable amount. Loans and receivables encompass the cash and cash equivalent, accounts receivables, other accounts receivable and restrict cash. They are classified in the current assets, except if the maturity date exceeds 12 months after the balance sheet date, which are classified as non-current assets.

**2.6.2. Recognition and measurement of the financial assets**

Regular purchases and sales of financial assets are recognized at the negotiation date. The financial assets at the fair value by means of the results are recognized by the fair value and the transaction costs are debited in the results statement. The financial assets are write-off when the rights to receive the cash flow of investments are due or are transferred, if the Company transferred significantly all the ownership risks and benefits. The financial assets measured at the fair value by the income are subsequently booked by the fair value. The loans and receivables are booked by the amortized cost using the effective interests' rate method.

The gains or losses arising from the variations on the fair value of the financial assets measured at the fair value by the income are submitted in the income statement in "Other net gains (losses)" in the period they occur.

The fair value of the investments with public quotation is based in the current purchase prices. If the financial assets market is not active, Company sets forth the fair value by means of the evaluation technique. Said techniques include using the recent operations contracted with third parties, the reference to other instrument being substantially similar, and the analysis of the discounted cash flow.

**2.6.3. Offset of financial instruments:**

The financial assets or liabilities are offset and the fair value is reported in the balance sheet, if there is the right to offset the recognized amounts and the intent to settle thereof on net basis or realize the assets and settle the liabilities simultaneously. On December 31, 2013 and 2012, there was no offset of financial instruments.

**2.7. Reduction to recoverable amount of the financial assets (impairment)**

Financial assets, except those designed by the fair value by means of the results, are evaluated by the



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reduction indicators on the recoverable amount at the end of each period. The losses by reduction of the recoverable amount are recognized if, and only if, any objective evidence exists on the reduction on the recoverable amount of the financial assets from one or more events already occurred, after the initial recognition, and affecting the estimated cash flow of such assets.

The criteria used to determine any objective evidence on the reduction of the value should include.

- Significant financial difficulties of the issuer or counterparty; or
- Breach of the agreement and the default or delay in interests and principal payment, or
- Probability of the debtor bankruptcy or financial reorganization, or
- Extinction of said financial assets market related to financial problems.
- The observed data indicates there is a measurable reduction on the future cash flows estimated from the financial assets portfolio from the initial recognition of such assets, although the reduction could not be identified with the separate financial assets in the portfolio, including:
  - Adverse changes in the payment condition of the borrowers in portfolio;
  - National or local economic conditions correlated to the defaults on assets in portfolio.

Loss amount by impairment is measured as the difference between assets booking amount and actual amount of estimated future cash flows (excluding the future credit losses that had not been incurred) deducting the interest rate in force and original of the financial assets. Assets booking amount is reduced and loss amount is recognized in the results statement. If a loan or investment kept up to the maturity shows variable interest rate, the deduction rate is actual interest rate determined according to the agreement to measure the impairment loss. Company should measure the impairment based on the fair value of the instrument using the observed market price.

If the loss amount by impairment in subsequent period is reduced, and such reduction could not be related objectively with the event taking place after the recognition of impairment (as improvement in debtor credit classification), the reversion of such previously recognized loss shall be recognized in results statement.

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### **2.8. Financial derivative instruments and hedge activities**

The derivative financial instruments are recognized initially by the fair value on the date the derivative agreement is signed and are subsequently measured at the fair value. The transactions costs are booked as expenses while they are incurred. Derivative financial instruments are classified in the current assets, except if the term exceeds 12 months after the balance sheet date, which are classified as non-current assets.

The method to recognize the resulting gain or loss depends on the derivative be designated (or not) as the protection instrument. Multiplus designates certain risks protection derivatives of exchange variation as highly likely of foreseen sale (cash flow hedge).

Any change in the fair value of the financial instruments that has not been designated as hedge for



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accounting purposes are recognized immediately in results.

**(a) Derivative financial instruments signed by TAM Linhas Aéreas**

Although TLA uses the derivatives to mitigate the economic effects of the variations in the exchange rate and the international oil prices, it is not applied to the hedge accounting. The changes on the fair value of the financial instrument are immediately booked against the results. TLA classifies no derivative instrument as fair value hedge or net investment hedge or cash flow hedge.

The gains and losses from the variations in the fair value of the fuel derivatives are submitted separately in the results statement.

**(b) Derivative financial instruments signed by Multiplus S.A.**

Multiplus designates certain risks protection derivatives of exchange variation as likely of foreseen sale (cash flow hedge).

Firstly, the derivative financial instruments are recognized initially by the fair value on the date the derivative agreement is signed and are subsequently evaluated at the fair value. The method to recognize the resulting gain or loss depends on the derivative be designated (or not) as the protection instrument (hedge) in any adoption by accountancy of the hedge (hedge accounting). Multiplus adopts the hedge accounting and designates certain derivatives as specific risk hedge associated to an assets or liability or operation foreseen as highly likely (cash flow hedge).

The need of adopting the hedge accounting takes into account that Multiplus invoicing is partially related to US dollar. The income recognition is made in respect to the mileage redemption curve. In any non-match between the accrual (invoicing and recognition of deferred income) of mileages, and actual redemption (recognition of income on income statement). Therefore, the main purpose of hedge accounting is the time compatibility between the hedge operations effects and accounting thereof, making expressly the accounting results close to the economic results. Moreover, in Highly effective hedge relation, the effects of the derivative fair value variations are expected to be mitigated on Company's financial results.

The cash flow from future sale of mileage by Multiplus to financial entities designated to hedge are deemed very likely operation and the derivative contracted for the coverage of exchange variation risks associated to such sales as cash flow hedge. Derivative financial instruments are recognized as assets or liabilities in balance sheet and measured at fair value. Changes on derivatives fair value attributed to the effective part of the coverage relation are recognized in other comprehensive income. The ineffective portion and time value that is no included in hedge relation is recognized directly in the income statement. The effective portion firstly recognized in net worth in other comprehensive income should be released or recognized in income statement when the covered item affects the income statement. However, when the covered item expires or coverage operation fails to comply with criteria for hedge accounting, any accrued gain or loss in net worth then remains in net worth until the scheduled transaction is finally recognized in income.

The gain or loss related to the ineffective portion is recognized immediately on income statement as financial income or financial expense, respectively. No significant portion of the ineffectiveness has been recognized in the income statement for submitted periods.

Multiplus documents at the beginning of each operation, the relation between protection documents and protected items, specifying the purpose of the risk management and strategies for hedge operations performance. Multiplus also records at the beginning and continuously the calculations and/or



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evaluations showing the hedge operations are highly effective in reducing the exchange risk associated to the protected items.

The calculation of fair value of derivatives is carried out based on the methodology widely accepted by marked for the options pricing, especially Black-Scholes model, and deducted cash flow for swaps and forwards. Significant data included in model were:

- Price of assets-object
- Exercise price
- Price volatility of assets-object
- Interests rate exempted from risk
- Duration time
- Interest rate in foreign currency

Instruments are deemed effective when the variation on derivatives amount offsets between 80% and 125% the effects of exchange variations on protected income.

The fair value calculation is carried out by external consultancy in order to obtain data from external and impartial source to company, using quotation by BMF&FBovespa and Central Bank of Brazil as information base.

Company classifies no derivative operation as fair value hedge or net investment hedge.

#### **2.9. Accounts Receivable**

Accounts receivables are recognized, in accounting, by the fair value initially, then evaluated by the amortized cost, using the effective interests' rate less the provision for the losses on the payment. In view of the short-term nature, the Company recognizes the Accounts Receivable by the original sale amount. The provision for the losses on such receivable accounts (provision for doubtful accounts) is established when the objective evidence exists that the Company should not collect all the payable amounts, according to the original terms of the accounts receivable.

Company establishes the doubtful account provisions for receivable amounts overdue for more than 180 days except the renegotiations and balances among related parties. The total provision for the losses is the difference between the accounting amount and the recoverable amount (Note 7)

#### **2.10. Inventories**

The inventories comprise mainly the spare parts and materials to be used on the maintenance and replacement activities, and showed at the average acquisition cost or the payment amount, net of the provisions to reduce the amount of obsolete items. (Note 8).

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#### **2.11. Non-current assets available for sale**

Non-current assets are classified as assets available for sale, if the account value is recoverable, mainly by sale, and such sale is actually established. Such assets are evaluated by the lower value between the accounting value and fair value less the sales cost (note 12)

#### **2.12. Intangible assets**



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### **(a) Software and information technology designs**

Expenses related to the software maintenance are recognized as expenses when incurred. The expenses directly related to the software directly developed include the materials, costs incurred with the software development companies, and other direct costs. They are capitalized as intangible assets when the future economic benefits generated thereby are probable and exceed the respective costs, taking into account the economic and technological feasibility. The software development costs recognized as assets are amortized using the linear method during the useful life, which is up to 5 years in general.

### **(b) Other intangible assets**

Including the amounts related to: (a) use right of the airport operation (slots) from the Pantanal acquisition in March 2010, based on the profitability estimates on the operation of the regular flights from the airports in the acquired right, (b) the acquisition of TAM trademark in July 2010 in the context of TAM acquisition and (c) licenses and other contractual rights acquired from third parties, which are not capitalized as intangible assets and amortized during the estimated useful life.

The intangible accounting amount is analyzed to check any reduction in the recoverable amount when the fact or changes on the circumstances indicate the accounting amount is not recoverable, or the intangible assets are not used or amortized yet.

### **(c) Premium**

(Goodwill) premium is represented by the positive difference between the amount paid and /or payable on the business acquisition and the net amount of the fair value of the assets and liabilities of purchased subsidiary. The premium from subsidiaries acquisitions is recorded as the intangible assets in consolidated financial statements. If there is any negative goodwill, the amount is recorded as gain in the period results on the acquisition date. The premium is tested annually in order to check the losses (impairment). Premium is recorded by the cost value less the losses accrued from impairment. Impairment losses recognized on premium are not reverted. Gains and losses from the entity disposal include the accounting value of premium related to the sold entity.

The premium appears in subsidiaries acquisition and represents the excessive consideration transferred by means of the Company's interests in the net fair value of net assets identifiable, liabilities and contingent liabilities of purchased entity, and the fair value of non-controlling interests in the acquisition.

For the purposes of impairment tests, goodwill acquired in the business activities concentration is attributed to each UGCs expected to benefit from the combination synergies. The goodwill allocated to each unit or units group represents the lower level in the entity wherein the goodwill is monitored for the internal management purposes. Premium is monitored at operational segment level.

Premium is tested annually or more frequently if the events or burdens in any circumstance indicate the potential impairment. The accounting value of the premium is compared to the recoverable amount, which is the higher amount of the use and fair value less the sales costs. Any deficiency is recognized immediately as the expense and is not reverted subsequently.

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### 2.13. Fixed Assets

Assets integrating the fixed assets including the rotables components are recorded by the acquisition or construction cost and include the interest and other financial burdens already capitalized. Depending on the assets and the acquisition time, the cost related to the historic acquisition cost, attributed cost, or historic acquisition cost adjusted by the hyperinflation effects during the years Brazil's economy was deemed hyperinflationary. Brazil was deemed a hyperinflationary economy up to 1997.

Lands are not subject to depreciation. Each assets component with significant cost in respect to the total assets is depreciated separately. Assets depreciation is recognized based on the useful life of each asset by the straight method, therefore the cost less the residual amount is fully amortized after the useful life. The estimated useful life, residual amounts, and depreciation methods are reviewed annually. The effects of any change are booked prospectively. The useful life of the fixed assets items are described in Note 16. The assets acquired through the financial leasing and rotables related to purchased engines and parts are depreciated by the shorter term between the useful life and term set forth in the leasing agreement.

According to IAS 16 - "Fixed Assets", the engines review includes the materials used (replacement parts) and service cost, which then are deemed as separate component and depreciated during the medium period expected for the next Overhaul. All other replacement parts and other costs related to the flight equipment maintenance, including all the amounts under the "power by the hour" maintenance agreements are recorded in the income statement when consumed or incurred, respectively and are described in item (b) to this note.

The accrued interest identified in the loans and directly attributed to the assets under construction including the advances for the acquisition of new aircrafts are capitalized and included in such assets costs up to the shorter date between the construction conclusion and the aircraft delivery.

The accounting amount of the assets is reviewed to check any loss on the recoverable amount when the events or changes in the circumstances indicate the accounting amount is higher than the estimated recoverable amount.

The fixed assets item is written-off after the disposal or no future economic benefit exist from the continued use of the assets. Any gain or losses on the fixed assets item sale or write-off are determined by the difference between the amounts receivable from the sale and the assets accounting amount and recognized in the results. When the revaluated assets are sold, the amount included in the revaluation reserve is transferred to accrued profits.

#### (a) Aircrafts prepayment

The advances made to the manufacturers for the aircrafts purchase (pre-delivery payments - PDPs), pursuant the purchase agreement, are originally in dollars and recognized in the financial statements by the paid amount exchanged at the exchange rate in force at the payment date. The cost to contract the loans are capitalized up to the delivery of the aircrafts, including the applicable interests and exchange differences incurred at the construction of the qualified assets.

If Company decides for the non-acquisition of the aircraft, but lease it, and there is an agreement that the PDPs should be reimbursed to Company, such amounts are reclassified in 'other accounts receivable' and adjusted to the current amount of the expected amount for reimbursement to



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Company. Such amount, when in foreign currency, is converted by the exchange rate in force on the financial statements date and any difference thereof is recognized in the results statement.

**(b) Maintenance of aircrafts and engines.**

Engines maintenance agreements support all significant activity of the engines maintenance. The basis to determine when the maintenance expenses were incurred depends on the nature of the services rendered

- Agreement designated as time and material: agreements amount that are payable to the maintenance providers and recognized in the results statement according to the maintenance activities effectively rendered. The costs incurred correspond to the effective amount of the time spent in the maintenance added to the materials cost and components used.
- Agreements designed as power-by-the-hour. the agreements that the amounts contractually determined are payable by the maintenance provider based on the flown hours. The correspondent liability and expenses are recognized in the income statement by the flight hours of equipment.

**2.14. Reduction to recoverable amount of the financial assets (impairment)**

The assets with undefined useful life, such as premium, are not subject to the amortization and are tested annually. The assets subject to the amortization are reviewed to check the impairment whenever the events or changes on the circumstances indicate the accounting amount could not be recovered. The impairment loss is recognized when the assets accounting amount exceeds the recoverable amount. The last is the higher amount between the fair value of the assets less the sales costs and the use amount. For impairment evaluation purposes, the assets are grouped in the lower levels for which the identified cash flow exists in separate (Units Generating Cash –UCG). Non-financial assets, except premium, are reviewed subsequently for the analysis of any impairment reversion on the date the report is submitted.

**2.15. Suppliers**

The suppliers are the obligations to pay for goods and services acquired during the regular business course and classified as current liability, if the payment shall be made in one year period. Otherwise, they are shown as non-current liabilities.

The suppliers are firstly recognized at the fair cost and then measured at amortized cost using the effective interest rate method. In fact, in view of the short-term nature of most suppliers, they are recognized usually by the correspondent invoice amount.

**2.16. Non-derivative financial liabilities**

Non-derivative financial liabilities (including the loans, senior notes) are recognized at first by the fair value, net of the transaction costs already incurred. Subsequently, they are measured by the amortized cost amount using the effective interests' method.

The effective interest method is used to calculate the amortized cost of the financial liability and allocate the interest expenses by the respective period. The effective interests' rate is the rate deducting exactly the future estimated cash flow (including the transaction costs and other premiums and deductions) during the estimated life of the financial liability or, as applicable, the shorter period, for the initially recognized amount.





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The loans are classified in the current liability unless Company has an unconditional right to the non-performance of the settlement of the liability at least for 12 month after the balance sheet date.

The non-convertible debentures and seniors bonuses are recorded like the loans.

### **2.17. Income Tax And Social Contribution**

The income tax and social contributions expenses represent the sum of the current and deferred taxes. The current and deferred income tax and social contributions are recognized in the income statement of the year, except if they are related to the items recognized in other comprehensive results or directly in the net worth. When the current and deferred taxes originate from the initial accounting of the business combination, the tax effect is considered the business combination in the accounting.

The current income tax and social contribution expenses are calculated based on the tax laws published on the balance sheet date in the countries where the Company's subsidiaries do business and generate the taxable profit. The management evaluates, periodically, the positions undertaken in the income tax returns in respect to the situations to which the interpretation exists regarding the applicable tax regulation, and set forth the provisions, as applicable, based on the estimated amounts of the payment to the tax authorities.

The deferred income tax and the social contribution are calculated using the liability method on the temporary differences resulting from the differences between the assets and liabilities tax basis and their booked amounts in financial statements. However, the deferred income tax and social contribution are not booked if they result from the initial recognition of the assets or liabilities in the operation other than the business combination, which does not affect the accounting results at the transaction or the taxable profit (tax loss). The deferred income tax and social contribution are determined using the tax rates (and tax laws) published or substantially published on the balance sheet date, which shall be applied with the respective assets deferred tax is paid or the liability deferred tax is settled.

The currently established rates to determine the current and deferred income tax and the social contributions are 25% and 9%, respectively (Note 22).

The assets deferred taxes are recognized in the extension where likely, the future taxable profit is enough to offset the tax losses and the negative basis of the social contribution, based on the future income forecast prepared and based on the internal premises and therefore future economic scenario that might change. The Management reviews said forecasts annually. Deferred income tax and social contributions are recognized on the temporary differences resulting from the investments in subsidiaries except if it is controlled by Company at the reversion of the temporary differences, provided however, the temporary difference is likely not to be reverted in foreseeable future.

Deferred income tax and social contributions of assets and liabilities are showed net in the balance sheet, when there is the legal right and intent to offset thereof at the determination of current taxes generally related to the same legal entity and same tax authority. Therefore, deferred taxes in assets and liabilities in different entities or different countries generally are showed separately other than net.

### **2.18. Deferred income**

Deferred income account encompasses the transportation to be performed, services agreements and sale and leaseback transactions and other incomes related to Loyalty Program (Note 19).

The income from the Loyalty Program is measured by the fair value in counter entry to the receivable accounts and is recognized in the result as the program mileage is redeemed.



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The Transportation to render account comprises the tickets sold and non-used. Such amounts are recognized as income when the service is effectively rendered or after eight months from the date of sale of the tickets.

### **2.19. Provisions**

Company recognizes the provisions when: (i) there is an actual and non-formalized obligation (constructive obligation) resulting from past events; (ii) funds disbursement is likely to settle the obligation, and (iii) the amount could be estimated safely. The provisions are measured by the current amount of the expenses required to settle the obligation using the rate before the taxes, and reflecting the current evaluations of the market of the money temporal value and the specific risks of the obligation. The increase of the obligation during time is recognized as financial expense. The provisions are net from the correspondent court deposits.

If any or all economic benefits to settle the provision are expected to be recovered by third party, the assets are recognized if, and only if, the reimbursement is virtually certain and the amount could be measured reliably.

### **2.20. Benefits to employees**

#### **(a) Profit Share**

Company recognizes the liability and the share expense in the results based on the profits share program and certain operational indicators. Company recognizes the provision when is obliged contractually or there is a non-formalized obligation (constructive obligation) from a past practice creating thereof.

#### **(b) Compensation based on stocks**

Company operates two compensation plans based on stocks. (i) settled in cash (cash settled) operated by TLA subsidiary and (ii) settled in stocks, operated by Multiplus subsidiary. The details on the fair value determination of such plans are described in Note 26.

The fair amount of the granted options is recognized as expense in the period the right is acquired (during such period the specific right acquisition conditions must be fulfilled) and reduced by the impact of any condition that is not related to the market during the grace period (for instance, Profitability purposes and sales increase). Such conditions that are not related to the market are included in the premises used to define the number of expected options. The Company reviews its estimates on the options quantity at the balance sheet date, which rights should be acquired based on the conditions and recognized the impact of the initial estimates review, if any, in the income statement, in consideration for the liability prospectively.

#### **(c) Pension Plan**

Company operates only the defined contribution plans. The contributions being made, Company has not additional liability on the additional payments. The regular contributions comprise the net periodic costs of the period they are payable therefore they are recognized as expenses on employees benefits.

### **2.21. Corporate Capital**

Common and preferential stocks are classified in the net equity. The incremental costs directly assigned to the new stocks issuance or options are showed in the net worth as the deduction of the raised amount, net of taxes effects.

### **2.22. Dividends and interests on equity**



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The dividends distribution and interests on capital to Company's stockholders is recognized as the liability in the Company's financial statements at the end of the year. The financial statements reflect only the minimum mandatory dividends as provided by the Company's bylaws equivalent to 25% the accounting profit and anticipations approved by the Board of Directors. Any amount exceeding the minimum mandatory is only provisioned on the date the distribution is approved by stockholders in the General Annual Meeting or Board of Directors. The tax benefit on the capital is recognized in the results statement.

### **2.23. Leasing**

The classification of the lease agreements is made on the contracting. The leasing is classified as operational leasing if lessor bears the significant risks and benefits on the ownership. The payments made for operational leasing (net of any incentive received by lessor) are recognized in the income statement by straight method during the leasing period.

Company leases certain fixed assets items. The leasing is classified as financial leasing when the Company bears substantially all risks and benefits on the ownership. They are capitalized at the beginning of the agreement by the lower amount between the fair amount of the leased assets and the current amount of the minimum leasing payments.

Each installment paid is allocated partially in liabilities and partially in financial charges therefore, the constant rate is obtained on the outstanding debt. The correspondent obligations net of the financial charges are included in financial liability. The interests in the financing cost is debited to the results statement during the lease term in order to generate the periodical interests rate contained in the balance of the liability in each period. The fixed assets acquired in financial lease are depreciated during the useful life of the assets or the lease contractual period, which is shorter.

The gains from the sale and leaseback transactions arising from the financial lease are deferred and recognized in the results statement by the straight method during the lease validity. The gains from the sales and leaseback transactions arising from operational leases are recognized immediately in the results statement.

The losses from the sale and leaseback transactions arising from financial leasing are deferred in the extent the leaseback object is not object to the impairment and are recognized in the income statement by straight method during the leasing effectiveness.

### **2.24. Income**

Air (passengers and cargo) transportation income are recognized when the transportation service are rendered. The income related to the passengers' tickets sold but not used (anticipated sales of tickets) are deemed as deferred income, and classified in the current liability. In order to align the accounting policies to LATAM Airlines Group (TAM holding), Company has changed the recognition policy of the income related to non-flown tickets, which are recognized as of the eight month instead of recognizing after 12 months the ticket is issued.

TLA subsidiary sponsors the award program for frequent passengers (Loyalty Program) where the points are accrued when the TAM's flights or partners' airlines flights are used as well as the purchase with TAM Loyalty credit card, and using services and products from partners' entities. The points granted in the Loyalty Program, when passengers use the TAM or partner airlines flights are recognized as a separate identified component of the income based on the estimated fair value. Such



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income is deferred on the date the ticket is sold and recognized in the year results, net of the points that were not redeemed, when the points are redeemed and the passengers are transported.

As of January 1st, 2010, the Tla SUBSIDIARY transferred the loyalty program administration to subsidiary Multiplus. As of January 1st, 2010, the points are issued by Multiplus, which shall sell the points to TAM .

The income from the points sold by Multiplus to third parties is recognized on results statement when the points are redeemed by premiums or, the points that should not be redeemed are recognized in the two years validity term of the points.

Other operational income represented by the rates from the flight booking changes, sub lease of aircrafts, maintenance services provided to other airlines and other services are recognized when the service is rendered.

### **2.25. Recognition of operational costs and expenses**

The Company's main costs are related to the mileage redeemed and the aviation fuel. Operational expenses include the sales, general and administrative expenses including the salaries, burdens, and benefits, aircraft, engines and equipment leasing, takeoff, landing and navigation rates, sales and marketing and others (Note 28).

### **2.26. Recognition of financial income**

Interest income is recognized proportionally to the time, taking into account the outstanding principal and the effective rates during the period up to the maturity or conclusion of the year.

### **2.27. Recognition of income from premium tickets issued although to be flown**

Company through subsidiary Multiplus offers the possibility of changing the air tickets by mileage to the members of Multiplus loyalty program, which are accrued by means of Multiplus loyalty program. The members of Multiplus program could accrue the mileage in several ways and exchange the mileage by several premiums including air tickets. Significant portion of the mileage redeemed by members of Multiplus loyalty program is exchanged by air tickets, which are purchased from TLA by Multiplus. TLA obligation to render the services to the holder of premium tickets (purchased by Multiplus from TLA and granted to the members of Multiplus loyalty program) terminates only when the air transportation services are provided.

Interpretation of CPC 30/IAS 18 - Income identified as "Loyalty program" - takes into account that the fair value of the consideration received or to be received in respect to the transaction is allocated between the premium credits (mileage) and other sales. The purchase components attributed to the premium credits are recognized only when the premium credits are redeemed and company fulfills the obligations to supply the premiums. Taking into account the premium represented by air tickets in consolidated basis comprises the rendering of air transportation services, the income allocated to the premium tickets shall be recognized only when TLA provides the transportation. Income from premium credits related to the issued premium tickets still to be flown should not be recognized in income statement.

### **2.28. Submission of income statement**

In the results statement, the amounts related to the variations of the fair value of the fuels derivatives is submitted separately as part of the operational profit. Such item is material in the nature and value



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aspects, and is disclosed separately in order to assist the users of the financial statement to understand the Company's financial performance.

### **2.29. New rules, changes and interpretation to be in force.**

Several standards, amendments to the IFRS standards and interpretations issued by IASB are not in force for the year ended on December 31, 2013 and were not applied on the preparation of these financial statements. No new standard is expected to have material effect on the Company's financial statement except FRS 9 *Financial Instruments*, which is mandatory as of January 1st, 2015 and should change the financial assets classification and measurement as maintained by Company. Company does not expect to adopt such standard in advance and the effects of its adoption have not been measured.

CPC has not issued the statement equipment to the above-mentioned IFRS however it is expected before the date scheduled for the validity thereof.

The following standards, changes and interpretation of the standards were issued by IASB however they are not effective for the 2013 year.

- IFRIC 21 – “Fees. Interpretation has explained when the entity should recognize the obligation to pay fees according to the laws. The obligation should be recognized only if the event takes places that generate the obligation. Such interpretation is applicable as of January 1st, 2014.
- IFRS 9 - Financial instruments: approaches the classification, measurement and recognition of the financial assets and liabilities. IFRS 9 was issued in November 2009 and October 2010, it replaces sections of IAS 39 related to the classification and measurement of financial instruments: IFRS 9 requires the classification in two categories: measured at fair value and measured at amortized cost. Determination is made at the initial recognition. The classification basis depends on the business model of entity and the contractual characteristics of the cash flow of the financial instruments. In respect to the financial liability, the standard maintains most of the requirements set forth by IAS 39. The main change is when the fair value option is adopted for the financial liabilities, the change part of the fair value related to the credit risks of the very entity is recorded in other comprehensive results other than the income statement except when resulting from accounting gap. Company is evaluated the total effects of IFRS 9. Standard is applicable as of January 1st, 2015.

### **3. Accounting estimates and critical decision**

The accounting estimates and judgments are constantly evaluated based on the historic experience and other factors, among them the expectancies of the future events deemed reasonable in the current circumstances. The accounting estimates by definition are not equal to the correspondent actual results. The estimates and premises showing a significant risk of causing the relevant adjustment in the assets and liabilities accounting amount in the subsequent year are discussed hereunder.

#### **3.1 Income recognition - Loyalty program**

The income regarding the loyalty program is differed based on the outstanding point's number and the historic average rate of the non-redeemed points (breakage) in the last 12 months. The fair value of the points issued to the members flying TAM or partner airlines is determined based on the weighted average of the point's amount sold to the commercial partners and the amount of the free tickets granted to passengers. Additionally, the deferment of the income depends on the estimates on the point's quantity to be cancelled when expiring after two years from issuance



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### 3.2 Deferred taxes

Company recognizes the deferred assets and liabilities based on the differences between the accounting amount submitted in the financial statements and the assets and liabilities tax base using the rates in force. Company reviews regularly the assets deferred taxes regarding any recovery, taking into account the historic profit generated and the forecasted taxable profit according to the technical feasibility studies.

### 3.3 Contingencies

Company is a party in several judicial and administrative proceedings as described in note 21. The provisions are established for all contingencies related to the judicial proceedings representing probable losses (actual obligation resulting from the past event, wherein the funds outflow is probable, necessary, and incorporating the economic benefits to settle the obligation, with a reliable amount estimates). The evaluation of the loss probability includes the evaluation of the available evidences among them the external lawyers' opinion. The Management thinks such contingencies are submitted correctly in the financial statements.

## 4. Finance risk management.

### 4.1 Policy of finance risk management.

#### 4.1.1 Market Risks

Company is exposed to the market risks in view of the regular commercial activities. Market risks refer mostly on the variations on interest rate, exchange and aviation-grade kerosene (AVK). Such variations should not affect negatively the cash flow and future expenses. The market risk is a possible loss resulting from the prices of the variables of the market (exchange, interests' rates, commodities prices, etc) affecting the Company's cash flow. The Corporative Policy set forth the minimum and maximum protection level, the investment grade as the minimum pre-requirement of the counterparts of the derivative financial instruments operations, among others.

#### (a) Risk related to the variation on fuel price.

The fuel prices volatility is among the most important financial risks for the airlines. The aviation-grade kerosene price (AVK) is connected to the oil quotation variation in international market. The policy and exposition limits are reviewed frequently by Finance Committee and Board of LATAM.

The aviation fuel consumed in twelve months period ended on December 31, 2013 and 2012 represented respectively 35.0 % and 38.7 % the operational costs and expenses of Company (Note 28).

#### (a.1) Outstanding derivatives:

##### (i) TAM Linhas Aéreas

The percentage of the anticipated coverage of the derivative financial instruments is showed hereunder for the next 12 months as well as the average amount of the outstanding derivative agreements.

	2013	2012
% of anticipated coverage for the next 12 months	0 %	15%
Average amount of the outstanding derivative agreements	US\$ 0 95/bbl	US\$ 101/bbl
WTI market value in the period	US\$99/bbl	US\$ 92/bbl

On December 31, 2013, Company had no outstanding derivative financial instruments agreement as they are contracted by LATAM corporative treasury.

The maturities of the derivative instruments and the respective notional and fair value are showed hereunder:



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	2013	2014	2015	Total
<b>On December 31, 2013.</b>				
Notional value – thousands of barrels (bbl)				
Fair amount – R\$ thousand				
<b>On December 31, 2012.</b>				
Notional value – thousands of barrels (bbl)	500	2,550	600	3,650
Fair amount – R\$ thousand	2,056	17,235	6,028	25,319

### (b) Exchange rate risk

#### (b.1) TAM Linhas Aéreas

A significant portion of the operational costs and expenses such as the aircrafts and engines maintenance services, aircraft lease payments and aircraft insurances are negotiated in dollars. Company has significant exposition to foreign currency (mainly denominated in US dollars). The total exposition of assets and liabilities to foreign currency in December 31, 2013 and 2012 is showed in the correspondent explanatory notes.

Company would sign the derivative agreements to be protected against a possible valuation or devaluation of real before US dollar.

On December 31, 2012, company had Collar operations with respective notional of R\$ 30,000. On December 31, 2013, company had no exchange protection operation.

#### (b.2) Multiplus S.A.

Multiplus is exposed to exchange risk due to the regular commercial activities, as most sales agreement of mileage with financial entities are referred in US dollars. The variations on R\$/US\$ exchange rate could affect the cash flow and future invoicing and income (by income recognition being made at the mileage redemption). The Company's risk could be featured as the possible future cash flow lower than budgeted due to any floating on R\$/US\$ exchange rate.

On December 31, 2013, if Brazilian real varied approximately 10% in respect to US dollar, maintaining constant all the other variables, the financial results could have up or down variation of R\$ 3,335 / R\$ 3,870 (2012 - R\$ 44,507 / R\$ 57,106) mainly from the exchange gains/ losses in conversion of hedge operations.

The table hereunder shows the respective notional and fair value of outstanding derivatives by maturity date. The maturity date of derivative is also the highly likely date of mileage sale being invoiced. Highly likely sale of mileage shall be recognized in results after the invoicing. Management expects to have the recognition in results in average up to six months after invoicing.

	2014	2015	Total
<b>On December 31, 2013.</b>			
Notional Value – USD	18,000		18,000
Fair amount – R\$	(3,870)		(3,870)

	2013	2014	Total
<b>On December 31, 2012.</b>			
Notional Value – USD	(283,000)	(18,000)	(301,000)
Fair amount – R\$	(30,002)	(1,118)	(31,120)



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### (c) Interests rate risk

Company's income are affected by the variation on the interests rats in view of such variations impact on the interests expenses assessed at variable rates on the debt instruments, lease agreements at variable rates and interests income generated by the cash balance and short term investment. In order to reduce possible impacts of the interests rates fluctuation, Company adopted the diversification policy and performed the operations contract both in fixed and variable rates (such as LIBOR-London Interbank Offered Rate and CDI – Intermediary (sic) Deposit Certificate).

The Company has no financial instrument to protect the cash flow against the interests' rates variations.

### (d) Analysis of the financial instruments sensibility

The Company shall submit the sensibility analysis of the financial instruments showing the impact of the variation of financial instruments quotations and net worth on the Company's income, by taking into account the following elements:

- The increase and reduction of 10 % on the fuel prices and the other variable are maintained constant.
- The increase and reduction of 10 % on the dollar exchange rate and the other variable are maintained constant.
- The increase and reduction of one percent on the interests' rate and the other variable are maintained constant.

### TAM Linhas Aéreas

#### Fuel price:

On December 31, 2012, if WTI price had varied approximately by 10%, maintaining constant all other variable, the fair value of WTI derivatives would show the increase/ reduction of approximately US\$ 17 million /US\$ 20.3 million equivalent to R\$ 34.6 million /R\$ 41.2 million. Such increase/reduction would affect directly the Company's financial income. In respect to the cash flow, however, such variations on WTI price should be offset by the costs reduction/ increase on aviation-grade kerosene of the Company and would be effective economically and financially on the respective maturities, distributed from 2013 through 2014. On December 31, 2013, Company had no derivative instrument for WTI price protection.

#### Exchange rate: - Dollar:

On December 31, 2013, if Brazilian real had varied by 10% in respect to dollar, and all other variable were kept constant, the financial results should have the downward or upward variation of approximately R\$ 463 million / R\$ 463 million ( 2012 - R\$ 829 million / R\$ 829 million) mainly in the exchange gains/ losses results in the conversion of accounts receivable from customers and loans and financing and financial assets at fair value by means of income denominated in US dollar.

#### Interests' rate – LIBOR and CDI

On December 31, 2013, if there was on percent increase on interest rate of the external market (LIBOR), it would result on the increase of financial leasing expense and interest expense of approximately US\$ 16,655 equivalent to R\$ 39,017 (2012 - US\$ 19,698 equivalent to R\$ 40,253)





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On December 31, 2013 if there was downward or upward variation of one percent on the interest rate of domestic market (CDI), it would cause the increase/ reduction of the financing and loans interest expense of approximately R\$ 4,507 (2012 - R\$ 4,510)

**4.1.2 Credit Risks**

The credit risk refers to the risk of the counterparty default on the contractual obligations taking the Company to financial losses. The Company's risk arises from the non-recovery of the amounts receivable on the services rendered to consumers and/or travel agencies or investments in private issuance securities.

In order to reduce the credit risk existing in the commercial operations, the Company and its subsidiaries establish the credit limits and follow-up frequently the debt balances, mainly from the travel agencies.

The Company and its subsidiaries have transactions only with counterparties which are ranked by Standard & Poor's, Moody's or Fitch that is, at least BBB- or equivalent. Moreover, the entity has the maximum exposition limit for investments as established by the Risk Committee.

Currently, there is no loss estimated by management in addition to the provisions related to the counterparties default and no significant exposition exists (except the credit card operators) to counterparty in separate.

**4.1.3 Liquidity Risks**

The cautions management of the liquidity risk implies maintaining the enough cash and securities to comply with the financial commitments in view of the gap of term and volume between the scheduled receiving and payments.

The cash surplus is invested mainly in Company's restricted investment funds. Each fund has a clear investment policy limiting the risks concentration.

The table hereunder shows Company's financial liabilities by maturity group based on the period remaining on the balance sheet date up to the contractual maturity date. The amounts disclosed in the table are the non-deducted contractual cash flow including the interests except the derivatives which fair value is disclosed.

Financial guarantees represent the liability guarantees of subsidiaries and are the maximum amount. No loss is expected for such guarantees.

On December 31, 2013, no derivative financial instruments agreements existed still outstanding.

	Less than one year	Between one and two years	Consolidated Amount Accounting
<b>On December 31, 2012.</b>			
Fuel derivative	(21,469)	(9,256)	(30,725)
Exchange derivative	(27,303)	(4,011)	(31,314)

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	Less than one	Between one and	Between three	Over five	Total	Deduction effect	Consolidated Accounting amount



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	year	two years	and five years	years			
<b>Non-derivative financial liabilities</b>							
<b>On December 31, 2013.</b>							
Obligations by financial leasing	757,122	636,563	1,453,323	1,352,425	4,199,433	(284,565)	3,914,868
Senior bonuses	256,659	207,188	1,268,244	2,213,910	3,946,001	(1,351,095)	2,594,906
Loans	1,206,026	1,670	4,638	4,767	1,217,101	(48,729)	1,168,372
Tax recovery program	43,312	47,206	168,641	483,325	742,484	(294,874)	447,610
Suppliers	944,079				944,079		944,079
<b>On December 31, 2012.</b>							
Obligations by financial leasing	857,336	1,493,167	1,725,228	1,659,013	5,734,744	(561,120)	5,173,624
Senior bonuses	184,879	369,756	1,102,170	1,931,239	3,588,044	(1,328,596)	2,259,448
Loans	1,009,494	4,377	4,047	4,125	1,022,043	(54,372)	967,671
Debentures	623,851				623,851	(107,901)	515,950
Tax recovery program	44,525	88,965	157,458	411,311	702,259	(239,867)	462,392
Suppliers	840,872				840,872		840,872

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**4.2 Capital risk management**

Company administrates the capital to ensure the continuity of the regular operational activities while maximizes the return to all interested or involved parties in the operations thereof.

Capital administration is performed by the leverage index. Such index was calculated by dividing Company's net indebtedness by total capital. The net indebtedness is defined as the total loans, debentures and (financial and operational) leasing agreements, net of cash and cash equivalents and other short term financial assets. Total capital is defined as the total net assets of the stockholders Added by the net indebtedness. .

Capital is not administered at holding, only in consolidated.

Company is not subject to any capital need imposed externally.

Total capital is defined as the total net worth and net debt as defined hereunder:

	2013	2012
Cash and cash equivalents (Note 6)	(688,500)	(654,553)
Financial Assets measured at the fair value by the income.	(1,526,697)	(897,428)
Assets maintained up to the maturity.		(150,426)
Loans (Note 18.3).	1,168,372	967,671
Debentures and seniors bonuses	2,594,906	2,775,398
Operational Leasing (Note 32 (a)).	1,549,051	1,383,148
1Financing income (Note 18.1).	3,914,868	5,173,624
Net debt (1)	7,012,000	8,597,434
Total Net Worth	1,195,196	(900,610)
Total capital (2)	8,207,196	7,696,824



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Leverage rate (1)(2)	85.44 %	111.70 %
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Company's leverage index reduced by 23.5 % in comparison with 2012 year due to (i) debentures liquidation taken place on November 21, 2013, (ii) reduction of the financial leasing (aircrafts transferred to LATAM holding), (iii) increase on aircrafts number classified as operational leasing and (iv) growth of the net worth from capital increase taken place in June and September, 2013 (Note 23). Management understands there is no uncertainty on the Company's continuity capacity, as it has solid strategies being implemented for the improvement of profitability and reduction of risk to which Company is exposed.

### 4.3. Estimates of fair value.

Company and its subsidiaries shall classify the financial instruments measured by the fair value and following the evaluation techniques hierarchy hereunder:

- Level 1 – quoted prices (without adjustments in active market to identical assets and liabilities);
- Level 2 – different information of the negotiated prices in active markets included in Level 1 and observed to assets and liabilities directly or indirectly; and

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- Level 3 – techniques using data with significant effect in the fair value registered which are not based in the data observed in the market. This item is not applicable to the Company and its subsidiaries on December 31, 2013.

#### (a) Holding

Table hereunder shows the Company's financial instruments measured by the fair value:

	Level 1	Level 2	2013 Total
<b>Financial assets measured at fair value</b>			
Government bonds (1)	2,799		2,799
Private bonds (1)		1,671	1,671
Other deposits (3)		635	635
	2,799	2,306	5,105

	Level 1	Level 2	2012 Total
<b>Financial assets measured at fair value</b>			
Government bonds (1)	2,722		2,722
Private bonds (1)		1,365	1,365
Other deposits (3)		1,202	1,202
	2,722	2,567	5,289

#### (b) Consolidated

Table hereunder shows the Company's and its subsidiaries' financial instruments measured by the fair value:



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	Level 1	Level 2	2013 Total
<b>Financial assets measured at fair value</b>			
<b>In local currency</b>			
Restricted investment funds (1)	903,543	543,834	1,447,377
Bank Deposit Certificates -CDB (2)		5,561	5,561
Others		7,741	7,741
	903,543	557,136	1,460,679
<b>In foreign currency</b>			
Other deposits (2)		66,018	66,018
	903,543	623,154	1,526,697
<b>Derivatives of financial liability</b>			
Exchange derivative - WTI (3)		3,870	3,870
		3,870	3,870

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	Level 1	Level 2	2012 Total
<b>Financial assets measured at fair value</b>			
<b>In local currency</b>			
Restricted investment funds (1)	474,714	288,335	763,049
Bank Deposit Certificates -CDB (2)		15,748	15,748
Others		1,633	1,633
	474,714	305,716	780,430
<b>In foreign currency</b>			
Other deposits (2)		116,998	116,998
	474,714	422,714	897,428
<b>Derivative financial assets</b>			
Fuel derivative - WTI (3)		5,406	5,406
Exchange derivative - WTI (3)		195	195
		5,601	5,601
<b>Derivatives of financial liability</b>			
Fuel derivative - WTI (3)		30,725	30,725
Exchange derivative - WTI (3)		31,314	31,314
		62,039	62,039

There was no transfer between the fair value evaluations and the hierarchy levels during the years ended on December 31, 2012 and 2013.

The determination of the fair value of financial assets and liabilities are showed hereunder



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- (1) Refers to investment on Brazilian Government bonds with high liquidity, which prices are available and based on actual transactions in organized marked and private bonds usually refer to the debt securities which fair value is determined based on the effective transactions in organized market (if liquidity exists) or deducted cash flow based on the interests rate in force, if the effective transactions are not observed.
- (2) Deposit Certificates and other deposits – fair value determined based on the interests rates and recent similar issuances.
- (3) Financial derivative instruments – usually such agreements are not negotiated in the organized marked and are over-the-counter agreements. The Company estimates the fair value using techniques such as Black&Scholes, Garman& Kohlagen, Monte Carlo or the deducted cash flow models used in the financial market depending on the derivative nature. All used models are widely accepted by the marked and reflect the contractual provisions of the derivative. Such models do not contain a high subjectivity level as the methodologies used in the models do not accept the arbitrariness. All model information is easily observed in the organized markets.

The overall investments are measured at the fair value by means of the income and maintained for negotiation (trading).

The investments management in domestic market is made mainly by the restrict investment funds. Such structure follows a high transparency and corporative governance. The securities and shares custody and the funds administration are made by an independent manager's entity. The terms of office and regulations are consistent with each management modality. Clear limits and measurements exist for the market and credit risk, and liquidity. The average profitability of such funds was 7.65 % in December 31, 2013 (2012 – 8.74%);

The investments in international markets comprise basically term deposits, notes and overnight operations in US dollars all made with first class banks with which the Company does business. Such investments had 0.15 % average profitability in December 31, 2013 (2012 - 0.65%)

### 5. Financial instrument by category

	Loans and receivables	Assets at the fair value by the income.	Holding Total
<b>Assets according to the balance sheet</b>			
Cash and cash equivalents.	251		251
Financial Assets measured at the fair value by the income.		5,105	5,105
<b>On December 31, 2013.</b>	251	5,105	5,356
		<b>Liabilities measured at amortized cost</b>	<b>Total</b>
<b>Liabilities according to the balance sheet</b>			
Suppliers		3,393	3,393
<b>On December 31, 2013.</b>		3,393	3,393

	Loans and receivables	Assets at the fair value by the income.	Holding Total
<b>Assets according to the balance sheet</b>			



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Cash and cash equivalents.	150			150
Financial Assets measured at the fair value by the income.			5,289	5,289
<b>On December 31, 2012.</b>	<b>150</b>		<b>5,289</b>	<b>5,439</b>
<b>Liabilities according to the balance sheet</b>			<b>Liabilities measured at amortized cost</b>	<b>Total</b>
Suppliers			6,397	6,397
<b>On December 31, 2012.</b>			<b>6,397</b>	<b>6,397</b>

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				Consolidated	
	Loans and receivables	Assets at the fair value by the income.	Derivatives	Total	
<b>Assets according to the balance sheet</b>					
Cash and cash equivalents.	688,500			688,500	
Financial Assets measured at the fair value by the income.		1,526,697		1,526,697	
Accounts receivable and other accounts receivable excluding the anticipated payments	2,275,828			2,275,828	
Restrict cash	27,531			27,531	
Deposits in warranty.	122,787			122,787	
<b>On December 31, 2013.</b>	<b>3,114,646</b>	<b>1,526,697</b>		<b>4,641,343</b>	
<b>Liabilities according to the balance sheet</b>				<b>Liabilities measured at amortized cost</b>	<b>Derivatives</b>
Suppliers				944,079	944,079
Obligations by financial leasing				3,914,868	3,914,868
Senior bonuses				2,594,906	2,594,906
Loans				1,168,372	1,168,372
Derivative financial instruments					3,870
<b>On December 31, 2013.</b>				<b>8,622,225</b>	<b>3,870</b>
					<b>8,626,095</b>

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				Consolidated	
	Loans and	Maintained	Assets at the fair	Derivatives	Total



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	receivables	up to the maturity.	value by the income.		
<b>Assets according to the balance sheet</b>					
Cash and cash equivalents.	654,553				654,553
Derivative financial instruments				5,601	5,601
Financial Assets measured at the fair value by the income.			897,428		897,428
Financial assets maintained up to the maturity.		150,426			150,426
Accounts receivable and other accounts receivable excluding the anticipated payments	1,592,477				1,592,477
Restrict cash	59,965				59,965
Deposits in warranty.	82,287				82,287
<b>On December 31, 2012.</b>	<b>2,389,282</b>	<b>150,426</b>	<b>897,428</b>	<b>5,601</b>	<b>3,442,737</b>
<b>Liabilities measured at amortized cost</b>					
<b>Liabilities according to the balance sheet</b>					
Suppliers			1,340,822		1,340,822
Obligations by financial leasing			5,173,624		5,173,624
Senior bonuses			2,259,448		2,259,448
Loans			967,671		967,671
Debentures			515,950		515,950
Derivative financial instruments				62,039	62,039
<b>On December 31, 2012.</b>			<b>10,257,515</b>	<b>62,039</b>	<b>10,319,554</b>

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**6. Cash and cash equivalents.**

	2013	Holding 2012	2013	Consolidated 2012
Cash and bank accounts	251	150	467,772	352,588
Short term deposits			220,728	301,965
	251	150	688,500	654,553

On December 31, 2013 and 2012 there was no overdraft in the escrows.

Cash and cash equivalent balances are maintained in the following currency:

	2013	Holding 2012	2013	Consolidated 2012



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Reais	251	150	432,588	488,134
US dollar			237,856	59,423
Euros			22,807	12,988
Guarani				
Pound sterling			70,679	67,597
Venezuela Bolivar			2,137	2,516
Other currencies			84,207	
			11,443	23,895
	251	150	861,717	654,553

**7. Accounts Receivable**

	Domestic	Internationals	Total	Consolidated %
Credit cards	1,421,722	121,905	1,543,627	64.7
Tourism agencies	197,948	49,753	247,701	10.4
Loyalty program	186,461		186,461	7.8
Account holders	95,679	547	96,226	4.0
Cargo agencies	71,723	1,276	72,999	3.1
Others	199,365	39,488	238,853	10.0
<b>Total</b>	<b>2,172,898</b>	<b>212,969</b>	<b>2,385,867</b>	<b>100.0</b>
Provision for doubtful account	(77,781)	(32,258)	(110,039)	
<b>On December 31, 2013.</b>	<b>2,095,117</b>	<b>180,711</b>	<b>2,275,828</b>	

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	Domestic	Internationals	Total	Consolidated %
Credit cards	912,840	88,504	1,001,344	59.0
Tourism agencies	194,226	26,091	220,317	13.0
Loyalty program	164,075		164,075	9.6
Account holders	58,923	844	59,767	3.5
Cargo agencies	1,000	799	1,799	0.1
Others	190,391	60,158	250,549	14.8
<b>Total</b>	<b>1,521,455</b>	<b>176,396</b>	<b>1,697,851</b>	<b>100.0</b>
Provision for doubtful account	(76,712)	(28,662)	(105,374)	
<b>On December 31, 2012.</b>	<b>1,444,743</b>	<b>147,734</b>	<b>1,592,477</b>	

The variation on the accounts receivable balance occurred mainly by the change on the standard of customs purchases and the seasonal conditions of period.

Accounts receivable from customers maintained in the following currencies:





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	2013	2012
Reais	1,823,948	1,150,413
US dollar	212,364	288,379
Euros	12,366	141,475
Pound sterling	34,943	9,321
Other currencies	302,246	108,263
	2,385,867	1,697,851

**(a) Balance composition by maturities**

	2013	%	2012	%
Falling due	1,960,956	82.2	1,464,206	86.3
Overdue				
Up to 60 days	185,142	7.8	54,882	3.2
From 61 through 90 days	38,168	1.6	8,113	0.5
From 91 through 180 days	50,372	2.1	17,668	1.0
From 181 through 360 days	29,566	1.2	52,632	3.1
Over 360 days	121,663	5.1	100,350	5.9
	2,385,867	100.0	1,697,851	100.0

**(b) Provision transactions for doubtful account**

	2013	2012
Balance at the beginning of the year	105,374	105,714
Establishing the provisions	19,003	6,014
Recovery of provision credits	(14,338)	(6,354)
Balance at the end of the year	110,039	105,374

The establishment of the provision and recovery of the provisioned credits were included in "sales expenses" at the income statement.

The maximum exposition to the credit risk on the report date is the accounting value of each receivable above-mentioned.

Management understands based on the accounts receivable types and related risk that there is only one accounts receivable accounts class.

**8. Inventories**

	2013	Consolidated 2012
Pieces and materials for maintenance and repairs	272,149	222,390
Other inventories (*)	86,289	40,029
	358,438	262,419

(\*) Other inventory includes uniforms, fixtures and food items and other inventories.

**9. Taxes recoverable**



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	2013	Consolidated 2012
(State) Value Added Tax - ICMS	82,566	40,258
Taxes recoverable	37,532	38,597
Social Integration Program (PIS) and Contribution for social security financing (COFINS)	34,176	43,375
Withholding Income Tax (IRRF)		
Others	7,191	8,394
	161,465	130,624
Provision for losses - ICMS		(15,944)
	161,465	114,680

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**10. Related parties**

**(a) Balances**

	2013	Holding 2012
<b>TAM Linhas Aéreas</b>		
<b>Current Assets</b>		
TLA loan (*)	4,002	
<b>Non-current assets</b>		
Loan from associated companies	182	182
Dividends receivable	15,226	15,226
	19,410	15,408
<b>Current Liabilities</b>		
TLA loan (*)	637	1,410
Multipius S.A.	78	
<b>Non-current liability</b>		
Lan Cargo Overseas Limited	2,978	
Loan - TLA	196,617	
	200,310	1,410

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	2013	Consolidated 2012
<b>Current Assets</b>		



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<b>Accounts Receivable</b>			
TAM Aviação Executiva e Taxi Aéreo S/A		32	29
LATAM Airlines Group S.A.		691,011	1,282
LAN Cargo S.A.		307,075	2,291
ABSA		753	64,971
Transporte Aereo S.A.		8	
LAN Argentina S.A.		5,103	1,807
Linhas Aéreas Cargas		29,262	
Connecta Corporation		45,186	
LAN Peru S.A.		3,965	
Aerotransp. Mas de Carga S.A. De C.V. ("Mas Air")		7,387	40
Linhas Aéreas Nacionais		451	
TAM Airlines		111	
Aires S.A.		1,751	
LAN Cargo Repair Station LLC		24	
Prime Airport Services Inc.		44	
HGA Rampas del Ecuador		145	
Líneas Aéreas de Ecuador S.A			26
Andes Airport Services S.A.			110
Prismah Fidelidade S.A.		341	1,220
Made in Everywhere Repr Com Distr Ltda		5	4
		1,092,654	71,780
<b>Non-current assets</b>			
Loans with related companies - LATAM Airlines Group S.A.		2,663,425	70,715
Mas Investment Ltd		(858)	
		2,662,567	70,715
		3,755,221	142,495

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	2013	Consolidated 2012
<b>Current Liabilities</b>		
<b>Suppliers</b>		
LATAM Airlines Group S.A.	662,044	23,214
ABSA		12,996
LAN Cargo S.A	291,502	
Transporte Aereo S.A.	38	19
Lan Argentina S.A	167,991	56,019
Linhas Aéreas Cargas	61,846	
Connecta Corporation	43,695	
Lan Peru S.A.	5,411	1,192
Aerotransp. Mas de Carga S.A. De C.V. ("Mas Air")	6,859	
Linhas Aéreas Nacionais	1,521	
TAM Airlines	640	
Andes Airport Services S.A.	529	
Aires S.A.	4,047	210
Lan cargo Repair Station	7,734	



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Prime Airport Services Inc.	364	
HGA Rampas del Ecuador	386	
HGA Rampas y Servicios Aeroportuarios GY	21	
ABSA	1	
TAM Airlines	2	
<b>Accounts payable</b>		
Made in Everywhere Repr Com Distr Ltda		51
	1,254,631	93,701
<b>Non-current liability</b>		
<b>Accounts payable</b>		
Mas Investment Ltd	2,538	
Lan Cargo Overseas Limited	2,978	
TAM Airlines	584	
	6,100	

(\* ) In view of the Pantanal incorporation by TLA in June 2013, TAM undertook the net obligation held by Pantanal before TLA.

**(b) Transactions**

	2013	2012
<b>Income</b>		
<b>Leasing</b>		
LATAM Airlines Group S.A.	166,787	25,914
ABSA	176,009	7,332
TAM Airlines	6,127	
<b>Net of Purchase and sale of cargo space</b>		
LATAM Airlines Group S.A.	76,665	5,577
ABSA	(122,862)	(3,072)
LAN Cargo S.A	11,969	

	2013	2012
<b>Financial Income</b>		
<b>Loan from associated companies</b>		
LATAM Airlines Group S.A.	(5,799)	(2,424)
LAN Cargo S.A	1,470	1
ABSA	7,998	24
Transportes Aereos	(3)	154
Lan Argentina S.A.	(3,509)	
Lan Peru S.A.	(287)	
Andes Airport Services S.A.	61	
Aires S.A.	(89)	
Aerotransp. Mas de Carga S.A. De C.V. ("Mas Air")	3	
Lineas Aereas Nacionales	3	
Lan Cargo Repair Station	6	

(\* ) Negative amounts correspond to the expenses and positive amounts correspond to income.

**(c) Compensation of the administration key personnel**

The administration key personnel include the administration council members, chief executive officer, vice-presidents, and statutory directors. The compensation paid or to be paid is showed hereunder:

	2013	2012
Salaries	4,489	20,907

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Board of Directors' fees		264		1,464
Compensation based on stocks		1,094		
		5,847		22,371

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		2013	Consolidated 2012
<b>Assets</b>			
Crude oil derivative – West Texas Intermediate <i>Collar</i>			5,406
			5,406
Forward foreign currency <i>Collar</i>			195
			5,601
<b>Current</b>			(3,315)
<b>Non-current</b>			2,286
<b>Liabilities</b>			
Crude oil derivative – West Texas Intermediate <i>Forward</i>			18,391
<i>Collar</i>			12,334
			30,725
Forward foreign currency <i>Collar</i>		3,870	31,314
		3,870	31,314
		3,870	62,039
<b>Current</b>		(3,870)	(48,772)
<b>Non-current</b>			13,267

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The fair value distribution by counterparty's credit ranking on December 31, 2013 and 2012 is the following:

Counterparties with credit external classification (Standard & Poor's, Moody's or Fitch)	Negotiation place	2013			2012		
		TLA	Multiplus	Total	TLA	Multiplus	Total
AA+, AA or AA-*	Over-the-counter		(1,821)	(1,821)	(25,319)	(4,538)	(29,857)
BBB or -BBB*	Over-the-counter		(2,049)	(2,049)		(26,582)	(26,582)
			(3,870)	(3,870)	(25,319)	(31,120)	(56,439)
Assets fuel derivative - WTI					5,406		5,406
Liability fuel derivative - WTI					(30,725)		(30,725)
Net fuel derivative - WTI					(25,319)		(25,319)
Assets exchange derivative						194	194
Liability exchange derivative			(3,870)	(3,870)		(31,314)	(31,314)
Net exchange derivative			(3,870)	(3,870)		(31,120)	(31,120)
			(3,870)	(3,870)	(25,319)	(31,120)	(56,439)
Effects on net worth							
Adjustment on Assets Evaluation							
Cash flow hedges			(6,780)	(6,780)		(53,813)	(53,813)
Cash flow Hedge performed by results			(13,612)	(13,612)		(3,216)	(3,216)
Deferred Income Tax And Social Contribution - actual			6,934	6,934		19,390	19,390
			(13,458)	(13,458)		(37,639)	(37,639)

(\*) The rating should be expressed both globally and in domestically. Each agency has a slight different way to show the rating. The above take unifies the possibly to the most used presentation.

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The total fair value of the derivative instrument is classified as non-current assets or liabilities, if the remaining period up to maturity of the protected item exceeds 12 months, and as current assets and liability is shorter than 12 months.

The gains and losses from the variations on fair value are separated between intrinsic value and temporal value. Intrinsic value corresponds to actual hedge portion of cash flow, and initial records in adjustment account of equity evaluation in net worth, and recognized in the results when the protected operation took place and weighing the speed of the mileage redemption object of hedge. The temporal value corresponds to the non-effective portion of cash flow hedge and is recognized in specific account in financial results of the Company (Note 30).



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Company follows the concentration of the financial instruments in only one counterpart. Internal policies required the information of excessive concentrations to Financial Risks Committee. Notional concentration of the exchange derivatives is concentrated in three counterparts, rated BBB and -BBB. Company deems acceptable such concentration risk.

The respective notional and fair values of outstanding derivatives by maturity are described in Note 4.1.1.

### 12. Non-current assets available for sale

The balance showed in non-current assets available for sale in 2013, corresponds to aircrafts, engines and spare parts purchased by Pantanal purchase and aircrafts components recognized by TLA under negotiation. Such components were registered as non-current asset separate from other non-current assets when (i) the sale is actually established; (ii) management is committed to the sales plan of such assets; (iii) sale is made within 12 months period after December 31, 2013 and (iv) assets are available for sale in the current status. The assets registered in such group are evaluated by the lower value between the accounting value and fair value less the sales cost. On December 31, 2013, the balance of non-current assets available for sale was R\$ 4,151 (2012 - R\$ 18,221).

### 13. Deposits in warranty.

The deposits and guarantees under the aircraft and engines leasing agreement are updated according to the dollar ("USD") added by interests that might vary up to the London Interbank Offered Rate ("LIBOR") plus 1% interests per year. The redemption terms for deposits and guarantees are established in the leasing agreements

	2013	2012
Deposits in warranty.	122,787	82,287
<b>Current</b>	(47,193)	(47,210)
<b>Non-current</b>	75,594	35,077

### 14. Maintenance prepayments

The maintenance prepayments are the guarantees to the leased aircrafts and engines owner that should restore them to the original status upon the receipt. Some aircrafts lease agreements required the previous deposits in a restrict account on the lessor behalf related to the maintenances. The withdrawal in such account could be made by lessor if the required aircrafts and engines maintenance are not made on the return thereof. As the TLA performs the aircraft maintenances and the embedded items thereto such as the hull and landing gear among others, the TLA should request the return of the corresponding amount to lessor.

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	2013	2012
Maintenance prepayment	539,388	557,563



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Current		(357,943)		(256,557)
Non-current		181,445		301,006

**15. Investments**

**(a) Holding**

**(i) Balance composition**

	2013	2012
Stockholding in controlled companies	1,103,073	157,571
Provision for investments losses		(1,214,007)
	1,103,073	(1,056,436)

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**(ii) Direct Investments transactions**

	TLA	TAM Airlines	TP Participações	Multiplus	Pantanal	Corsair	ABSA	Total
<b>On December 31, 2012.</b>	(1,177,925)	48,623	(307)	108,757	(35,775)	191		(1,056,436)
Advancements for future recapitalization – AFAC	3,695,717						140,000	3,835,717
Capital gain on disposal of shareholding - Multiplus				419				419
Capital reduction from Pantanal Linhas Aéreas incorporation	(68,174)							(68,174)
Investment acquisition								
ABSA							(52,208)	(52,208)
Equity accounting results	(1,653,285)	29,634	1,129	169,115	1,912		7,412	(1,444,083)
Incorporation of Pantanal Linhas Aéreas					33,863			33,863
Hedge accounting (net of taxes)				17,616				17,616
Compensation based in stocks				3,542				3,542
Exchange variation in subsidiary abroad		1,302						1,302
Dividends and interests on equity		(4,452)		(164,033)				(168,485)
<b>On December 31, 2013.</b>	796,333	75,107	822	135,416		191	95,204	1,103,073

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**(iii) Information on subsidiary companies**

	TLA	TAM Airlines	TP Participações	Multiplus	ABSA	Pantanal (i)	Corsair	Total
Corporate Capital	940,949	46,183	30	80,172	4,061		191	
Stocks quantity –	2,064,602	87,653	30,100	162,004,630	1,353,567		1,000	





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total common									
Held - common	2,064,602	83,253	30,100	118,020,373	1,353,567		1,000		
<b>Holding %</b>									
In total capital	100.00	94.98	100.00	72.85	100.00		100.00		
In voting capital	100.00	94.98	100.00	72.85	100.00		100.00		
Net worth	796,333	79,078	822	185,882	95,204		191		
Investment amount	796,333	75,107	822	135,416	95,204		191		1,103,073
Net profit/ (loss) of the year	(1,653,285)	31,195	1,129	232,089	7,412	1,912			
Results from equity adjustment	(1,653,285)	29,634	1,129	169,533	7,412	1,912			(1,443,665)

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									2012
	TLA	TAM Airlines	TP Participações	Multiplus	Pantanal	Corsair			Total
Corporate Capital	897,122	46,183	30	79,565	49,508	191			
Stocks quantity - total common	2,064,602	87,653	30,100	161,964,306	117,778,942	1,000			
Held - common	2,064,602	83,253	30,100	118,026,958	117,778,942	1,000			
<b>Holding %</b>									
In total capital	100.00	94.98	100.00	72.87	100.00	100.00			
In voting capital	100.00	94.98	100.00	72.87	100.00	100.00			
Net worth (unsecured liabilities)	(1,177,925)	51,199	(307)	149,246	(35,775)	191			
Investment amount	(1,177,925)	48,623	(307)	108,757	(35,775)	191			(1,056,436)
Net profit/ (loss) of the year	(1,413,898)	11,513	293	224,305	(3,870)				
Results from equity adjustment	(1,413,898)	10,935	293	163,875	(3,870)				(1,242,665)

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(i) Pantanal was incorporated by TLA subsidiary in July 2013. The results of equity adjustment of such subsidiary refer to accrued results up to the incorporation date.

The main accounting item of main subsidiaries included in TAM S.A. consolidated financial statements is:

									2013
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	TLA	Multiplus	TAM Airlines	ABSA (Note 1.2).
Assets	15,756,890	1,557,308	173,704	1,093,505
Liabilities	14,960,557	1,371,426	94,627	998,302
Net worth	796,333	185,882	79,077	95,203
Net Income	14,481,751	1,650,810	246,855	177,408
Net profit (loss) of the period	(1,653,285)	232,089	31,195	7,412

	TLA	Multiplus	TAM Airlines	2012 Pantanal
Assets	13,315,961	1,302,109	111,540	23,734
Liabilities	14,493,886	1,152,863	60,341	184,466
Net worth (unsecured liabilities)	(1,177,925)	149,246	51,199	(160,732)
Net Income	13,393,591	1,476,014	266,706	150,566
Net profit (loss) of the period	(1,413,898)	224,305	11,513	(3,042)

**(b) Consolidated – joint venture**

Prismah Fidelidade S.A. is a subsidiary jointly controlled by subsidiary Multiplus and Aimia Newco UK LLP (“Aimia”). The shareholding in invested allows no unilateral decisions affecting the returns on investment. . Multiplus has 50% stocks on invested, such interest is recorded by equity adjustment method.

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**(i) Investments transactions**

	Quantity of stocks	Corporate capital amount
<b>On December 31, 2011.</b>		
Capital payment - Constituent GM (*)	500	1
Recapitalization - AGE (**) of 09/18/2012	6,571,500	6,571
Equity accounting results		(2,203)
<b>On December 31, 2012.</b>	6,572,000	4,369
Recapitalization - AGE (**) of 04/03/2013	11,028,097	11,028
Equity accounting results		(8,314)
<b>On December 31, 2013.</b>	17,600,097	7,083



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- (\*) Multiplus General Meeting
- (\*\*) Multiplus Extraordinary General Meeting
- (ii) Information on invested company**

	2013	2012
Corporate Capital	35,200	13,144
Stocks quantity – total common	35,200,194	13,144,000
Held - common	17,600,097	6,572,000
Holding %	50.00	50.00
Net worth	14,166	13,144
Investment amount	7,083	4,369
Losses of the year	(16,628)	(4,406)
Results from equity adjustment	(8,314)	(2,203)
Items of invested company		
Current Assets	16,362	8,902
Non-current assets	3,470	4,649
Current Liabilities	5,665	4,814
Financial income	2,442	336
Expenses in the year	(19,070)	(4,742)

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**16. Fixed Assets**

	Flight equipment (i)	Lands and buildings	Computers and peripheral	Machines and accessories	Fixed assets in progress	Aircrafts prepayment (ii)	Others (iii)	Consolidated Total
Total cost	11,885,512	271,316	180,603	156,698	17,560	930,396	253,096	13,695,181
Accrued Depreciation	(4,119,395)	(58,341)	(153,940)	(91,544)			(139,677)	(4,562,897)
<b>On December 31, 2012.</b>	7,766,117	212,975	26,663	65,154	17,560	930,396	113,419	9,132,284
ABSA purchase - cost	1,162	4,036	1,807	1,270			4,946	13,221
Absa acquisition - accrued depreciation	(518)	(2,207)	(780)	(637)			(3,139)	(7,281)
Reimbursement of prepayment of aircrafts (iv)						(447,823)		(447,823)
Acquisitions	242,036	737	22,879	8,021	7,686	162,446	34,708	478,513
Transfer	42,024	8,781		4,440	(12,699)	(44,361)	1,815	
Disposal / write-off (vi)	(1,885,496)	(984)	(500)	(89)			(312)	(1,887,381)
Capitalized interests						41,534		41,534
Depreciation	(550,118)	(7,464)	(12,842)	(11,336)			(19,820)	(601,580)
<b>On December 31, 2013.</b>	5,615,207	215,874	37,227	66,823	12,547	642,192	131,617	6,721,487
Total cost	10,285,239	283,886	204,789	170,340	12,547	642,192	294,253	11,893,246
Accrued Depreciation	(4,670,032)	(68,012)	(167,562)	(167,562)	(103,517)		(162,636)	(5,171,759)
<b>On December 31,</b>	5,615,207	215,874	37,227	66,823	12,547	642,192	131,617	6,721,487



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2013.								
	Flight equipment (i)	Lands and buildings	Computers and peripheral	Machines and accessories	Fixed assets in progress	Prepayments of aircrafts (ii)	Others (iii)	Consolidated Total
Total cost	11,308,543	260,768	175,787	141,501	33,661	832,350	217,151	12,969,761
Accrued	(3,491,950)	(51,059)	(137,553)	(80,983)			(121,297)	(3,882,842)
Depreciation								
<b>On December 31, 2011.</b>	<b>7,816,593</b>	<b>209,709</b>	<b>38,234</b>	<b>60,518</b>	<b>33,661</b>	<b>832,350</b>	<b>95,854</b>	<b>9,086,919</b>
Reimbursement of Aircrafts prepayment (iv)						(450,987)		(450,987)
Acquisitions	1,058,105	755	5,961	14,653	13,152	541,077	22,363	1,656,066
Transfers (v)	20,911	15,739	(150)	1,307	(29,253)	(21,002)	14,911	2,463
Disposal / write-off	(498,128)	(5,946)	(994)	(764)			(1,339)	(507,171)
Capitalized interests						28,958		28,958
Others							10	10
Depreciation	(631,364)	(7,282)	(16,388)	(10,560)			(18,380)	(683,974)
<b>On December 31, 2012.</b>	<b>7,766,117</b>	<b>212,975</b>	<b>26,663</b>	<b>65,154</b>	<b>17,560</b>	<b>930,396</b>	<b>113,419</b>	<b>9,132,284</b>
Total cost	11,889,431	271,316	180,603	156,698	17,560	930,396	253,096	13,699,100
Accrued	(4,123,314)	(58,341)	(153,940)	(91,544)			(139,677)	(4,566,816)
Depreciation								
<b>On December 31, 2012.</b>	<b>7,766,117</b>	<b>212,975</b>	<b>26,663</b>	<b>65,154</b>	<b>17,560</b>	<b>930,396</b>	<b>113,419</b>	<b>9,132,284</b>

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The useful life estimated for the items and used to calculate the depreciation is the following:

	Years
Flight equipment - aircrafts	6 - 25
Flight equipment - engines	10
Maintenance	4 - 6
Buildings	25
Machines and accessories	10
Computers	5

- (i) Includes the aircrafts, engines and spare parts sets. The acquisitions include the aircrafts under financial leasing according to CPC 6/ IAS 17. The Company has 70 aircrafts under such modality on December 31, 2013 (2012 - 83 aircrafts). TLA subsidiary received 19 aircrafts classified as operational leasing during the year ended on December 31, 2013 (subleased from LATAM holding).
- (ii) The amounts disbursed in aircraft acquisition program are maintained in advancements as the modality of the leasing agreement was not defined when the disbursement amount was made. Company's historic experience shows the return of the prepaid amounts on the delivery of the aircrafts by manufacture is probable.
- (iii) Encompass basically the furniture and vehicles.
- (iv) The aircraft prepayment transfers occur when the aircrafts are delivered. The amounts are reimbursed to TAM or capitalized with the flight equipment as "additions".
- (v) On December 31, 2012, balance corresponds to the transfer of items classified as intangible to fixed assets.
- (vi) In year ended on September 30, 2013, 13 A330 model aircrafts classified as financial leasing in flight equipment were transferred to LATAM, which were subsequently subleased to TLA. The recognition in the year results of R\$ 1,721,684 thousand expenses resulted from the transfer.

Except the aircrafts, there is no significant amount related to the fixed assets abroad. The aircrafts are in Brazil, however, they are used in domestic and international flights.

The depreciation expense is allocated to the income as follows:

	2013	2012
Cost of services rendered	565,766	645,196
Commercial Expenses	1,697	1,844



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General and administrative expenses		34,117	36,934
		601,580	683,974

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**17. Intangible**

**(a) Holding**

As mentioned in 1.1 explanatory note, on July 23, 2013, Pantanal was incorporated by TLA. As the results of such incorporation process, premium on the expectancy of future profitability generated from Pantanal acquisition on March 15, 2010 for R\$ 163,189 and effect of R\$ 38,262 in deferred income tax and social contribution previously recorded under investments was reclassified to intangible.

**(b) Consolidated**

	Information technology projects (i)	Software	Other intangible	Use rights - Slots	Trademarks and patents (iv)	Goodwill (ii)	Consolidated Total
Total cost	444,764	100,779	30,982	124,927	168,312	38,262	908,026
Accrued amortization	(224,070)	(84,830)					(308,900)
<b>On December 31, 2012.</b>	<b>220,694</b>	<b>15,949</b>	<b>30,982</b>	<b>124,927</b>	<b>168,312</b>	<b>38,262</b>	<b>599,126</b>
Additions	48,510	19,227					67,737
Prov. for designs conclusion	(2,975)						(2,975)
Transfer		1,152	(1,152)				
Amortization	(78,677)	(9,734)	(29,805)				(118,216)
<b>On December 31, 2013.</b>	<b>187,552</b>	<b>26,594</b>	<b>25</b>	<b>124,927</b>	<b>168,312</b>	<b>38,262</b>	<b>545,672</b>
Total cost	490,299	121,158	29,830	124,927	168,312	38,262	972,788
Accrued amortization	(302,747)	(94,564)	(29,805)				(427,116)
<b>On December 31, 2013.</b>	<b>187,552</b>	<b>26,594</b>	<b>25</b>	<b>124,927</b>	<b>168,312</b>	<b>38,262</b>	<b>545,672</b>

	Information technology projects (i)	Software	Other intangible	Use rights - Slots	Trademarks and patents	Goodwill (ii)	Consolidated Total
Total cost	355,714	93,340	30,982	124,927	168,312	38,262	811,537
Accrued amortization	(148,549)	(67,527)					(216,076)
<b>On December 31, 2011.</b>	<b>207,165</b>	<b>25,813</b>	<b>30,982</b>	<b>124,927</b>	<b>168,312</b>	<b>38,262</b>	<b>595,461</b>
Additions	93,284	13,943					107,227
Write-off	(3,048)	(5,227)					(8,275)
Transfer (iii)	(1,186)	(1,277)					(2,463)
Amortization	(75,521)	(17,303)					(92,824)
<b>On December 31, 2012.</b>	<b>220,694</b>	<b>15,949</b>	<b>30,982</b>	<b>124,927</b>	<b>168,312</b>	<b>38,262</b>	<b>599,126</b>
Total cost	444,764	100,779	30,982	124,927	168,312	38,262	908,026
Accrued amortization	(224,070)	(84,830)					(308,900)
<b>On December 31, 2012.</b>	<b>220,694</b>	<b>15,949</b>	<b>30,982</b>	<b>124,927</b>	<b>168,312</b>	<b>38,262</b>	<b>599,126</b>

The depreciation expense is allocated to the income as follows:

	2013	2012
Cost of services rendered		600
Commercial Expenses	1,553	6,645
General and administrative expenses	99,995	85,579
	118,216	92,824

(i) The balance of information technology projects takes into account the projects and software development expenses including the materials expenses, third parties worked hours and other direct expenses, which are acknowledged if the success is probable and taking into account the



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commercial and technological feasibility and the reliability on the cost measurement. Said expenses amortization is made by straight method during the period scheduled for the benefit. The amortization term is scheduled up to five years depending on the recovery term of each project.

(ii) On Pantanal acquisition in March 2010, rights separated from airport operations were identified as intangible assets. Fair value of such intangible assets was estimated on R\$ 124,927 and assets useful life deemed undefined. In 2011 first quarter, Company concluded the evaluation of the business combination arising from acquisition of Pantanal Linhas Aéreas S.A started on March 15, 2010. The amount of R\$ 38,262 was recorded as the results of such evaluation as deferred income tax and social contribution, liability originated from the difference between intangible tax value and fair value recorded for the business combination purposes. Resulted deferred tax liability was recorded in counter entry to the premium from the expectation of future profitability (goodwill).

(iii) On December 31, 2012, balance corresponds to the transfer of items classified as intangible to fixed assets.

**(a) Test for evaluation of reduction to the recoverable amount (impairment)**

In view of the Pantanal acquisition, Company recognized the use right in airport operations (slots) and premium as intangible assets with undefined useful life.

Slots were allocated to cash generator unit (UGC) Pantanal in the acquisition. Premium was allocated to operational segment "Aviation" including two UGCs. TLA and Pantanal. In the acquisition of TAM trademark, such trademark was recognized as intangible assets with undefined useful life allocated to TLA UGC.

Operational segment and Aviation UGC allocated on December 31, 2011, the premium for R\$ 38,262, slots with undefined useful life for R\$ 124,927, TAM trademark with undefined useful life for R\$ 168,312.

Aviation UGC recoverable amount was estimated based on fair value less sales cost. Fair value less sales cost was estimated by methodology taking into account the sales cost of TAM on December 31, 2013 reduced by Multiplus market value on such date on the extent of TAM interests in Multiplus. No reduction was identified on recoverable value.

**18. Financial liability**

Accounting value of the financial liabilities is measured by the amortized cost and the correspondent fair values as showed hereunder:

		Fair value		Consolidated Accounting amount	
	2013	2012	2013	2012	
<b>Current</b>					
Obligations by financial leasing (Note 18.1)	679,469	742,628	684,455		742,628
Senior bonuses (Note 18.2)	41,665	38,089	39,968		34,865
Loans (Note 18.3)	1,152,013	955,615	1,159,357		957,489
Debentures (i)		538,939			515,950
	1,873,147	2,275,271	1,883,780		2,250,932

		Fair value		Consolidated Accounting amount	
	2013	2012	2013	2012	
<b>Non-current</b>					
Obligations by financial leasing (Note 18.1)	3,224,490	4,430,996	3,230,413		4,430,996
Senior bonuses (Note 18.2)	2,669,462	2,442,037	2,554,938		2,224,583
Loans (Note 18.3)	8,958	10,144	9,015		10,182
	5,902,910	6,883,177	5,794,366		6,665,761

(i) Company requested on November 05, 2013 to BB - Banco de Investimentos S.A. the full anticipated redemption of debentures issued on July 24, 2009. Company has settled the debenture on November 21, 2013 for R\$ 417,226.

**18.1 Obligations on financial leasing**

	Monthly payment with final maturity in		2013	2012
<b>In domestic currency</b>				
Informatics Equipment	2014		13,108	15,616
<b>In foreign currency - US\$</b>				
Aircrafts	2024		3,707,547	4,949,361
Engines	2021		189,109	204,168
Machines and accessories	2014		5,104	4,479
			3,914,868	5,173,624
<b>Current</b>			(684,455)	(742,628)
<b>Non-current</b>			3,230,413	4,430,996

The letter of guarantee and escrows were offered by TAM to such leases.



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Minimum payments of the financial leasing are the following:

Year	2013	2012
Up to one year	757,122	857,336
Between 1 and 5 years	2,089,886	3,218,395
Over 5 years	1,352,425	1,659,013
Discount effect:	(284,565)	(561,120)
	3,914,868	5,173,624

On December 31, 2013, the Company through the subsidiaries TAL and TAM Airlines has 70 aircrafts (2012 – 83 aircrafts) recorded as financing lease.

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### 18.2 Senior bonuses

	2013	2012
TAM Capital, Inc. (i)	706,858	615,225
TAM Capital 2, Inc. (ii)	721,279	627,823
TAM Capital 3, Inc. (iii)	1,166,769	1,016,400
	2,594,906	2,259,448
<b>Current</b>	(39,968)	(34,865)
<b>Non-current</b>	2,554,938	2,224,583

- (i) On April 25, 2007, TAM Capital Inc concluded the offer for 3,000 seniors bonuses at US\$ 100 thousand unit par value in the total original amount of US\$ 300 million (equivalent to R\$ 710.4 million using the transaction exchange rate), R\$ 13.7 million raising cost, with 7.375% interest per year. (effective rate on the transaction date was 7.70% per year) paid biannually and the principal to be paid fully in 2017 by the offer abroad exempted from CVM registration. The company recorded the bonus at Security and Exchange Commission ("SEC") on October 30, 2007.
- (ii) TAM Capital 2 Inc concluded the offer for 3,000 seniors bonuses on October 22, 2009 at US\$ 100 thousand unit par value in the total original amount of US\$ 300 million (equivalent to R\$ 523.2 million using the transaction exchange rate) with 9.5% interest per year. (effective rate on the transaction date was 9.75% per year) paid biannually and the principal to be paid fully in 2020. The offer was made abroad exempt from CVM and SEC record. TAM Capital 2 is entitled to redeem previously the seniors bonds at any time. In the event of anticipated reimbursement, the redemption price shall be paid. The Management concluded that the redemption price compensates the interest losses of creditors as such the redemption option is related (clearly and closely) to the seniors' bonuses.
- (iii) On June 03, 2011, TAM Capital Inc concluded the offer for 5,000 seniors bonuses at US\$ 100 thousand unit par value in the total original amount of US\$ 500 million (equivalent to R\$ 787.2 million using the transaction exchange rate), R\$ 10.1 million raising cost, with 8.375% interest per year. (effective rate on the transaction date was 8.570% per year) to be paid biannually from December 2011, and the principal to be paid fully in June 2021. The offer was made abroad exempt from CVM and SEC record. TAM Capital 3 is entitled to redeem previously the seniors bonds at any time. In the event of anticipated reimbursement, the redemption price shall be paid. The Administration concluded that the redemption price compensates the interest losses of creditors as such the redemption option is related (clearly and closely) to the seniors' bonuses.

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### 18.3 Loans

	Guarantees	Financial burdens (effective rates in 2013 and 2012)	Payment terms and final maturity	2013	2012
<b>In domestic currency</b>					
Working Capital (i)		116.5% of CDI	Biannual - June 2014	100,031	
Others (ii)			Monthly up to 2015	1,609	3,617
				101,640	3,617
<b>In foreign currency</b>					
FINIMP (iii)	a) NP 100% + SBLC 100% - USD 21,304.50 b) NP principal + NP interest USD 23,884,755.50	Libor 12m + 2.30% per year and libor 12m + 3.90% per year	October 2014	1,056,810	850,530
Leasing renegotiation (iv)	Guarantee letter	Fixed installments (US\$ 55 thousand)	Monthly up to 2022	9,922	9,463



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Aircrafts prepayment financing					103,335
Others (v)					726
				1,066,732	964,054
				1,168,372	967,671
			<b>Current</b>	(1,159,357)	(957,489)
			<b>Non-current</b>	9,015	10,182

Import Financing (FINIMP), Projects Financing (FINEM), Long Term Interests Rate (TJLP), and Interbank Deposit Certificate (CDI)

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The installments maturities have the following distribution per year:

	2013	2012
Between 1 and 3 years	1,160	4,326
Over 3 years	7,855	5,856
	9,015	10,182

- (i) The issuance of 100 (one hundred) trade promissory notes at R\$ 1,000,000.00 (one million Brazilian reais), totally R\$ 100,000,000.00 (one hundred million Brazilian reais) ("Trade Notes").
- (ii) TAM has signed the financing agreements to acquire machines and equipment. The operations that are active have the maturity up to 2015 with bank Safra.
- (iii) TAM has signed the loans agreement in FINIMP modality in order to finance the aeronautical engines and parts import. Among the active operations, the funding with Safra, Banco do Brasil, Bradesco, Itaú, Citibank and have the maturity up to October 2014.
- (iv) Debts from the leasing renegotiation with Nederlandsche Credietverzekering Mij.NV (NCM), signed in March 1999.
- (v) Equipment, software programs and services acquisition agreement related to the information technology products.

**19. Deferred income**

	2013	Consolidated 2012
Transportation to be performed	2,156,307	1,848,267
Loyalty Program (Multiplus)	1,183,297	1,025,920
Deferred Income - TAM Viagens	12,182	9,769
Gains deferred from sale and leaseback operations (i)	14,082	35,814
Losses deferred from sale and leaseback operations (ii)	(28,374)	(42,770)
Income deferred from services agreement	202,952	224,209
	3,540,446	3,101,209
<b>Current</b>	(3,361,516)	(2,912,787)
<b>Non-current</b>	178,930	188,422

- (i) The deferred gains from sale and leaseback operations refer to the aircrafts sales in 2001 and 2003. The gains are recognized in the income statement by the straight method up to 2014. On March 04, 2011, Company performed the new operation related to one engine. The gain from such new transaction was R\$ 4,832 and should be amortized by means of straight line method up to 2015.
- (ii) On December 16, 2011, subsidiary TLA performed four sale and leaseback operations related to aircrafts financial leasing. The operations generated R\$ 20,130 loss that was deferred after the impairment tests of such aircrafts as determined by 64 paragraph of CPC 6/ IAS 17. The loss was amortized by straight line method up to 2015.  
On August 23, 2012, subsidiary TLA performed two sale and leaseback operations related to aircrafts financial leasing. The operations generated R\$ 30,156 loss that was deferred after the impairment tests of such aircrafts. The term for the loss amortization is up to 2016 by the straight line method.
- (iii) It refers basically to:
  - a. On December 29, 2011, subsidiary TLA signed the trade partnership agreement with Banco Itaucard S.A. (Itaucard) in order to offer, distribute and market through the distribution channels or any other mean the Itaucard card to TAM customers in all domestic territory for 15 years from such date. Itaucard advanced R\$ 200 million from the total agreement that was deferred and recognized in the income statement on straight line basis.
  - b. On August 02, 2012, TLA S.A. and TAM Viagens companies amended the partnership instrument to render financial services in exclusive regime that was signed on June 28, 2007 with Banco Santander S.A. to be in force up to October 31, 2017. Santander paid R\$ 34 million of additional premium for bank preference that was deferred and recognized in the income statement on straight line basis.

**20. Other Accounts Payable**





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	2013	Consolidated 2012
Maintenance provision - "power by hour" (i)	1,111,187	779,644
Other obligations	184,737	214,152
	1,295,924	993,796
<b>Current</b>	(470,018)	(384,384)
<b>Non-current</b>	825,906	609,412

(i) Company received 10 engines during the year ended on December 31, 2013 totaling 206 (2012 - 196) as power by hour agreements.

### 21. Provisions

#### (a) Provisions transactions

The Company and its controlled establish the provisions for the contingencies amounts classified as probable loss according to the legal consultants. On December 31, 2013, the total amount and the provisions transactions for contingencies and judicial deposits related to issues being discussed were composed as follows.

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	2012	Provisions (Deposits)	Payments	Financial burdens	Consolidated 2013
Air service fund (i)	271,567			15,429	286,996
Labor proceedings (ii)	152,925	64,849	(69,936)		147,838
Civil proceedings	107,452	19,638			127,090
Tax proceedings (iii)	198,010	55,499		1,203	254,712
Total	729,954	139,986	(69,936)	16,632	816,636
(-) court deposits	(376,515)	(50,613)		(3,224)	(430,352)
Total	353,439	89,373	(69,936)	13,408	386,284

(i) Refers to the collection on a percentage equivalent to 2.5% the monthly payroll assigned to the private social service entities and professional education. TLA's management objects to the constitutionality of said collection based on the opinion by tax consultants. The failure in recognizing such tax was supported by the court measure. Such measure was reverted in October 2012. the total payment should be made regularly after such period. After the reversal of preliminary injunction, TLA filed the appeal to recover it. Court deposit was required for R\$ 238,370 made in 2012.

(ii) In the year ended on December 31, 2012, the provision was increased by R\$ 132 million, from which R\$ 62 million referred to the mostly in respect to the inclusion of health hazard filed by Guarulhos airline workers union. R\$ 15 million by State of São Paulo airline workers union and R\$ 55 million regarding other airline workers union against the TLA.

Agreements were made in the first quarter 2013 between the parties and settled R\$ 63 million.

In third quarter 2013, provision was increased by R\$ 22 million of proceedings regarding the health hazards filed by Pernambuco and Rio de Janeiro airline workers union against the TLA. Total paid in 2013 was R\$ 11,421 thousand.

(iii) Fines assessed by American/ Brazilian authorities - ABSA

In year 2008, Fine was assessed by American authorities (IRS) against the Company for R\$ 49,077 (equivalent to US\$ 21 million). However, such penalty was undertaken fully by LAN Cargo overseas stockholder, rendering ABSA released from any cost related to such fine. Consequently, no provision was established in 2008 financial statements of ABSA.

In 2009 year, the penalty object above described was challenged in domestic territory by Economic Right Department - SDE, later on Economic Defense Administrative Council - CADE. ABSA was sentenced by decision made on August 28, 2013 to pay the fine for R\$ 114,134. According to our legal counselors, probability is estimated approximately on 60% to reduce the calculation basis of fine assessed to ABSA, based on objective criteria of using the *ne bis idem* principle thereto among other arguments, reducing the fine to amounts between R\$ 43,574 and R\$ 65,361.

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Based on opinion by Company's lawyers, provision was established in 2013 for R\$ 51,537, which is the best estimate of Management on probable cash disbursement related to such demand.

#### (b) Summary of the main proceedings classified as possible loss.

Company and its controlled still have tax, labor and civil proceedings involving risks of loss that were classified as possible by the management based on the legal consultants assessment, therefore, the provisions is not required on the date. The estimated amounts are showed hereunder:

	2013	2012
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Tax proceedings				
ICMS		651,407		410,580
IRPJ and CSLL		284,941		171,998
Others (i)		273,010		328,544
		1,209,358		911,122
Civil proceedings		147,206		145,430
Labor proceedings		618,990		525,795
		1,975,554		1,582,347

On April 23, 2013, there was the definitive closing of the judgment regarding the tax deficiency notice by Inland Revenue Office - PA 10314.720023/2011-15, by which the inspection required the Excise Tax (IPI) assessed on the aircrafts import from April 2006 up to February 2009. The Board of Directors of Tax Resources of the Ministry of Finance exempted the Company on 100% the required tax credit. The closing of such proceedings results in no effect for record purposes in Company's accounting, as the risk of loss of such proceeding was classified as possible. Therefore, there is no requirement to establish the provision in company's books.

**22. Deferred Income Tax And Social Contribution**

The assets and liabilities deferred income tax and social contribution is offset when the enforceable right legally exists to offset the tax credits against the current tax debts if they refer to the same taxable authority.

Assets and liabilities deferred income tax and social contribution in the period ended on December 31, 2013 without taking into account the balances offset in the same tax year is the following:

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	2012	Debit as Goodwill to acquire Pantanal (Note 17)	Debited (credited) to the income statements	Holding 2013
<b>Income tax and social contributions social - Deferred assets</b>				
Tax Losses	51,299		1,652	52,951
Negative basis of social contribution	19,696		717	20,413
Temporary differences				
Provisions for contingencies	2,701		2,419	5,120
Others	1,178		160	1,338
Deferred income tax and social contributions - intangible assets in Pantanal purchase.		(38,262)		(38,262)
<b>Total Deferred income tax and social contributions</b>	<b>74,874</b>	<b>(38,262)</b>	<b>4,948</b>	<b>41,560</b>

	2013	2012
Performance expectation within 12 month - net	8,827	13,671
Performance expectation over 12 month - net	32,733	61,203
	41,560	74,874

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	2012	Debited (credited) to the income statement	Credited to net worth statement	Consolidated 2013
<b>Deferred income tax and social contributions</b>				
Tax Losses	282,384	20,406		302,790
Negative basis of social contribution	105,920	8,858		114,778
Temporary differences				
Provision for derivative losses/ gain	20,637	(1,414)	(14,186)	5,037
Provision for derivatives made and non-recognized in results	1,093	(3,223)	1,729	(401)
Provisions for contingencies	188,575	43,102		231,677
Provision for inventory and accounts receivable losses	45,634	(45,634)		
Future income of sale and leaseback operation	3,798	(1,928)		1,870



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Loyalty program		(13)	13		
Financial leasing		(60,154)	479,022		418,868
Others		35,550	(34,146)		1,472
Fixed Assets		(42,536)	2,069		(40,467)
Adjustments of identified errors in proceedings - prior to 2013 year (i)		(276,039)			(276,039)
Adjustments of identified transactions in proceedings - in 2013 year (ii)			(27,089)		(27,089)
Deferred income tax and social contributions - intangible assets in Pantanal purchase.		(38,262)			(38,262)
Total		266,587	440,037	(12,457)	694,234
Assets Deferred income tax and social contributions		804,845	(62,901)	(12,457)	729,487
Liabilities Deferred income tax and social contributions		(538,258)	503,005		(35,253)

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	2013	2012
Performance expectation within 12 month - net	113,347	82,945
Performance expectation over 12 month - net	580,887	183,642
	694,234	266,587

(i) It refers to:

- Recognition of Income Tax and Social Contribution of 2012 year determined on the aircraft financial leasing, Power By Hour, and contingency provision from undue credits on international fuel on PIS and COFINS determination.
- Adjustment of tax loss by retroactive deduction of PDP amortization in second semester of 2012 year.

(ii) It refers to Deferred Income Tax and Social Contribution of first semester 2013, determined on aircraft financial leasing, Power by the Hour.

Deferred assets taxes from tax losses, negative basis of social contribution and temporary differences are recognized as the correspondent realization is likely of tax benefit by means of the future assessable profits.

On December 31, 2013, tax credits were established on the losses made by subsidiaries for R\$ 181,397 (2012 -R\$ 236,850).

**(a) Composition of the income tax and social contribution expense.**

	Holding		Consolidated	
	2013	2012	2013	2012
Current tax			(120,544)	(116,384)
Deferred tax	4,948	44,899	440,037	476,189
	4,948	44,899	319,493	359,805

Income tax and social contribution determined on the Company's profits before assessment differs from the theoretical value that should result from the use of weighted average of tax rate applicable to the profit of consolidated entities as follows:

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	Holding		Consolidated	
	2013	2012	2013	2012
Loss before income tax and social contribution	(1,521,845)	(1,388,249)	(1,772,249)	(1,642,146)
Nominal rates - %	34%	34%	34%	34%
Taxes determined at the nominal rate	517,427	472,005	602,565	558,330
Tax effects on the permanent (additions)/ exclusions:				
Equity accounting results	(494,825)	(422,441)	(2,636)	(749)
Non-deductible expenses	(4,330)	(96)	(209,440)	(47,688)
Tax credits of capital interests paid			1,042	786
Tax debit of interest on equity received	(2,798)	(2,112)		
Tax credits which is not constituted on the tax losses and negative base of the social contribution.				(1,316)
Tax debts / credits which are not constituted on the profits earned abroad			(43,651)	(67,096)
Compensation based on stocks				
Others	(10,526)	(2,457)	(28,387)	(75,943)
Adjustment from prior years				(6,519)
Tax credit (expense) from income tax and social contribution.	4,948	44,899	319,493	359,805



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Effective rates %	0.3	3.2	18.1	21.9
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The base years 2009 through 2013 are subject to the examination by the Brazilian tax authorities.

**(b) Transition Tax Regime (RTT)**

On November 11, 2013, Provisory Measure (MP) no. 627 was published revoking the Transition Tax Regime (RTT) providing on the assessment of people resident in Brazil regarding profits earned abroad. The standard purpose is to set forth the adjustment to be made in tax book to determine the calculation basis of Legal Entity Income Tax (IRPJ) and Social Contribution on Net Profit (CSLL) for the tax neutrality on the new accounting methods and criteria provided by Law no. 11638/07 and Law no. 11941/09.

Company analyzed the actual potential of the new standard, which has no relevant effect on 2013 financial statements, and waits for the conversion of such Law to measure definitively the effects and decide on the optional adhesion as of 2014.

**23. Net worth**

**(a) Authorized capital**

Corporate capital authorized on December 31, 2013 is R\$ 1,200,000 (2012 - R\$ 1,200,000) and should be increased by issuing common or preferred stocks upon Board of Directors' decision.

**(b) Corporate capital**

On December 31, 2013, the subscribed and paid-up capital is represented by 156,672,079 stocks (2012 - 156,672,079).

Several capital increase was carried out in period ended on December 31, 2013 with no increase on stocks quantity, according to the table hereunder.

	AGE Date (i)	Quantity of stocks	R\$ thousand
<b>On December 31, 2012.</b>		156,672,079	830,768
Recapitalization in kind	06/13/2013		390,402
Recapitalization in kind	06/14/2013		117,524
Recapitalization in kind	06/17/2013		264,840
Recapitalization in kind	06/18/2013		419,630
Recapitalization in kind	06/19/2013		582,088
Recapitalization in kind	06/24/2013		539,001
Recapitalization in kind	06/26/2013		532,896
Recapitalization in kind	09/26/2013		777,105
			3,623,486
Adjustment of balance of Corporate Capital			(328)
<b>On December 31, 2013.</b>		156,672,079	4,453,926

(i) AGE - Extraordinary General Meeting

**(c) Dividends distribution**

Dividends were not distributed for the years ended on December 31, 2013 and 2012, which years had losses.

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**24. Capital Reserve**

**(a) Premium on stocks subscription**

Premium reserve was determined on appreciation of the net assets received regarding the amount contributed as recapitalization.

**25. Adjustment on Assets Evaluation**

**(a) Accrued adjustment of translation**

The variation effects on exchange rate during the year are recognized on net worth of operations abroad at the beginning of the year. The difference between the net profit of the year and average exchange rate at the end of the year are recorded under equity evaluation in net worth.

**(b) Revaluation reserve**

As provided under Law no. 11,638/07, IFRS 1 and CPC 13 Statement - Initial Adoption of Law no. 11.638/07, the Company adopted the reevaluated residual amount on December 31, 2007 as the new cost amount for the reevaluated items. The revaluation reserve is made as counter-entry to the accrued profits (losses) account in the same proportion of the depreciation, disposal or the write off of the reevaluated assets. In the year ended on December 31, 2013, the net tax effects was R\$ 1,372 (2012 - R\$ 1,497).

**(c) Hedge accounting**

This refers to the actual portion of accrual net variation of the fair value of cash flow hedge instruments related to operation under protection which were not incurred. The values recorded in this account are reclassified to full or partial results of the year according to the performance.

**(d) Premium on acquisition of ABSA Linhas Brasileiras S.A**

This refers to the premium determined on ABSA purchase on November 1st, 2013, according to CPC 15/IFRS 3(R) methodology - Business Combination (Note 1).

**26. Compensation based on stocks**

**(a) TAM Linhas Aéreas**

In the AGE held on May 16, 2005, the stockholders approved the use by the board of director up to 2% of outstanding stocks for granting the stocks options to the employees.

On Extraordinary General meeting held on July 12, 2012, Company decided by means of unanimously decision of the attending stockholders on the termination of the Compensation Plan based on Stocks in respect to the granting of new beneficiaries. The call option is maintained until the respective



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vesting is completed, which payment shall be cash other than assets instrument. On the dates of respective vesting, the options beneficiaries should receive the payment in cash equivalent to the product between (i) total number of call options to be exercised; and (ii) difference, if any, between (ii.1) price of the call option exercise and (ii.2) the outcomes from multiplying 0.90 (ninety hundredth) by the closing price of LATAM Airlines Group S.A. Stocks in Santiago's stocks exchange on the business day immediately prior to the option exercise. There is no change on the exercise price agreed. According to IFRS 2 - Payment based on stocks, the fair value of the outstanding options should be recalculated at each report period. Company has recalculated the fair value of outstanding options using the Black-Scholes pricing model. On December 31, 2013, the fair value is R\$ 3,497 of outstanding stocks recognized in Company's liabilities. The premises used in the pricing model were updated on December 31, 2012 based on LATAM information and are showed hereunder:

	2nd grant	3rd grant	4th grant	1st grant special	Total
Date	11/30/2006	12/14/2007	05/28/2010	09/27/2007	
Date of last change	07/12/2012	07/12/2012	07/12/2012	07/12/2012	
Quantity of stocks	239.750	655.311	591.467	230.000	1,716,528
Price of the year - R\$	43.48	39.67	25.11	38.36	
Interests rate exempted from risk %	13.13	10.95	9.38	10.82	
Interests rate exempted from risk % after modification	8.71	8.71	8.71	8.71	
Average contractual term	5.5	5.5	5.5	4.5	
Income expected from dividend %	0.32	0.58	0.55	0.58	
Expected revenue of the dividend % - after change	0.30	0.30	0.30	0.30	
Volatility of the stocks in the market %	41.29	42.30	51.47	40.48	
Stocks volatility in Market - % - after change	25.76	20.98	24.54	28.55	
Price of the stock market on the granting date R\$	61.00	44.03	24.30	50.10	
Price in Stock Market on the changing date	46.48	46.48	46.48	46.48	
Fair value on the grant date - R\$	41.11	25.09	13.57	28.28	
Fair value on the grant date - R\$ after change			4.90		
Price of the year adjusted on 12/31/2013 - R\$	68.02	57.99	32.27	57.79	
Quantity of outstanding options on 12/31/2013	119,401	259,857	228,475	230,000	837,733
Quantity of options to be made on 12/31/2013	119,401	259,857		230,000	609,258
Valuation of the options to be exercised on 12/31/2013 - R\$	3,466,941	6,432,642	3,147,310	5,673,909	18,720,802
Average of contractual life remaining on 12/31/2013			1.61		

The expected volatility is based on the historic volatility of the LATAM's stocks negotiated in the Stocks Exchange. The average contractual life remaining is based on the exercise expectancy.

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#### (b) Multiplus S.A.

In Extraordinary General Meeting held on October 4th, 2010, stockholders approved 3% (three percent) maximum dilution of outstanding stocks quantity to be used by Executive Board to grant the stocks option to employees thereof.

The transactions are summarized hereunder:

	Outstanding Options number	Average price of the year - R\$
<b>On December 31, 2011.</b>	1,577,278	14.64
Granted	440,563	31.41
Exercised	(593,021)	15.48
Canceled	(533,559)	15.82
<b>On December 31, 2012.</b>	891,261	23.35
Granted	772,066	36.69
Exercised	(40,324)	12.28
Canceled	(540,540)	15.13
<b>On December 31, 2013.</b>	1,082,463	28.43

According to the plan provisions, the granted options for regular granting are divided into three equal parts. the employees could exercise the third part of their options of three, four, or five years, respectively, if still an employee of the Company at such time. The contract validity of the options is seven years after the option granting. First extraordinary granting was split into two equal parts that should be made as half of the options after three years and other half after four years. Second extraordinary granting was split into two equal parts that should be made after one year and two years, respectively. The options has the "service condition" that is the options depend exclusively on the services rendered by employee for a previously established period. The dismissed employees are obliged to comply with certain suspending conditions to maintain the right on the options. Options are evaluated by Black-Scholes pricing model. The table hereunder shows the variation details on options together with variables used to evaluate



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the granted options. The exercise price is adjusted by IGP-M from the granting date of options up to the exercise date.

In 2013, R\$ 4,863 was recorded in the results of the year (2012 - R\$ 8,155) related to expense incurred with compensation plan based on stocks, the accrued balance in net worth in 2013 is R\$ 24,471 (2012 - R\$ 19,608).

On December 31, 2013, premises used to determine the fair price of granting were the following:

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	1st. Granting	2nd. Granting	3rd. Granting	4th. Granting	1st. Extraordinary granting	2nd. Extraordinary granting	3rd. Extraordinary granting	4th. Extraordinary granting	Total
Date of Granting	10/04/2010	11/08/2010	04/16/2012	04/03/2013	10/04/2010	10/04/2010	04/16/2012	11/20/2013	
Date of last change	06/30/2011	06/30/2011	N/A	N/A	06/30/2011	06/30/2011	N/A	N/A	
Quantity of stocks	98,391	36,799	378,517	566,491	1,370,999	154,570	62,046	205,575	2,873,388
Exercise Price on the date of granting after the modification	23.61	27.83	31.41	38.59	12.28	16.28	31.41	26.50	
Interests rate exempted from risk - %	12.15	12.15	10.30	7.16	12.15	11.88	8.86	8.99	
Average contractual term - years	4.63	4.67	4.75	5.00	4.88	3.25	4.75	3.54	
Income expected from dividend - %	2.60	2.60	4.17	4.49	2.60	2.59	4.17	4.96	
Volatility of the stocks in the market - %	33.79	33.79	32.78	34.56	33.79	34.24	32.78	34.59	
Price of the stock market on the granting date - R\$	26.90	31.55	38.36	30.60	26.90	26.90	38.36	28.00	
Price of the stock market on the date of last modification - R\$	27.20	27.20	N/A	N/A	27.20	27.10	N/A	N/A	
Fair value of option on the grant date - R\$	11.58	14.06	14.68	6.53	16.91	10.53	13.86	7.80	
Fair value of option on the modification date - R\$	12.17	10.71	N/A	N/A	17.35	14.29	N/A	N/A	
Average adjusted price of the year - 12/31/2013	28.80	33.95	35.62	40.33	15.13			26.66	
Average of contractual useful life remaining - 12/31/2013	3.83	3.88	4.57	5.00	4.00				
Quantity of outstanding options - 12/31/2013	11,289	2,245	166,236	334,207	362,911			205,675	1,082,563
Quantity of options to be made - 12/31/2013									
Valuation of the outstanding options - 12/31/2013 - R\$	325,123	76,218	5,921,338	13,478,555	5,490,843			5,480,630	30,772,707

The expected volatility is based on the historic volatility of the Multiplus' stocks negotiated in the Stocks Exchange. The average contractual life remaining is based on the exercise expectancy.

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### 27. Income

Separately no TAM's customer represents more than 10% the income in 2013. Company has the information on the gross income segment by service type as follows:

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

	2013	%	2012	%	Consolidated Period - variation (%)
<b>Domestic</b>					
Passenger	7,895,532	50.0	7,444,140	51.8	6.1
Cargo	691,577	4.3	550,315	3.8	25.7
	8,587,109	54.3	7,994,455	55.6	7.4
<b>International</b>					



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Passenger	5,122,717	32.4	4,465,801	31.1	14.7
Cargo	443,904	2.8	299,622	2.1	48.2
	5,566,621	35.2	4,765,423	33.2	16.8
<b>Other operational income</b>					
Loyalty Program (Multiplus)	517,969	3.3	438,075	3.1	18.2
Travel and tourism agency	90,583	0.6	93,667	0.7	(3.3)
Others (includes overdue tickets)	1,043,538	6.6	1,070,111	7.4	(2.5)
	1,652,090	10.5	1,601,853	11.2	3.1
<b>Gross income</b>	15,805,820	100.0	14,361,731	100.0	10.1
Taxes and other deductions	(770,969)		(570,218)		35.2
<b>Net Income</b>	15,034,851		13,791,513		9.0

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#### 28. Operational costs and expenses by nature

	Cost of services rendered	Sales	General and Administrative	Consolidated	
				Total	%
Personnel	2,228,386	292,309	306,384	2,827,079	18.2
Board of Directors' fees			264	264	0.0
Fuel	5,424,963			5,424,963	35.0
Deprec. and amortizations	567,318	18,427	134,051	719,796	4.6
Maintenance and repairs (except staff)	1,003,599			1,003,599	6.5
Aircraft insurance	32,388			32,388	0.2
Take-off, landing, and navigation rates.	900,439			900,439	5.8
Aircraft, engines and equipment leasing	871,363	8,757	55,999	936,119	6.0
Third parties services.	263,356	492,902	406,977	1,163,235	7.5
Sales and marketing	747,042	747,042		747,042	4.8
Others (i)	561,696	305,818	888,434	1,755,948	11.3
<b>On December 31, 2013.</b>	<b>11,853,508</b>	<b>1,865,255</b>	<b>1,792,109</b>	<b>15,510,872</b>	<b>100.0</b>

(i) Increase of other expenses classified as General and Administrative regarding the transfer of 13 A330 aircrafts model to LATAM for R\$ 520,836.

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	Cost of services rendered	Sales	General and administrative	Consolidated	
				Total	%
Personnel	2,378,058	292,862	264,475	2,935,395	20.4
Board of Directors' fees			1,464	1,464	0.0
Fuel	5,587,479			5,587,479	38.7
Depreciations and amortizations	645,796	8,490	122,512	776,798	5.4
Maintenance and repairs (except staff)	758,373			758,373	5.3
Aircraft insurance	33,462			33,462	0.2
Take-off, landing, and navigation rates.	847,734			847,734	5.9
Aircraft, engines and equipment leasing	524,252	12,508	25,884	562,644	3.9
Third parties services.	230,711	387,160	488,201	1,106,072	7.7
Sales and marketing		697,612		697,612	4.9
Provisions - labor, civil, airlines workers fund and tax			253,339	253,339	1.8
Others	417,373	176,825	258,825	853,023	5.8
<b>On December 31, 2012.</b>	<b>11,423,238</b>	<b>1,575,457</b>	<b>1,414,700</b>	<b>14,413,395</b>	<b>100.0</b>



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**29. Benefits to employees**

Personnel costs (includes "Personnel" and "Management Fees" in Note 28) has the following composition:

	2013	2012
Salaries and bonuses	2,496,859	2,306,648
Pension plan with defined contribution	32,874	32,403
Compensation based on stocks	4,197	11,206
Taxes, and social contributions	293,413	586,602
	2,827,343	2,936,859

**29.1. Profits sharing and bonuses**

Company's management shall pay the sharing in results and bonus if certain performance targets are reached as set forth under the annual budget. Consequently, Management has recognized during the year the expense for such bonuses in "Salaries and social burdens" for R\$ 54,419 (2012 - R\$ 40,905).

**30. Financial Income**

	2013	Holding 2012	2013	Consolidated 2012
<b>Financial income</b>				
Interest revenue from investments	3,684	20,704	96,911	135,548
Interest revenue on loan			74,570	
Interest revenue			20,095	
Exchange earnings	188	15	910,912	2,115,855
Financial Income - Court deposits			3,224	13,662
Others		1,949	16,899	
	3,872	22,668	1,122,611	2,265,065
<b>Financial expenses</b>				
Exchange losses			(1,766,376)	(2,691,181)
Interests expenses (i)	(978)	(5,812)	(517,060)	(428,185)
IOF, PIS e COFINS on remittances abroad			(73,348)	(150,457)
Others	(12,253)	(2,539)	(31,405)	
	(13,231)	(8,351)	(2,388,189)	(3,269,823)
<i>Derivative designated as hedge of cash flow</i>				
Gain				18,506
Losses			(16,326)	(791)
			(16,326)	17,715
<b>Net financial Income</b>	(9,359)	14,317	(1,281,904)	(987,043)

(i) The monthly average rage of interests capitalization in December 31, 2013 was 0.42% (2012 - 0.36%).

The exchange rate variation on the financial leasing acknowledge in the income of the year ended on December 31, 2013 totaled the net expense of 613,213 (2012 - R\$ 443,261 and interests expenses on such leasing acknowledged in the results for the same period totaled R\$ 88,683 (2012 - 112,358).

**31. Other disclosure on cash flow**

The income from the fixed assets sale in the cash flow comprises:

	2013	Consolidated 2012
Resources from (used on) disposal of fixed assets	62,787	584
Fixed assets accounting amount	(5,143)	(501,264)
Gains (loss) from the disposal of fixed assets	57,644	(500,680)
	2013	Consolidated 2012
Booking amount of available for sale	15,044	
Loss of disposal	(1,728)	
Funds from disposal of available for sale	13,316	



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**Non-monetary transactions**

The main transactions that have not affected the cash and cash equivalent were:

	2013	Consolidated 2012
Acquisition of fixed assets by financial leasing		124,430
Financing raised for direct payment to suppliers		57,493
Purchase of Fixed assets acquired by financing	236,127	44,460
Acquisition of other fixed assets		2,463
Aircrafts prepayment financing	18,898	161,084
Write off by disposal/ transfer of ownership	1,887,381	
ABSA Investment Acquisition	56,269	
Transfer to non-current assets available for sale	974	

**32. Commitments and contingencies****(a) Operational leasing commitment**

TLA HAS OBLIGATIONS RESULTING FROM THE AIRCRAFTS LEASE OPERATIONS UNDER SIMPLE OPERATIONAL MODALITY. THE AMOUNTS CORRESPONDING TO THE LEASED EQUIPMENT COMMITMENTS ARE NOT REFLECTED IN THE BALANCE SHEET. ON DECEMBER 31, 2013, TAM HAS 65 AIRCRAFTS UNDER SIMPLE OPERATIONAL LEASE MODALITY (2012 - 68 AIRCRAFTS). THE AVERAGE TERM OF THE AGREEMENTS IS 110 MONTHS UPDATED ON THE VARIATION OF US DOLLAR RATE ADDED BY LIBOR. THE AIRCRAFTS AND ENGINES LEASE AGREEMENTS RECOGNIZED IN THE CONSOLIDATED INCOME UNDER "RENDERED SERVICES COST" TITLE TOTALED R\$ 871,363 ON DECEMBER 31, 2013 (2012 - R\$ 567,326) RESPECTIVELY EQUIVALENT APPROXIMATELY TO US\$ 371,964 (2012 - US 277,625).

MOST OPERATIONS HAD THE GUARANTEE LETTER OR DEPOSITS TO GUARANTEE THE COMPANY'S ISSUANCE.

Additionally, promissory notes were offered with the Company guarantee in order to meet the payments schedules under the agreement, in the total on December 31, 2013 of R\$ 1,848 (2012 - R\$ 2,023).

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In foreign currency - USD (*)	Monthly payment with final maturity in		2013	2012
Aircrafts	2023		1,540,335	1,365,811
Engines	2021		8,716	17,337
			1,549,051	1,383,148

(\*) Operational leasing is denominated in US dollars and the future payment agreements are presented in Reais exchanged by the closing rate of the period.

The maturities have the following distribution per year:

	2013	2012
Up to one year	422,925	399,337
Between 1 and 5 years	871,899	806,373
Over 5 years	254,227	177,438
	1,549,051	1,383,148

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

On June 28, 2007, controlled signed the Memorandum of Understanding to acquire 22 A350XWB Airbus, 800 and 900 models to be delivered between 2013 and 2018.

Additionally, TLA confirmed performing 4 more A330 Airbus option delivered in the first semester of 2010 and 2011, regarding the agreement at the end of 2006. Controlled confirmed also the 20 options that were transferred from 2005 to 2006 which receipts were scheduled up to the end of 2014.

On June 2010, TLA announced the order of 20 new Airbus aircraft of the A320 family and 5 A350-900, increasing the total order of Airbus aircraft to 176 - including 134 aircrafts of A320, 15 A330-200 and 27 A350WXB families. The purpose of such order is fulfilling the fleet plan already disclosed



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by the Company in 2009. Among the 20 aircrafts ordered on A320 (A319, A320 e A321) family, 10 aircrafts shall be delivered in 2014, and other 10 aircrafts delivered in 2015.

### **(ii) Fleet expansion and renewal**

On February 28, 2011, Company informed the order of 32 aircrafts of A320 Airbus Family and 2 - 777-300ER Boeings. They shall be used for the fleet renewal and expansion. The amount of such new orders is approximately US\$ 3.2 billion based on the list amounts. In respect to the 32 aircrafts ordered to Airbus, 22 of them are of new A320neo model and 10 of A320 Family. The aircrafts under such order shall be delivered between 2016 and 2018.

Two 777-300ER Boeings shall be delivered in 2014. In view of the additional order of 2 aircrafts, the total quantity of orders to the North American manufacturer reaches 8 including the 4 aircrafts delivered in 2012 and 2 in 2013. After the delivery of all aircrafts, we shall have 12 Boeings in our fleet.

### **(c) Insurance**

TAM has the proper insurance for the expected risks to cover all liabilities generated by July 17, 2007 accident, with Airbus A320 aircrafts, taking into account the agreements with the victims' families already made and paid by insurance company. Payments made to the victims' family were 196 up to December 31, 2013 (2012 – 192) and others are negotiated by the Company's insurance company. Management understands the proper coverage of the insurance shall cover all related costs. Company thinks no additional expenses or unforeseen shall be incurred other than in the scope of insurance agreement under TAM direct liability.

### **(d) - Contingent liabilities**

Contingencies probably requiring the payment by the TAM are provisioned and described under Note 21.

### **(e) Contingent Assets**

#### **(i) ICMS**

On December 17, 2001, in view of the decision pronounced by the Federal Supreme Court (STF) the ICMS is no longer assessed on the income from the domestic and international air transportation services of passenger and the income from the air transportation services of international cargo.

In view of said decision, the ICMS taxation is still required on the air transportation services of domestic cargo. The company maintains the provision for R\$ 19,977 (2012 – R\$ 2,497) in December 31, 2013 under "Taxes and fees payable".

In the period from May 1989 through May 1994, ICMS payment was made which are considered undue in view of the unconstitutionality of the Law providing thereon. TLA has chosen to file the recovery of undue debits indifferent states of the country in order to recovery the total of the amounts unduly paid. TLA's management will recognize the involved debts when the finance recovery of said right is judged in the last level of the courts.

#### **(ii) Indemnity for damages related to the prices freeze.**

TLA filed the lawsuit against the Federal Government requesting the indemnity b breach on the economic-finance instability of the air transportation concession agreement by tariff insufficiency. The instability thereof occurred from January 1988 through September 1993, when the operations were maintained with the tariffs established then by the Federal Government. In April 1998, the proceeding ruled with merit by the Federal Justice and the indemnity amount was established based on the



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calculation by the court expert. Said amount is subject to delay interests since September 1993, and the monetary adjustment from November 1994. The 1st Group of the Supreme Court granted the appeal filed by TLA in order to determine the analysis of the appeal merit by the Federal Regional Court without the intervention of the Public Attorney's Office.

The management has not recorded said credits which shall be made when said right is judged at the highest level.

**(iii) Additional Airport tariff - ATAERO**

In 2001, TLA filed the ordinary lawsuit with the advance protection that discusses the legality of the additional of airport rates created by Law no. 7920/89, which assesses 50% rate on the airport rates. Such percentage was reduced to 35.9% as of January 2012. Company pays monthly such amounts that were the total of R\$ 1,201,150 on December 31, 2013 (2012 - R\$ 1,146,398). No assets were recognized in accounting thereon.

**33. Subsequent Events**

In the quarter ended on March 31, 2014, Company transferred ten aircrafts of 320 Airbus family to LATAM Airline Group S.A. holding (LATAM), which net effect booked in results (loss) was R\$ 183,488. Such aircrafts were object of subleasing operations signed with the Latam on the same date. On February 19, 2014, Company signed the credits assignment agreement of Pre-delivery payment (PDP) with LATAM holding. Transaction amount was R\$ 436,000 aligned with the fleet integration process between the Companies.

Extraordinary General Meeting was held on March 20, 2014 the stockholders of the Company approved the recapitalization of R\$ 582 million. Corporate capital changes from R\$ 4,450,973 thousand to R\$ 5,032,973 thousand.

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**Marco Antonio Bologna**  
**CEO**  
**Claudia Marina Noraha**  
**Controllership Director**

**Daniel Levy**  
**Financial Director**  
**Ricardo Yuji Watanabe**  
**Accountant - 1SP251964/O-9**

**TAM S.A**

**TAM S.A. and its subsidiaries**

**Management Explanatory notes to interim consolidated financial statements**

**Quarter ended on March 31, 2013**

(Amounts expressed in thousands of Brazilian reais, except as otherwise informed).

To Managers and Stockholders

TAM S.A

We examined also TAM S.A. separate financial statements (hereinafter simply referred to as "Company" or "Holding") comprising the balance sheet on December 31, 2013 and respective income statements, comprehensive results changes in stockholders equity, cash flow for the year ended on this date, as well as TAM S.A. and its subsidiaries consolidated financial statements (hereinafter simply referred to as "consolidated") comprising the balance sheet on December 31, 2013 and respective consolidated income statements, comprehensive results changes in stockholders equity, cash flow for the year ended on this date, as well as the summary of the main accounting



**ANDRÉ WHITAKER SALLES**  
**TRADUTOR PÚBLICO E INTÉRPRETE COMERCIAL - CERTIFIED PUBLIC TRANSLATOR**  
*Idioma: Inglês - English*

Matrícula Jucesp nº 612 - CPF 579.221.441-72 - CCM 2.397.020-0  
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policies and other explanatory notes.

**Management liability on the financial statements.**

Company's management is liable for preparing and submitting the separate financial statements according to the accounting practices adopted in Brazil, and the internal control determined as necessary to allow preparing such financial statements free from relevant distortion irrespective if caused by fraud or error.

**Public Accountants liability.**

Our liability is to express an opinion on such financial statements based on our examination, performed according to the Brazilian and international audit standards. Such rules require the fulfillment of the ethics requirements by auditors, also planning and performing the audit in order to obtain reasonable safety that the financial statements are free from relevant distortion.

The audit involves performing the selected procedures to obtain the evidence on the amounts and disclosure presented by the financial statements. The selected procedures depend on the auditor judgment including the evaluation of the relevant risks distortion in the financial statements irrespective if caused by fraud or error.

In such risks evaluation, auditor deems the internal controls are relevant to prepare and submit properly the Company's financial statement in order to plan the audit procedures proper to the circumstances, other than expressing an opinion on the efficacy of such Company's internal control. The audit also includes the evaluation of the adequacy of the accounting policies used and the reasonability of the accounting estimates prepared by management, and the evaluation on the overall financial statements.

We think the evidence obtained by audit is enough and proper to base our opinion with exception.

**Base for opinion with exceptions.**

In financial statements of subsidiary TAM Linhas Aéreas S.A of December 31, 2012, Company's management has made adjustment to remedy the errors accrued in " Deferred Income (transportation to be rendered)", "Accounts receivable", "Pre-paid expenses (commissions and incentives)" Taxes and contributions payable" and "Other accounts payable" and deemed unfeasible (i) to measure the correspondent tax effects and (ii) identify in which previous periods the errors were made when the recording should be made. Therefore, the adjustments for R\$ 1,123,740 thousand were made to the accrued losses account on December 31, 2012, and the balance sheet on such date was resubmitted. The effect of the same amount affects the equity equivalence results of TAM S.A. (Holding) on December 31, 2012 In such circumstances, the previous periods could not be determined regarding the errors, therefore, identifying the effects of such adjustments on the income statement, the comprehensive income, the changes in stockholders equity, and cash flow of the year ended on December 31, 2012, submitted for comparison purposes.

**Opinion with exception**

In our opinion, except the subject described in paragraph "Base for opinion with exception", the financial statements referred to above properly represent the equity and financial position of TAM S.A. and TAM S.A. and its subsidiaries in all relevant aspects on December 31st, 2013, the performance of the operations, cash flow and consolidated performance of the operations and consolidated cash flow for the year ended on such date, according to the accounting practices adopted



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in Brazil.  
São Paulo, April 07, 2014.  
PricewaterhouseCoopers  
Public Accountants  
CRC 2SP000160/O-5  
Luciano Jorge Moreira Sampaio Júnior  
Accountant CRC 1BA018245/O-1 "S" SP

IN WITNESS THEREOF, I SET MY HAND AND SEAL IN THE CITY OF SÃO PAULO, STATE OF SÃO PAULO, FEDERATIVE REPUBLIC OF BRAZIL.

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Date: 04.17.2014.



**21° Tabelião de Notas**  
**São Paulo - Capital**  
Luz Affonso Spagnuolo Medina - Tabelião

Reconheço por SEMELHANÇA a(s) Firma(s) S/ VALOR  
ECONOMICO de: ANDRE WHITAKER SALLES, a qual  
confeitei com padrão depositado em cartório.  
São Paulo, 17/04/2014, 16:42:53  
Seq: 6714051 em Testemunho da verdade  
RODRIGO FERNANDO BAZZ - ESCRIVENTE Total R\$ 4,56

R. Líbero Badaró, 386 - CEP: 01006-300 - Centro - São Paulo  
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