



TAM S.A. AND SUBSIDIARIES

Financial statements for the years ended
December 31, 2015 and 2014

*(A free translation of the original financial statements in Portuguese,
prepared in accordance with accounting practices adopted in Brazil and the
International Financial Reporting Standards (IFRS))*



MANAGEMENT REPORT

TAM S.A., on the leading Companies in the industry of passenger and cargo transportation in Brazil, presents on April 29, 2016, the consolidated financial statements for the year ended December 31, 2015. TAM S.A. ("TSA" or the "Company") refers to the consolidated entity and its subsidiaries, which activities relates to the air transportation of passengers and cargo in the national territories and internationally, acquisition and financing of aircrafts, raising of resources, buy and sell of points (client loyalty program) and exclusive development of activities of travel and tourism agencies.

MANAGEMENT COMMENTS ON THE 2015 PROFIT & LOSS

The year of 2015 marks the third anniversary of the association between LAN and TAM, a historical milestone for our companies and a strategic decision that has placed us in the head of the aviation market in Latin America. With significant progress throughout the year, including cost reduction in several sources, the negotiation of our Passenger Services System and the announcement of our unified brand, we continued to evolve toward our long-term goal of consolidating LATAM's leadership in the region. However, the Company is not immune to the challenging macroeconomic conditions that affected the economy of Brazil, which has caused us to make so adjustments. These adjustments, including the reduction of offer in the Brazilian domestic marked, are a response necessary to face the current challenges, one, however, that in no way affect our long-term strategic plans.

The gross revenue for the year ended December 31, 2015, was R\$ 15,605 million, compared to the revenue of R\$ 16,102 million for the year ended 2014. The 3% reduction mainly reflects the 2.8% reduction in revenue in domestic and international passengers and 4.4% in cargo transportation revenue. In fiscal year 2015, the revenues from passengers, cargo and the loyalty program (Multiplus) corresponded to 81.8%, 10.43% and 4.51% of the total gross revenue, respectively.

The drop in the revenue described above has reflected the challenging economic scenario in Brazil, caused by the increase of inflation, drop of the GDP (Gross Domestic Product) and by the significant devaluation of the Real against the Dollar, of approximately 47%, causing a consequent reduction in demand for domestic and international operations for both passengers and cargo.

Due to the impact of the current economy scenario in Brazil, TAM has adjusted its domestic operations and reduced its domestic offer in 2.5% as of the 2nd quarter and 9.4% in the fourth quarter. Despite of TAM having reduced the domestic capacity in 2015, it remain the market leader, as measured in RPK ("Revenue Passenger Kilometers"). In the year, traffic and yields remained low, mainly affected by the lower demand of passengers and business and the lower expectation of GDP growth in Brazil.





The Company will continue to review, throughout this year, the offer in markets where the demand has been affected the most, at the same time when seeking opportunities for growing in specific markets.

As in 2015, when we turned challenges into opportunities, we will work focused in 2016, to make LATAM Airlines an even more profitable Group, with an even stronger presence in Latin America and in other countries across the world.





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Independent auditors' opinion on the individual and consolidated financial statements

To the Shareholders, Board and Directors of
TAM S.A.
São Paulo - SP

We have audited the individual and consolidated financial statements of TAM S.A (the "Company"), which comprise the statement of financial position as at December 31 2015, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS). This responsibility includes maintaining internal control relevant to the preparation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies that are consistent with the accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS), and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's assessment of the risks of misstatement in the financial statements. An audit includes considering internal control relevant to the entity's preparation of the financial statements as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall financial statement presentation and disclosures.



We believe that our audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion on the financial statements.

Opinion

We have audited the individual and consolidated financial statements of TAM S.A (the "Company"), which comprise the balance sheet as at December 31 2015, and the income statement, statement of changes in equity and cash flows statement for the year then ended, and the related notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board - IASB

São Paulo, April 19, 2016.

KPMG Auditores Independentes
CRC 2SP014428/O-6
Original report in Portuguese signed by
Orlando Octávio de Freitas Júnior
Accountant CRC 1SP178871/O-4

João Paulo A. Pacheco Neves
Accountant CRC 1SP222303/O-4

TAM S.A. AND SUBSIDIARIES



Balance sheet as of December 31, 2015 and 2014

(Amounts expressed in thousands of Reais - R\$, except when otherwise indicated)

ASSETS	Explanatory Note	Individual		Consolidated	
		12/31/2015	12/31/2014	12/31/2015	12/31/2014
CURRENT ASSETS					
Cash and cash equivalents	7	3,338	1,236	816,121	359,991
Short-term investments	8	1,642	4,072	1,908,927	1,337,487
Trade accounts receivable	9	4,013	-	3,925,966	3,634,715
Inventories	10	-	-	440,477	429,384
Taxes recoverable	11	28,192	35,443	630,021	476,491
Maintenance prepayment		-	-	202,169	75,598
Other current assets		15,436	4,212	349,470	173,432
Total current assets		52,621	44,963	8,273,151	6,487,098
NON-CURRENT ASSETS					
Intercompany loans	26.1	-	-	3,082,167	3,010,767
Deferred income and social contribution taxes	12	61,490	43,748	1,282,441	675,721
Judicial deposits	13	2,849	2,095	530,779	505,732
Maintenance prepayment		-	-	188,590	185,137
Other non-current assets		201	15,772	88,604	115,948
		64,540	61,615	5,172,581	4,493,305
Investments	14	425,082	1,147,867	-	-
Property and equipment, net	15	76	90	3,698,187	3,963,990
Intangible	16	124,927	163,189	563,955	600,007
Total non-current assets		614,625	1,372,761	9,434,723	9,057,302
TOTAL ASSETS		667,246	1,417,724	17,707,874	15,544,400

Explanatory notes are integral part to the financial statements.



TAM S.A. AND SUBSIDIARIES



Balance sheet as of December 31, 2015 and 2014

(Amounts expressed in thousands of Reais - R\$, except when otherwise indicated)

LIABILITIES	Explanatory Note	Individual		Consolidated	
		12/31/2015	12/31/2014	12/31/2015	12/31/2014
CURRENT LIABILITIES					
Loans and financing	17	-	-	22,550	167,125
Finance leases	18	-	-	476,136	413,736
Trade accounts payable	19	99,111	740	4,890,099	2,581,162
Salaries, wages and benefits		2,521	929	650,379	495,346
Deferred revenue	20	-	-	3,452,263	3,368,220
Tax payable		3,271	16,919	144,856	133,206
Maintenance provision	22	-	-	685,373	527,867
Other current liabilities		329	1,174	242,900	117,758
Total current liabilities		<u>105,232</u>	<u>19,762</u>	<u>10,564,556</u>	<u>7,804,420</u>
NON-CURRENT LIABILITIES					
Loans and financing	17	-	-	3,111,160	2,902,352
Finance Leases	18	-	-	2,015,031	1,724,598
Provision for tax, civil and labor risks	21	287	287	765,482	748,070
Provision for investments losses	14	435,883	-	-	2,163
Intercompany loans		-	94,617	-	-
Maintenance provision	22	-	-	906,520	818,362
Interest on capital and dividends payable		858	-	858	-
Other non-current liabilities		-	2,978	144,029	181,921
Total non-current liabilities		<u>437,028</u>	<u>97,882</u>	<u>6,943,080</u>	<u>6,377,466</u>
TOTAL LIABILITIES		<u>542,260</u>	<u>117,644</u>	<u>17,507,636</u>	<u>14,181,886</u>
EQUITY					
Capital stock	24	5,035,926	5,035,926	5,035,926	5,035,926
Treasury Shares		(7,930)	-	(7,930)	-
Capital reserve		150,281	148,538	150,281	148,538
Accumulated losses		(5,684,697)	(4,434,252)	(5,684,697)	(4,434,252)
Equity valuation adjustments		631,406	549,868	631,406	549,868
Equity attributable to interest of controlling shareholders		<u>124,986</u>	<u>1,300,080</u>	<u>124,986</u>	<u>1,300,080</u>
Equity attributable to non-controlling interest		-	-	75,252	62,434
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>667,246</u>	<u>1,417,724</u>	<u>17,707,874</u>	<u>15,544,400</u>

Explanatory notes are integral part to the financial statements.



Statement of income for the years ended as of December 31, 2015 and 2014

(Amounts expressed in thousands of Reais - R\$, except when otherwise indicated)

	Explanatory Note	Individual		Consolidated	
		12/31/2015	12/31/2014 (Reclassified)	12/31/2015	12/31/2014 (Reclassified)
Net operating revenue	27	-	-	15,604,765	16,102,390
Cost of services	28	-	-	(13,337,250)	(12,100,515)
Gross operating profit		-	-	2,267,515	4,001,875
Selling expenses	28	(555)	(8,766)	(1,621,826)	(2,455,361)
General and administrative expenses	28	(4,526)	-	(815,887)	(1,117,886)
Other operational income (expenses) net		-	-	123,816	(395,018)
Operating (loss) profit		(5,081)	(8,766)	(46,382)	33,610
Financial income	29	5,571	4,700	460,065	405,571
Financial expenses	29	(2,052)	(10,099)	(654,201)	(686,855)
Net exchange rate variation	29	(42)	769	(1,213,891)	(214,162)
Equity accounting results	14	(1,238,110)	(432,992)	-	(10,454)
Loss before income tax and social contribution		(1,239,714)	(446,388)	(1,454,409)	(472,290)
Income tax and social contribution:					
Current	12	(2,851)	-	(243,597)	(179,104)
Deferred	12	(7,880)	2,188	579,740	294,649
Loss for the year		(1,250,445)	(444,200)	(1,118,266)	(356,745)
Attributed to					
Controlling shareholders of TAM S.A.				(1,250,445)	(444,200)
Non-controlling interest				132,179	87,455
				(1,118,266)	(356,745)

Explanatory notes are integral part to the financial statements.



TAM S.A. AND ITS SUBSIDIARIES

Statement of comprehensive income for the years ended as of
December 31, 2015 and 2014

(Amounts expressed in thousands of Reais - R\$, except when otherwise indicated)

	Individual		Consolidated	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014
Loss for the year	(1,250,445)	(444,200)	(1,118,266)	(356,745)
Other comprehensive income				
Items that will not be reclassified for the income statement				
Reassessment of liabilities of post-employment plans (Health care plan)	(8,004)	8,004	(8,004)	8,004
Items that will be or likely to be reclassified for the income				
Gain on foreign currency translation adjustments	88,725	4,246	89,296	4,672
Cash flow hedge - recognized in comprehensive income	817	9,242	997	12,719
Total comprehensive income, net from income tax and social contribution	(1,168,907)	(422,708)	(1,035,977)	(331,350)
Attributed to				
Controlling shareholders of TAM S.A.			(1,168,907)	(422,708)
Non-controlling interest			132,930	91,358
			(1,035,977)	(331,350)

Explanatory notes are integral part to the financial statements.



TAM S.A. AND ITS SUBSIDIARIES



Statement of changes to equity for the years ended as of December 31, 2015 and 2014
(Amounts expressed in thousands of Reais - R\$, except when otherwise indicated)

	Capital Reserve				Equity revaluation adjustment	Accumulated losses	Total	Non-controlling interest	Total shareholders' equity (consolidated)
	Capital stock	Treasury Shares	Premium on capital stock	Share-based payments					
On December 31, 2013	4,453,926	-	74,947	76,368	527,096	(3,991,549)	1,140,786	54,410	1,195,196
Loss for the year	-	-	-	-	-	(444,200)	(444,200)	87,455	(356,745)
Other comprehensive income	-	-	-	-	8,004	-	8,004	-	8,004
Cumulative translation adjustments of foreign currency	-	-	-	-	4,246	-	4,246	426	4,672
Cash flow hedge	-	-	-	-	14,126	-	14,126	5,268	19,394
Effective deferred income tax and social contribution	-	-	-	-	(4,884)	-	(4,884)	(1,791)	(6,675)
Total comprehensive result	-	-	-	-	21,492	(444,200)	(422,708)	91,358	(331,350)
Capital increase	582,000	-	-	-	-	-	582,000	-	582,000
Realization of revaluation reserve	-	-	-	-	(1,497)	1,497	-	-	-
Gain from the stock disposal of Multiplus	-	-	-	-	2,777	-	2,777	-	2,777
Dividends and interest on shareholders' equity	-	-	-	-	-	-	-	(82,323)	(82,323)
Equity valuation adjustment	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	(2,775)	-	-	(2,775)	(1,011)	(3,786)
On December 31, 2014	5,035,926	-	74,947	73,591	549,868	(4,434,252)	1,300,080	62,434	1,362,514
Loss for the year	-	-	-	-	-	(1,250,445)	(1,250,445)	132,179	(1,118,266)
Actuarial gains on post-employment plans (Health care plan)	-	-	-	-	(8,004)	-	(8,004)	-	(8,004)
Cumulative translation adjustments of foreign currency	-	-	-	-	88,725	-	88,725	571	89,296
Cash flow hedge	-	-	-	-	817	-	817	180	997
Total comprehensive result	-	-	-	-	81,538	(1,250,445)	(1,168,907)	132,930	(1,035,977)
Transactions with stockholders and reserves constitution:									
Dividends and interest on shareholders' equity	-	-	-	-	-	-	-	(117,699)	(117,699)
Share-based payments	-	-	-	1,743	-	-	1,743	559	2,302
Acquisition of own shares of subsidiaries	-	(7,930)	-	-	-	-	(7,930)	(2,972)	(10,902)
On December 31, 2015	5,035,926	(7,930)	74,947	75,334	631,406	(5,684,697)	124,986	75,252	200,238

Explanatory notes are integral part to the financial statements.



TAM S.A. AND ITS SUBSIDIARIES



Statement of cash flow for the years ended as of
December 31, 2015 and 2014

(Amounts expressed in thousands of Reais - R\$, except when otherwise indicated)

	Explanatory Note	individual		Consolidated	
		12/31/2015	12/31/2014	12/31/2015	12/31/2014
Loss for the year		(1,250,445)	(444,200)	(1,118,266)	(356,745)
Adjustments to reconcile net income to net cash provided by operating activities					
Deferred income tax	12	7,880	(2,188)	(579,740)	16,722
Depreciation and amortization	15/16	14	13	568,924	506,850
Result of disposal of property, plant and equipment and intangible assets		38,262	-	452,025	2,213,779
Exchange rate variations and interest		-	-	994,131	350,809
Equity accounting results	14	1,238,110	432,992	-	10,454
Allowance for doubtful accounts	9	-	-	4,851	8,831
Other provisions		-	-	24,684	29,964
Maintenance provision		-	-	245,664	235,042
Provision for contingencies	21	-	-	89,814	(51,652)
Extinction of financial leasing obligation		-	-	(135,626)	(1,676,385)
Share-based payments		-	-	2,302	(3,786)
Changes in operating assets and liabilities					
Trade accounts receivable	9	(4,013)	-	(296,102)	(275,064)
Short-term investments	8	2,430	1,033	(571,440)	189,210
Inventories	10	-	-	(34,249)	(80,946)
Taxes recoverable	11	7,251	(2,700)	(153,530)	(238,834)
Judicial deposits	13	(754)	(979)	(4,643)	7,735
Trade accounts payable	19	98,371	(3,393)	2,308,937	28,361
Salaries, wages and benefits		1,592	(4,945)	153,505	(69,833)
Tax payable		(13,648)	1,792	11,650	41,122
Deferred revenue	20	-	-	84,043	(3,281)
Payment of contingencies and judicial deposits	13/21	-	-	(72,402)	(34,340)
Interest paid		-	(6,003)	(374,513)	(351,146)
Other rights and obligations		(26,037)	(97,385)	(260,289)	246,168
Net cash provided (used in) by operating activities		99,013	(125,963)	1,339,730	743,035
Cash flow from investing activities					
Increase of Share Capital		-	(697,788)	-	-
Investments Prisma Fidelização S.A.		-	-	-	(1,208)
Investment in restricted cash		-	-	-	(1,995)
Resources received from the sale of fixed assets		-	-	-	668
Intercompany loans receipt		-	-	1,241,723	-
Additions to property, plant and equipment		-	-	(622,413)	(484,404)
Additions to intangible assets		-	-	(93,610)	(137,652)
Prepayment of aircrafts – refund		-	-	-	782,864
Prepayment of aircrafts – payment		-	-	-	(171,999)
Receipt of dividends and interest on shareholders' equity		313,706	242,736	-	-
Security deposits		-	-	19,547	46,576
Cash (used in) from investment activities		313,706	(455,052)	545,247	32,850
Cash flow from financing activities					
Advance for future capital increase		(316,000)	-	-	-
Capital increase		-	582,000	-	582,000
Payment of loans		(94,617)	-	-	-
Resources received in public stock offer of holding Multiplus		-	-	-	2,777
Amortization of principal of loans and financing		-	-	(1,470)	(1,115,304)
Dividends and interest on capital paid to non-controller stockholders		-	-	(117,699)	(82,323)
Senior Bonuses		-	-	(928,386)	-
Financial leasing		-	-	(424,734)	(482,842)
Cash (used in) applied to financing activities		(410,617)	582,000	(1,472,289)	(1,095,692)
Decrease/Increase to cash and cash equivalents		2,102	985	412,688	(319,807)
Effect of exchange rate changes on cash and cash equivalents		-	-	43,442	(8,702)
Cash and cash equivalents at the beginning of the year		1,236	251	359,991	688,500
Cash and cash equivalents at the end of the year		3,338	1,236	816,121	359,991

Explanatory notes are integral part to the financial statements.



NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements composing the financial statements of TAM S.A. and its subsidiaries are distributed as follows:

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1. COMPANY'S OPERATIONS

TAM S.A. ("TAM" or "Company") was incorporated on May 12, 1997 and is a wholly owned subsidiary of LATAM Airlines Group S.A. ("LATAM"), one of the largest Airlines Groups in the world in route network, which provides passenger transport services to about 140 destinations in 24 countries, and cargo service to approximately 144 destinations in 26 countries, with a fleet of 328 aircrafts. In total, LATAM Airlines Group S.A. has around 50.4 thousand employees. The financial statements of the Company include the Company and its subsidiaries (mutually referred to as the "Group").

LATAM's shares are listed on the Santiago, New York (in the form of ADRs), and São Paulo (in the form of BDRs) stock exchanges. LATAM Airlines' shares are part of the Dow Jones Sustainability Indices of the New York Stock Exchange.

Company' subsidiaries TAM Linhas Aéreas S.A. and ABSA Aerolinhas Brasileiras S.A., in compliance with the concession by the Brazilian Civil Aviation Agency ("ANAC"), operating transport of passengers, cargo, and mail freight in the national territory and internationally, with its own fleet or leased aircraft, or by means of outsourcing services contracting, as well as air cargo handling services ("handling").

Moreover, Group's corporate purpose is:

- exploring complementary activities of air transport services of passengers, cargo and mail freight;
- servicing, repair or third parties and own aircraft, engines, parts, and components;
- hangar aircraft;
- yard and lane service, supply to flight attendant and aircraft cleaning;
- providing engineering services, technical assistance, and other activities related to the aviation industry;
- provision of instruction and training related to aviation activities
- purchasing and sale of aeronautical aircraft and equipment;
- trading of prize redeeming rights in the scope of loyalty programs;
- activities relating to the raising of resources for aircraft financing;
- exclusive development of tourism agency activities;
- development and carrying out related activities, or activities correlating or complementary to air transportation; and
- importing and exporting of finished lubricating oil.

TAM is registered and domiciled in Brazil, with main office located at Verbo Divino St, 2001, Fifth Floor, São Paulo, SP.



1.1 Capital structure of the Company and net working capital

On December 31, 2015, the Company presented negative consolidated net working capital, in the amount of R\$2,291,405 (R\$1,317,322 on December 31, 2014) and net loss of R\$1,250,445 (R\$444,200 on December 31, 2014), which has been substantially impacted by the devaluation of the Real against the US Dollar, of 47% and 13% on December 31, 2015 and 2014, respectively.

The Administration has been taking a series of measures to offset the impacts from exchange exposure, among them:

- Readjustment of the national network with an effective reduction on the second semester of 2015 of 2.5% and of 9.4% in the fourth quarter;
- Planning of a new readjustment of the national network, to be adopted in 2016, between 6% and 9% of offer reduction;
- Implementation of the cost pillar, aiming at a substantial cost reduction at the Group;
- Reduction of exchange exposure, with the management of assets and liabilities of the Company, reducing the exposure of balance to real fluctuation against the Dollar; and
- Enable the HUB of the northeast, aiming at a better connectivity of customers and increase of sales.

The Company's management is continuously evaluating the ability to remain operating normally and is convinced that has the resources to continue its activities in the future. In addition, the Company will receive, if necessary, financial support from its parent Company LATAM Airlines.

2. CORPORATE STRUCTURE

During the year, there were no changes in the Company's corporate structure compared to that presented in the annual financial statements for the year ended December 31, 2014.

On December 31, 2015, the corporate structure of the Company and its subsidiaries is as set forth below:



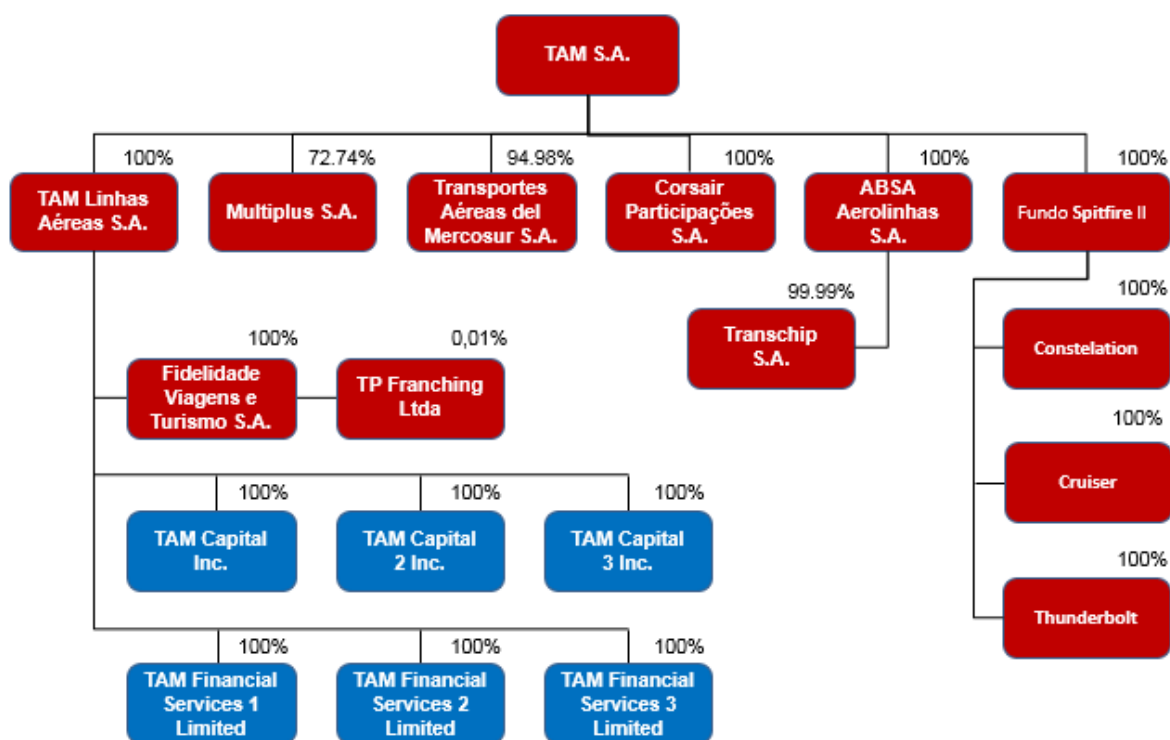
TAM S.A. AND ITS SUBSIDIARIES



Explanatory notes to the financial statements

Years ended as of December 31, 2015 and 2014

(Amounts expressed in thousands of Reais - R\$, except when otherwise indicated)



■ Operations in Brazil and Latin America.

■ Companies domiciled in the Cayman Islands, whose activities are related to aircraft acquisition and financing.

On December 16, 2015, the subsidiary Multiplus S.A. announced the incorporation of a limited liability entity, named "Multiplus Corretora de Seguros Ltda." ("Company"), for the purpose of conducting business relating to insurance brokerage, especially in elementary fields, damage, life (persons), capitalization, pension and healthcare plans, pursuant to the business plan prepared by management. The beginning of the Company's activities will be contingent upon obtaining the licenses and permits from SUSEP ("Private Insurance Superintendence").

3. MANAGEMENT'S STATEMENT AND BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

The Company's individual and consolidated financial statements are prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and also in accordance with accounting practices adopted in Brazil ("BR GAAP").



The Company's individual and consolidated financial statements are expressed in thousands of Brazilian Reais ("R\$"), as well as the amounts of other currencies disclosed in the financial statements, when applicable, were also expressed in thousands. Amounts disclosed in other currency are properly identified when applicable.

The preparation of the individual and consolidated Company's financial statements requires Management to make judgments, use estimates and adopt assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. However, the uncertainty inherent to these judgments, assumptions and estimates could lead to results requiring a material adjustment to the carrying amount of the affected asset or liability in future periods.

The Company reviews its judgments, estimates and assumptions continually.

The individual and consolidated financial statements were prepared on the historical cost basis except for the following items, which are measured in the balance sheets:

- (i) derivative and non-derivative financial instruments measured at fair value;
- (ii) available for sale financial assets at fair value; and
- (iii) marketable securities classified as cash and cash equivalents measured at fair value;

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Functional currency

The financial statements of each wholly owned subsidiary included in the consolidation are prepared using the currency of the main economic environment in which they operate. All the subsidiaries of the Company, except for TAM Mercosur S.A. and ABSA Aerolinhas Brasileiras S.A., adopt the Brazilian Real as their functional currency, reason why the adopted exchange criteria are the following:

- Non-monetary assets and liabilities are translated at the historical rate of the transaction;
- Monetary assets and liabilities are translated at the exchange rate in effect at year-end;
- Statement of income accounts are translated based on monthly average rate;



TAM S.A. AND ITS SUBSIDIARIES



Explanatory notes to the financial statements

Years ended as of December 31, 2015 and 2014

(Amounts expressed in thousands of Reais - R\$, except when otherwise indicated)

- The foreign currency transactions are translated at the exchange rates on the date of each transaction; and
- The cumulative effects of gains or losses upon translation are recognized in the statement of income.

The functional currency of each investee is shown below:

Corporate Structure	Location	Functional currency
TAM Linhas Aéreas S.A.	Brazil	Real
Fidelidade Viagens e Turismo S.A.	Brazil	Real
TAM Capital Inc	Cayman Islands	Real
TAM Capital 2 Inc	Cayman Islands	Real
TAM Capital 3 Inc	Cayman Islands	Real
TAM Financial Services 1 Limited	Cayman Islands	Real
TAM Financial Services 2 Limited	Cayman Islands	Real
TAM Financial Services 3 Limited	Cayman Islands	Real
Fundo Spitfire II	Brazil	Real
TP Franchising Ltda	Brazil	Real
TAM Mercosur S.A.	Paraguay	Guarany
Multiplus S.A.	Brazil	Real
Corsair Participações S.A.	Brazil	Real
ABSA Aerolinhas Brasileiras S.A	Brazil	Dollar

In accordance to CPC 02 (R2) - Effects of changes of exchange rates and translation of the financial statements and operational changes occurred in recent periods, especially in regards to the customer portfolio and operational cost, the Group has carried out financial studies which resulted in the change of the ABSA's functional currency from Reais to the US Dollar ("US\$") as of January 1, 2015. As a result of the change, the subsidiary ABSA recorded in the period ended December 31, 2015, the total amount of R\$79,691, resulting of the cumulative translation adjustment ("CTA"), resulting from the balance sheet translation impact.

4.2 Consolidation

The Company controls an entity when it is exposed to, or has rights to, variable returns arising from their involvement with the organization and has the ability to affect those returns exercising their authority over the entities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases to exist.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether TAM controls another entity. Subsidiaries are consolidated from the date on which control is transferred to TAM and cease to be consolidated from the date that control ceases.



The comprehensive income and non-controlling interests, even if results in negative balance of these shares are attributed to the Company's owners. When necessary, the financial statements of these subsidiaries are adjusted to reflect their accounting policies to those established by the Company. The transactions, balances and unrealized gains derived by transaction between the Company and its subsidiaries are eliminated. Unrealized losses are also eliminated and though considered as a reduction in the realizable value indicator ("impairment") of the transferred asset.

➤ Transactions and non-controlling shareholders

The Company treats transactions with non-controlling interests as transactions owners of the Company's assets. For purchasing of non-controlling interests, the difference between any consideration paid and the acquired parcel of the book value of net assets of the subsidiary is recorded in the equity. Gains or losses on disposals to non-controlling interests are also recorded directly in the equity in the "equity valuation adjustments".

➤ Loss of control in subsidiaries

When the Company loses the control, any stockholding interest withheld in the entity remeasured to its fair value, with the change in carrying amount recognized in income statement. The fair value is the initial carrying amount for subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income relating to that entity are recorded as if the Company had directly disposed of the related assets or liabilities. This means that the amounts previously recognized in other comprehensive income are reclassified in income statement.

4.3 Investments

The Company investments in its subsidiaries are initially recognized at cost and adjusted thereafter for the equity method.

4.4 Cash and cash equivalents

Include cash on hand, bank deposits and highly liquid investments in fixed-income funds and/or securities with maturities, upon acquisition, of 90 days or less, which are readily convertible into known amounts of cash and subject to insignificant risk of change in value. The investments classified in this group, due to their nature, are measured at fair value through the profit and loss.



4.5 Restricted Cash

Restricted cash represents deposits in guarantee for the purpose of guaranteeing long term financing operations. On December 31, 2015, the balance of restricted cash classified in the group of other current assets corresponds to the amount of R\$2,458 (R\$29,526 on December 31, 2014), individual and consolidated.

4.6 Financial instruments

The Group classifies non-derivative financial assets in the following categories: financial assets at fair value through statement of income, held to maturity, loans and receivables and financial assets available for sale.

The Group classifies non-derivative financial liabilities in the following categories: financial liabilities measured at fair value through statement of income and other financial liabilities.

4.6.1 Non-derivatives financial assets and liabilities - recognition and derecognition

The Group recognizes loans and receivables and debt instruments on the date they originated. All other assets and liabilities are recognized on the trade date when the entity becomes party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the asset's cash flows expire or when the Group transfers the rights to receive the contractual cash flows of a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest that is created or retained by the Group in such transferred financial assets is recognized as an asset or liability separately.

The Group derecognizes a financial liability when its contractual obligations are withdrawn, canceled or expired.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends to settle them on a net basis or to realize the asset and settle the liability simultaneously.



4.6.2 Non-derivative financial assets - measurement

Financial assets measured at fair value through income statement

A financial asset is classified as at fair value through income statement if it is classified as held for trading or designated as such upon initial recognition. Transaction costs are recognized in income as incurred. They are measured at fair value and changes in fair value, including earnings from interest and dividends are recognized in the income statement.

Financial assets held to maturity

These assets are initially measured at fair value plus any directly transaction costs. After initial recognition, financial assets held to maturity are measured at amortized cost using the effective interest method.

Loans and receivables

These assets are initially measured at fair value plus any directly transaction costs. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

Financial assets available for sale

These assets are initially measured at fair value plus any directly transaction costs. After initial recognition, they are measured at fair value and the changes that are not losses for impairment and foreign currency differences on debt instruments are recognized in other comprehensive income and accumulated results in equity as equity valuation adjustments. When these assets are derecognized, the cumulative gains and losses kept as valuation adjustments are reclassified to income statement.

4.6.3 Non-derivative financial liabilities - measurement

A financial liability is classified as at fair value through income statement if it is classified as held for trading or designated as such upon initial recognition. Transaction costs are recognized in income as incurred. Financial liabilities measured at fair value through income statement are measured at fair value and changes in fair value of these liabilities, including interest earnings and dividends are recognized in the income statement.

Other non derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. After initial recognition,



these financial liabilities are measured at amortized cost using the effective interest method.

4.6.4 Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its exposure to risks of foreign currency rates and international oil prices. Embedded derivatives are separated from their host contracts and recorded separately if certain criteria are met.

Derivatives are initially measured at fair value; any directly attributable transaction costs are recognized in income when incurred. After initial recognition, derivatives are measured at fair value and changes in fair value are recorded in income.

Cash flow hedges

When a derivative is designated as a hedging instrument to hedge the variability of cash flows, the effective portion of changes in fair value of the derivative is recognized in other comprehensive income and presented under equity valuation adjustments in equity. Any ineffective portion of changes in fair value of the derivative is recognized immediately in income.

The accumulated value held in equity valuation adjustments are reclassified to the income statement in the period in which the hedged item affects income.

If (i) the occurrence of the forecasted transaction is no longer expected, (ii) the hedge ceases to meet the hedge accounting criteria, (iii) the hedging instrument expires or is sold, terminated or exercised, or has his name revoked, hedge accounting is prospectively discontinued. If there are no expectations for the occurrence of the forecasted transaction, the balance in other comprehensive income is reclassified to income statement.

4.7 Trade accounts receivable

Trade accounts receivable are recorded at the invoiced amount and adjusted to present value, when applicable, net of allowance for doubtful accounts.

The Company adopts procedures and analysis to establish credit limits and substantially does not require collateral from customers. In the event of default, collection attempts are made, which include direct contact with customers and collection through third parties. Should these efforts prove unsuccessful, court measures are considered and the notes are reclassified to non-current assets at



the same time an allowance is recognized. The notes are written-off from the allowance when management considers that they are not recoverable after taking all appropriate measures to collect them.

The Company adopts as its policy for the constitution of allowance for doubtful accounts of 50% for the overdue balances up to 180 days, and 100% for balances due over 360 days. In case of the customer has offered security, the amounts in arrears will be excluded from the basis for the calculation and determination of the provision to doubtful debtors.

4.8 Inventory

Inventories include mainly spare parts and materials to be used in the activities of maintenance, being recorded at their average acquisition price, net from provisions, to reduce any losses identified by obsolescence and/or deterioration.

4.9 Prepayments for aircraft and engine maintenance

Prepayments for aircraft and engine maintenance include deposits made in specific accounts as determined by the respective lease agreements, aiming the financing of future maintenance required by the wear out and from the use of such assets.

4.10 Income taxes

In Brazil, are comprised of corporate income tax ("IRPJ") and social contribution tax ("CSLL"), which are calculated monthly on taxable income, at the rate of 15% plus 10% surtax for IRPJ, and of 9% for CSLL, considering the offset of tax loss carry forwards, up to the limit of 30% of annual taxable income.

The income from foreign subsidiaries is subject to taxation pursuant to the local tax rates and legislation. In Brazil, these incomes are taxed according to the provisional measure 2.159-35/2001 and most recently the Law 12.973/14, respecting the tax treaty signed by each country with Brazil in order to avoid double taxation.

Deferred taxes are recorded on IRPJ and CSLL tax losses, assets and liabilities and temporary differences between the tax basis the carrying amount and classified as non-current assets, as required by the CPC 32 (IAS 12) - Taxes on income. When the Company's analysis indicates that the realization of these credits is not probable, a valuation allowance is recorded.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and they relate to income



taxes levied by the same tax authority on the same taxable entity. In the consolidated financial statements, the Company's tax assets and liabilities can be offset against the tax assets and liabilities of the subsidiaries if, and only if, these entities have a legally enforceable right to make or receive a single net payment and intend to make or receive this net payment, or recover the assets and settle the liabilities simultaneously. Therefore, for presentation purposes, the balances of tax assets and tax liabilities are being disclosed separately.

Deferred tax assets and liabilities must be measured by rates (tax legislation) that are expected to be applicable for the period when the assets are realized and liabilities settled.

4.11 Intangible assets

Expenses related to the maintenance of software are recorded as expenses when incurred. Expenditures incurred with software development are capitalized as intangible assets, against the likelihood that future benefits generated by it are greater than its respective cost, considering the economic and technological feasibility. Costs with software development recorded as assets are amortized by the linear method throughout their estimated useful life.

Intangible assets with an indefinite useful life are not amortized, but are tested annually for impairment on an individual basis or at the cash generating unit level. The Company records goodwill and trademarks as intangibles assets with in indefinite useful life.

If the book value of an intangible asset is greater than its estimated recoverable value, its value will be immediately reduced to its recoverable value (Note 4.13).

4.12 Property, plant and equipment

Property, plant and equipment, including components of rotables, are recorded by the acquisition cost, construction and disassembly, when applicable, deducted from the accumulated depreciation and loss due to reduction to the recoverable value, when applicable.

Values of advances paid to the aircraft manufacturers are recorded by the Company as constructions in progress, until their receipt (aircraft prepayment).

Depreciation is recognized based on the estimated economic useful life of each asset on a straight-line basis, except in the case of a few technical components that are depreciated based on flight cycles and flight hours. The estimated useful life, residual values and depreciation methods are annually reviewed and the



effects of any changes in estimates are accounted for prospectively. Land is not depreciated.

If the book value of an asset is greater than its estimated recoverable value, its value will be immediately reduced to its recoverable value (Note 4.13).

Gains and losses on disposals of property, plant and equipment items are calculated by comparing the proceeds of the disposals with their net book values and recognized in the statement of income at the disposal date.

As required by the CPC 27 (IAS 16) - Property, plant and equipment, the Group records the costs necessary to maintain its aircrafts and engines in condition to remain operating, incurred by the regular conduction of key inspections and/or maintenances search for and to avoid faults, regardless of the parts of this item are whether replaced or not. Upon each key inspection conducted, its cost are recorded in the book value of the item of fixed assets, as a replacement if the acknowledgement criteria are met. Any book value remaining from the previous inspection cost (different from that of physical parts) will be written-off. This occurs regardless if the previous inspection cost had been identified in the transaction in which the item was acquired.

4.13 Impairment of non-financial assets

The book values of the non-financial assets of the Group, other than inventories and tax assets deferred will be reviewed on the date of each balance sheet to identify if there is indication of loss to the recoverable value. In the occurrence of such indication, then the recoverable value of the asset will be estimated. In case of intangible assets with undefined useful life, the recoverable value is tested on an annually basis.

For the tests of reduction to the recoverable value, assets will be grouped in the smallest group possible of assets generating cash receipt from their continuous use, receipts in large part independent in relation to the cash receipts of other assets, or CGUs (cash-generating unit).

The recoverable value of an asset or CGU (cash-generating unit) is greater between its value in use and its fair value less costs for sale. The value in use is based on estimated future cash flows, discounted at present value at a discount rate before the taxes reflecting current market evaluations of the money value in time and the specific risks of the asset or CGU.

A loss due to reduction to the recoverable value is recognized if the book value of the asset or UGC exceeds its recoverable value.



Losses due to reduction to the recoverable value are recorded in the statement of income.

A loss due to reduction to the recoverable value is reverted only to the extent in which the new book value of the asset does not exceed the book value that has been calculated, net from depreciation or amortization, in case the loss of value had not been recognized.

4.14 Trade accounts payable

These are initially recognized at fair value plus any accrued charges, monetary and exchange variations incurred through the balance sheet date.

4.15 Provision for tax, civil and labor risks

The provisions are recognized when the Company has a present obligation, formalized or not, as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and its amount can be reliably estimated.

The Group is part of various lawsuits, including, tax, labor and civil claims. The assessment of the likelihood of an unfavorable outcome in these lawsuits includes the analysis of the available evidence, the hierarchy of the laws, available former court decisions, as well as the most recent court decisions and their importance to the Brazilian legal system, as well as the opinion of external legal counsel. The provisions are reviewed and adjusted to reflect changes in the circumstances, such as the applicable statute of limitation, conclusions of tax inspections or additional exposures identified based on new claims or court decisions.

4.16 Finance leases

Lease transactions in which the risks and rewards of ownership are substantially transferred to the Company are classified as finance leases. When there is no significant transfer of the risks and rewards of ownership, lease transactions are classified as operating leases.

Finance lease agreements are recognized in property, plant and equipment and in liabilities at the lower of the present value of the minimum future payments of the agreement and the fair value of the asset, including, when applicable, the initial direct costs incurred in the transaction. The amounts recorded in property, plant and equipment are depreciated and the underlying interest is recorded in the statement of income in accordance with the terms of the lease agreement.



Any gains resulting from sale and leaseback transactions resulting from financial leases will be deferred and recorded in the statement of income by the linear method during the effectiveness of the lease and the gains resulting from sale and leaseback transactions resulting from operating leases are recorded in the statement of income.

Losses resulting from sale and leaseback transactions resulting from finance leases are deferred to the extent in which the asset object of leaseback is not object of impairment and are recorded in the statement of income by the linear method during the effectiveness of the lease.

Operating lease agreements with purchase option are recorded as expenses throughout the period of the lease. The payments to operating leases are recorded in the statement of income by the linear method according to the term of the lease. Benefits received will be record as part of the total lease costs, throughout the effectiveness of the lease.

4.17 Maintenance provision

Costs incurred with schedule periodical maintenances to the airframe and engines of aircrafts are capitalized and depreciated until the next maintenance. The depreciation rate is determined over technical parameters, according to the use of the aircraft, defined by flight cycles and hours.

In the case of own aircrafts or as finance lease, these maintenance costs will be capitalized as fixed assets, while in the case of aircrafts under operating lease, a liability will be recognized based on the use of the key components, with the contractual obligation with the lessor to return the aircraft in the agreed conditions in terms of maintenance. This cost is recognized in the cost of sales.

Unscheduled aircraft and engine maintenances, as well as any other maintenances, are recorded in the statement of income of the year in which they are incurred.

During 2015, the Company discontinued the practice of constitution of provision for maintenance based on Power by The Hour, and these liabilities being prospectively adjusted to the criteria described above and the effects related to the change of criterion totalized R\$91,377.

4.18 Determination of income

Results from operations are recorded on an accrual basis.



4.19 Revenue

Revenue from the air transport of passengers and cargo are recognized when the transport services are rendered. Passenger tickets sold but unused, and anticipate ticket sales will be treated as transport to be provided in the group of deferred revenues. For tickets expired and unused (breakage), the Company will make an estimate based on historical data and will recognize their revenue.

Subsidiary TAM Linhas Aéreas S.A. is the sponsor of the customer loyalty program, the *Programa TAM Fidelidade*, whose points are accumulated when flying with TAM or partner air companies, and when purchase with the TAM Loyalty credit cards. The fair value related to the points granted is deferred on the date in which the ticket is sold, recognized in the result of the income statement, when the points are redeemed and passengers are carried.

As of January 1, 2010, the Company transferred the administration of its loyalty program to Multiplus S.A., therefore, from this date the points became to be issued by Multiplus and sold to TAM Linhas Aéreas.

Subsidiary TAM Linhas Aéreas S.A. originates revenues from auxiliary services by fares applicable to flight booking change, excessive luggage, revenue from the VIP rooms, etc., with such revenues being recognized when the service is rendered.

4.20 Employees benefits

4.20.1 Short Term benefits to employees

Short-term benefit obligations to employees are recognized as personnel as the relevant service is provided. The liability is recognized by the amount of payment expected if the company has a present legal or constructive obligation of paying said amount due to past services provided by the employee and the obligation can be estimated in a reliable fashion.

4.20.2 Employee and management profit sharing

Employees are entitled to profit sharing based on certain targets agreed upon on an annual basis, whereas managers are entitled to profit sharing based on the provisions of the bylaws, proposed by the Board of Directors and approved by the shareholders. The profit sharing amount is recognized in the statement of income for the period in which the targets are attained.



4.20.3 Post-employment plans

The Company offers to the retired employee according to the Law No. 9,656/98 a medical plan with fixed contribution, which guarantees to the retired employee that contributed to the health plan by reason of employment relationship, for at least 10 years, the right of maintenance as beneficiary, on the same conditions of coverage enjoyed when the employment contract was in force. Main actuarial risks related are (i) survival time over the ones set out in the mortality tables (ii) turnover lower than expected and (iii) medical costs growth higher than expected.

4.20.4 Share based payments

➤ *Share based payments:*

The Company provides to certain employees and executive certain share based payments, settled with shares of Multiplus, according to which the Multiplus receives services from the employees and executives and in return deliver equity instruments (options) of Multiplus. The share-based compensation plan is measured at fair value of equity instruments at the grant date. The details regarding the determination of the fair value of these plans are described in Note 24.

The market conditions and the conditions of non-acquisition of right are considered in the estimate of fair value of each option on the grant date.

This cost of the granted options is recognized as personnel expense, with a corresponding increase in net equity, over the period in which the options right is acquired unconditionally (period during which specific conditions for acquisition of the right must be fulfilled).

On the date of the balance, Multiplus reviews its estimates of the number of options whose rights must be acquired based on the established conditions, acknowledging the impact of the review of initial estimates, if any, in the statement of income, in the corresponding entry of owners' equity, prospectively.

➤ *Restricted stock plan*

In May 2014, the Multiplus approved a new share based payments, and also its first grant of restricted stocks to certain executives of the Company, subject to the observance of deadline and also the achievement of a financial index.

These stocks will be purchased by Multiplus from the market and delivered to executive officers at the settlement; therefore Multiplus is recognizing



the expense equivalent to plan in consideration to a capital reserve in net worth, which will be used for future purchase of these stocks.

4.21 Financial income and expenses

Financial income and expenses of the Group include:

- interest income;
- interest expense;
- net gains / losses from financial assets measured at fair value through income statement;
- net gains / losses on foreign exchange rate on financial assets and liabilities;
- net exchange rate variations; and
- net gains / losses on hedging instruments that are recognized through profit and loss.

The income and interest expense are recognized on the effective interest method.

The Group classifies interest, dividends and interest on shareholder's equity received as cash flows from investing activities.

4.22 Dividends and interest on shareholders' equity

The proposal for payment of dividends and interest on shareholders' equity made by the Company's Management, which is within the portion equivalent to the mandatory minimum dividend, is recorded in current liabilities, as a legal obligation provided for in the bylaws; on the other hand, the dividends that exceed the mandatory minimum dividend, declared by management before the end of the accounting period covered by the consolidated financial statements, not yet approved by the shareholders, is recorded as additional dividend proposed in shareholders' equity.

4.23 Revenue recognition of bonus-tickets issued

The Company, through Multiplus SA, provides participants the Multiplus loyalty program points that give the possibility to exchange them for various prizes, including air tickets. A significant number of points redeemed by the participants of Multiplus loyalty program is exchanged for air tickets, which are purchased from TAM Linhas Aéreas by Multiplus.

The subsidiary TAM Linhas Aéreas S.A. obligation to render the services to the holder of premium tickets (purchased by Multiplus from TAM Linhas Aéreas and



granted to the members of Multiplus loyalty program) terminates only when the air transportation services are provided.

As required by the CPC 30/IFRIC 13 - revenue identified as "Customer Loyalty Programmes" takes into account that the fair value of the amount received or to be received related to the transaction is allocated between the award credits (points) and other components of the sale and revenue allocated to award credits will be recognized only when the award credits are redeemed and the company accomplish its obligations to supply awards. Whereas, on a consolidated basis the award represented by airline tickets is the provision of air transport services, revenue allocated to award tickets must be recognized only when the TAM Linhas provide transportation. The award credits revenue for which an award ticket has been issued, but not yet used, should not be recognized in the income statement.

4.24 Transactions and balances in foreign currency

Transactions in foreign currency will be converted into Brazilian Reais (functional currency of the Company) using the exchange rates on the dates of the transactions. The accounts in foreign currency are translated at the exchange rates on the date of closing period of the financial statements and the earnings or losses from exchange variation are recognized in the financial result.

The exchange rates in Brazilian Reais that are effective at the balance sheet dates are as follows:

	<u>12/31/2015</u>	<u>12/31/2014</u>
Exchange rate at the balance sheet date		
US Dollar (US\$)	3.9048	2.6562
Euro (€)	4.2504	3.2270
Annual average rates		
US Dollar (US\$)	3.3387	2.3547
Euro (€)	3.7000	3.1206

4.25 Accounting judgments, estimates, and premises

As disclosed in note 3 of these financial statements, management made the following judgments, which have substantial effect over the values acknowledged in these financial statements:

- fair value of financial instruments (Note 6.7);
- annual analysis of the recoverable value of non-financial assets (Notes 15 and 16);
- estimated losses in credits of doubtful accounts (Note 9.1);



- annual analysis of recoverable taxes (Note 12.3);
- useful life of items of the fixed assets and intangible with defined useful life (Notes 15 and 16);
- provision for tax, civil, and labor risks (Note 21);
- maintenance provisions (Note 22); and
- provision for adjustment to realizable value of inventories (Note 10).

5. BALANCE SHEET AND INCOME STATEMENT RECLASSIFICATIONS PRESENTED ON DECEMBER 31, 2014

In 2015 the Company carried certain reclassifications in the balance sheet and income statement. For comparability purposes, the Company carried out the same reclassifications to the comparative period.

5.1 Balance sheet reclassification amounts for the periods ended on December 31, 2014

The airport fees were reclassified from taxes payable for trade accounts payable in the total amount of R\$374,712.

5.2 Income statement reclassification amounts for the periods ended on December 31, 2014

	Individual 12/31/2014			Consolidated 12/31/2014		
	Disclosed	Reclassifications	Reclassified	Disclosed	Reclassifications	Reclassified
Net operating revenue	-	-	-	16,102,390	-	16,102,390
Cost of services	-	-	-	(12,100,515)	-	(12,100,515)
Gross operating profit	-	-	-	4,001,875	-	4,001,875
Selling expenses	(8,766)	-	(8,766)	(2,455,361)	-	(2,455,361)
General and administrative expenses	-	-	-	(1,117,886)	-	(1,117,886)
Other operational income (expenses) net	-	-	-	(395,018)	-	(395,018)
Operating (loss) profit	(8,766)	-	(8,766)	33,610	-	33,610
Financial income	5,469	(769) (1)	4,700	2,352,587	(1,947,016) (1)	405,571
Financial expenses	(10,099)	-	(10,099)	(2,845,919)	2,159,064 (1)	(686,855)
Net exchange rate variation	-	769 (1)	769	(2,114)	(212,048) (1)	(214,162)
Equity accounting results	(432,992)	-	(432,992)	(10,454)	-	(10,454)
Loss before income tax and social contribution	(446,388)	-	(446,388)	(472,290)	-	(472,290)
Income tax and social contribution:						
Current	-	-	-	(179,104)	-	(179,104)
Deferred	2,188	-	2,188	294,649	-	294,649
Loss for the year	(444,200)	-	(444,200)	(356,745)	-	(356,745)



(¹) Reclassification of financial income and expense of exchange rate variation in the net amount R\$769 individual and R\$212,048 for consolidated, previously disclosed in financial income and expenses account to "Net exchange variation".

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The activities of the Group exposes it to several financial risks. The risk management program is centralized by the Vice-Presidency of Finance of holding LATAM, with the objective of minimizing the adverse effects of the financial risks that affect the Group.

6.1 Liquidity risk management

As disclosed in note 1, item 1.1, management maintain its leverage levels in order to avoid any impact to its ability to settle commitments and obligations in foreign currency.

The table below summarizes the commitments and contractual obligations that may impact the Group's liquidity at December 31, 2015:

						Consolidated
						12/31/2015
	Less than 1	Between 1	Between 2	More than 5	Cash flow	Book Value
	year	and 2 years	and 5 years	years	contracted	
Non-derivative financial liabilities						
Finance leases (Note 18.1)	546,971	393,497	1,492,683	279,728	2,712,879	2,491,167
Operating leases (Note 18.2)	1,648,349	736,732	588,928	184,213	3,158,222	19,090
Loans and financing (Note 17)	249,907	1,378,150	490,541	2,034,157	4,152,755	3,133,710
Trade accounts payable (Note 19)	4,890,099	-	-	-	4,890,099	4,890,099

6.2 Credit risk management

The Group is subject to the credit risk related to trade accounts receivable, financial investments and derivative contracts, as follows:

- Credit risk associated with trade accounts receivable is actively managed by dedicated team. Furthermore, it should be noted the diversification of the customer portfolio and the concession of credit to customers with good financial and operational conditions; and
- Credit risk associated with financial investments and derivative contracts is mitigated by the Group's policy of working with prime institutions.

On December 31, 2015, the Group also held bank deposit and short-term investments with financial institutions considered as first-line including: Bradesco,



Citibank, Banco do Brasil, Alfa, Santander, Caixa Econômica Federal, HSBC, Itaú Unibanco, and Safra.

6.3 Interest rate risk management

The Group has the following sensitivity analysis table to changes in interest rates, considering the macroeconomic projections published by BM&F Bovespa on December 31, 2015, which indicated the following rates as probable scenario:

Index	Rate estimated as likely scenario					
Interbank Deposit Certificate ("CDI")	13.33%					
LIBOR - London Interbank Offered Rate	10.20%					
Individual						
12/31/2015						
Instruments	Book Value	Financial	Rate	Scenario I	Scenario II rate	Scenario III rate
Short-term investments	1,642	CDI	13.33%	1,861	2,171	2,233
Impact to net financial income/expenses and equity				219	529	591
Consolidated						
12/31/2015						
Instruments	Book Value	Financial	Rate	Scenario I	Scenario II rate	Scenario III rate
Short-term investments	1,908,927	CDI	13.33%	2,163,387	2,523,861	2,595,956
Loan Receivable - Loans	3,082,167	Libor	8.42%	3,396,548	3,829,608	3,916,220
Loans and financing	(3,133,710)	Libor	8.42%	(3,453,348)	(3,893,650)	(3,981,711)
Financial lease	(2,491,167)	Libor	2.15%	(2,745,266)	(3,095,287)	(3,165,292)
Impact to net financial income/expenses and equity				(4,896)	(1,686)	(1,043)

6.4 Exchange risks management

Assets and liabilities denominated in foreign currency are as follows:

	Consolidated	
	12/31/2015	12/31/2014
Assets denominated in US\$		
Related parties (Note 26.1)	2,942,768	1,701,600
Trade accounts receivable (Note 9)	383,329	344,112
Maintenance prepayment	390,759	260,735
Intercompany Loans (Note 26.1)	3,082,167	3,010,767
Liabilities denominated in US\$		
Loans and financing (Note 17)	(3,133,710)	(3,069,477)
Finance leases (Note 18.1)	(2,491,167)	(2,138,334)
Related parties (Note 26.2)	(3,228,256)	(1,357,117)
Maintenance provision (Note 22)	(1,591,893)	(1,346,229)
Exchange exposure, net	(3,646,003)	(2,593,943)
Foreign exchange exposure (in US\$) (liabilities)/assets	(933,723)	(976,562)



Considering the macroeconomic projections and currency variation, management made the sensitivity table variations in the exchange concerning the US\$ to BRL parity, as follows:

Parity - R\$ x US\$ Transaction/Instrument	Consolidated				
	3.9048 Current Scenario	2.9286 Scenario I Appreciation 25%	1.9524 Scenario II Appreciation 50%	4.8810 Scenario I Devaluation 25%	5.8572 Scenario II Devaluation 50%
Assets denominated in US\$					
Related parties	2,942,768	2,207,076	1,471,384	3,678,460	4,414,152
Trade accounts receivable	383,329	287,497	191,665	479,161	574,994
Maintenance prepayment	390,759	293,069	195,380	488,449	586,139
Intercompany Loans	3,082,167	2,311,625	1,541,084	3,852,709	4,623,251
Liabilities denominated in US\$					
Loans and financing	(3,133,710)	(2,350,283)	(1,566,855)	(3,917,138)	(4,700,565)
Finance leases	(2,491,167)	(1,868,375)	(1,245,584)	(3,113,959)	(3,736,751)
Related parties	(3,228,256)	(2,421,192)	(1,614,128)	(4,035,320)	(4,842,384)
Maintenance provision	(1,591,893)	(1,193,920)	(795,947)	(1,989,866)	(2,387,840)
Impact on income and owners' equity		911,501	1,823,002	(911,501)	(1,823,002)

6.5 Risk management related to variation in fuel price

One of the most important components of the Company's operating costs is the price of jet fuel that is intrinsically related to the oil costs in the international market.

The table below summarizes the sensitivity to a possible change to the price of the aviation fuel in the result for the year ended on December 31, 2015.

It was adopted as a probable scenario to the average price per barrel of crude oil ("WTI") released by the U.S. Energy Administration and Information the amount of US\$48.69 (forty-eight US dollars and sixty-nine cents) for the period of 2016 and with forecast of impact to the result, resulting in an increment of 25% and 50% in the price, as follow:

Scenario	Consolidated	
	12/31/2015	
	Impact to result and equity	
Appreciation of 25%	1,134,854	
Appreciation of 50%	2,269,709	
Devaluation of 25%	(1,134,854)	
Devaluation of 50%	(2,269,709)	



6.6 Financial instruments by category

	Individual		Consolidated	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014
Loans and receivables				
Cash and cash equivalents (Note 7)	3,338	1,236	816,121	359,991
Trade accounts receivable (Note 9)	4,013	-	3,925,966	3,634,715
Maintenance prepayment	-	-	390,759	260,735
Intercompany Loans (Note 26.1)	-	-	3,082,167	3,010,767
Judicial deposits (Note 13)	2,849	2,095	530,779	505,732
Other current assets	15,637	19,984	438,074	289,380
Measured at fair value through income statement				
Short-term investments (Note 8)	1,642	4,072	1,908,927	1,337,487
Other financial liabilities				
Trade accounts payable (Note 19)	99,111	740	4,890,099	2,581,162
Loans and financing (Note 17)	-	-	3,133,710	3,069,477
Finance leases (Note 18.1)	-	-	2,491,167	2,138,334
Other accounts payable	329	4,152	386,929	299,679

6.7 Fair value determination of financial instruments

The Group discloses its financial assets and liabilities at fair value, based on the appropriate accounting standards, which refer to concepts of valuation and disclosure requirements, as follow:

- Level 1 - prices quoted (unadjusted) for identical instruments in active markets;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the assets or liability; either directly or indirectly; and
- Level 3 - techniques which use data which would have significant effect in the fair value recorded whose inputs are non-observable. This item is not applicable to the Group as of December 31, 2015.

The table below shows the Company's financial instruments measured at fair value:

	Individual					
	12/31/2015			12/31/2014		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash equivalents	1,145	-	1,145	1,111	-	1,111
Exclusive fund	428	1,197	1,625	2,388	1,684	4,072
Bank deposit certificates ("CDB")	-	17	17	-	-	-
	1,573	1,214	2,787	3,499	1,684	5,183



	Consolidated					
	12/31/2015			12/31/2014		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash equivalents	202,510	-	202,510	71,756	-	71,756
Exclusive fund	153,150	1,218,793	1,371,943	-	972,117	972,117
Bank deposit certificate	-	421,997	421,997	-	161,134	161,134
Investment fund	-	114,987	114,987	94,495	109,741	204,236
	<u>355,660</u>	<u>1,755,777</u>	<u>2,111,437</u>	<u>166,251</u>	<u>1,242,992</u>	<u>1,409,243</u>

6.8 Comparison between book value and fair value of financial instruments

	Consolidated			
	Book value		Fair value	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014
Loans and financing	3,133,710	3,069,477	4,152,755	3,186,329
Finance leases	2,491,167	2,138,334	2,712,879	2,128,200
	<u>5,624,877</u>	<u>5,207,811</u>	<u>6,865,634</u>	<u>5,314,529</u>

7. CASH AND CASH EQUIVALENTS

	Individual		Consolidated	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014
Cash and bank accounts	2,193	125	613,611	288,235
Cash equivalents				
Financial investments	1,145	1,111	202,510	71,756
	<u>3,338</u>	<u>1,236</u>	<u>816,121</u>	<u>359,991</u>

The increase in cash and cash equivalents reflects the discount credit card receivables without recourse occurred in December 2015.

The investments classified as cash equivalents are liquid, and according to the Company's analysis, can be converted to cash with insignificant risk of change in value.

Financial investments are remunerated at the weighted average rate of 105% of the CDI rate.

8. SHORT-TERM INVESTMENTS

	Individual		Consolidated	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014
Bank deposit certificates ("CDB")	17	-	421,997	161,134
Exclusive fund ⁽¹⁾	1,625	4,072	1,371,943	972,117
Investment fund ⁽²⁾	-	-	114,987	204,236
	<u>1,642</u>	<u>4,072</u>	<u>1,908,927</u>	<u>1,337,487</u>



- (1) The amounts related to exclusive fund have a profitability indexed to the Interbank Deposit Certificate ("CDI").
- (2) The investment fund in foreign currency is represented by public bonds.

On December 31, 2015, the private bonds of the exclusive fund are mainly comprised of bonds and financial instruments of first line banks, remunerated at the weighted average rate of 105% of the CDI rate.

The increase in short-term investments also reflects the discount credit card receivables without recourse occurred in December 2015.

9. TRADE ACCOUNTS RECEIVABLE

	Individual		Consolidated	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014
Credit cards	-	-	212,576	1,161,322
Debit cards	-	-	2,562	44,657
Direct credit	-	-	724,676	563,302
Documents receivable	-	-	167,105	282,704
Related parties (Note 26.1)	4,013	-	2,942,768	1,701,600
	4,013	-	4,049,687	3,753,585
Allowance for doubtful accounts	-	-	(123,721)	(118,870)
	4,013	-	3,925,966	3,634,715

The reduction in credit cards also reflects the discount credit card receivables without recourse occurred in December 2015.

The increase of accounts receivable with related parties is mainly due to the appreciation of the US\$ against the R\$ during the year of 2015 in 47%.

The variation in the allowance for doubtful accounts is basically represented by increase in default.

9.1 Changes in allowance for doubtful accounts

	Consolidated	
	12/31/2015	12/31/2014
Beginning balance	(118,870)	(110,039)
Additions	(21,990)	(18,757)
Reversals / write-offs	17,139	9,926
Ending balance	(123,721)	(118,870)

The constitution of allowance for doubtful accounts were included in "sales expenses" in the income statement. The maximum exposure to credit risk on the date of the report is the book value of each type of receivable mentioned above.



The allowance for doubtful accounts was determined according to policy disclosed in Note 4.6.

9.2 Aging of trade accounts receivable

	Individual		Consolidated	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014
Current	4,013	-	3,817,497	3,426,845
Overdue				
within 60 days	-	-	31,932	125,319
from 61 to 90 days	-	-	29,618	26,163
from 91 to 180 days	-	-	19,020	22,511
from 181 to 360 days	-	-	18,140	26,943
more than 360 days	-	-	133,480	125,804
	4,013	-	4,049,687	3,753,585

Management evaluated that the amount of the provision for doubtful accounts reflects the best estimate, based on the information available on December 31, 2015.

10. INVENTORIES

	Consolidated	
	12/31/2015	12/31/2014
Parts and materials for maintenance and repairs	382,410	345,022
Other inventories ⁽¹⁾	58,067	84,362
	440,477	429,384

⁽¹⁾ Other inventories include uniforms, food items and other inventories.

Some items identified as being obsolete or slow moving, were subject to provisions for obsolescence. On December 31, 2015 the allowance for inventory losses is the amount of R\$44,303 (R\$21,147 on December 31, 2014).

10.1 Provision for obsolescence

	Consolidated	
	12/31/2015	12/31/2014
Beginning balance	21,147	106,621
Reversals	(9,149)	(96,127)
Additions	32,305	10,653
Ending balance	44,303	21,147

The provision for obsolescence increase reflects the intention of the Group to reduce the use of aircrafts model A-330.



11. TAXES RECOVERABLE

	Individual		Consolidated	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014
State ICMS ("VAT")	-	-	147,918	122,091
PIS and COFINS ("Federal Taxes to Social Fund Programs")	7	-	302,736	149,190
Income and social contribution tax	25,592	32,850	107,360	128,284
Taxes recoverable overseas	-	-	60,580	68,848
Other taxes	2,593	2,593	11,427	8,078
	28,192	35,443	630,021	476,491

The increase of PIS and COFINS recoverable is related to extemporaneous credits recorded during the year ended on December 31, 2015.

12. DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION

12.1 Movement in deferred income and social contribution taxes balance

	Individual					
	12/31/2015					
	12/31/2014	Recognized in the income	Others	Net book value	Deferred tax asset	Deferred tax liability
Tax loss	55,085	(1,572)	(12,640)	40,873	40,873	-
Social contribution negative basis	21,182	(565)	-	20,617	20,617	-
Temporary differences						
Provisions for tax, civil and labor risks	5,743	(5,743)	-	-	-	-
Others	(38,262)	-	38,262	-	-	-
Tax assets (liabilities) before compensation	43,748	(7,880)	25,622	61,490	61,490	-
Tax compensation	-	-	-	-	-	-
Total net deferred tax assets	43,748	(7,880)	25,622	61,490	61,490	-

	Consolidated					
	12/31/2015					
	12/31/2014	Recognized in the income	Others	Net book value	Deferred tax asset	Deferred tax liability
Tax loss	162,963	320,030	(12,640)	470,353	470,353	-
Social contribution negative basis	66,011	120,049	-	186,060	186,060	-
Provision for write-off due to non-recoverability over tax loss and negative basis	-	(34,315)	-	(34,315)	(34,315)	-
Temporary differences:						
Provisions for tax, civil and labor risks	165,912	(9,540)	1,358	157,730	157,730	-
Provision for inventory losses and allowance for doubtful accounts	35,668	6,472	-	42,140	42,140	-
Finance leases	(104,375)	198,353	-	93,978	409,237	(315,259)
Maintenance provision	392,478	2,473	-	394,951	1,736,180	(1,341,229)
Sale-leaseback deferred revenue	(859)	6,900	-	6,041	6,041	-
Fixed assets - deemed cost	(37,020)	-	-	(37,020)	-	(37,020)
Others	(5,057)	(30,682)	38,262	2,523	2,523	-
Tax assets (liabilities) before compensation	675,721	579,740	26,980	1,282,441	2,975,949	(1,693,508)
Tax compensation	-	-	-	-	(1,693,508)	1,693,508
Total net deferred tax assets	675,721	579,740	26,980	1,282,441	1,282,441	-



12.2 Conciliation of the rate of Income Tax and Social Contribution on Profit

	Individual		Consolidated	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014
Income before taxes from continued operations	(1,239,714)	(446,388)	(1,454,409)	(472,290)
Nominal tax rate	34%	34%	34%	34%
Expected tax expense at nominal tax rate	421,503	151,772	494,499	160,579
Reconciling itens:				
Equity interest in income of subsidiaries	(420,957)	(147,214)	-	-
Non-deductible expenses	(13,413)	(2,370)	(132,024)	(33,296)
Others	2,136	-	(26,332)	(11,738)
Net income taxes	(10,731)	2,188	336,143	115,545
Current income tax	(2,851)	-	(243,597)	(179,104)
Deferred income tax	(7,880)	2,188	579,740	294,649
Effective rate	-0.9%	0.5%	23.1%	24.5%

12.3 Deferred tax assets not recognized

The Company has tax loss carry forwards and negative basis of social contribution of R\$34,315 (R\$0 on December 31, 2014), for which no deferred tax asset was recorded. The Company projected future earnings that were not sufficient to recognize this portion of tax losses and negative basis.

12.4 Estimate of realization of deferred tax asset

The Group periodically evaluate the likelihood of generation of future taxable income to be able to realize the deferred tax asset, originated from temporary differences and accumulated tax losses. Valuation allowance is recorded proportionally to the extent of the unlikelihood that the Group will realize the deferred tax asset. This assessment will comprising all positive and negative aspects related to future taxable income, realization of deferred taxes, business environment in general, historical financial results and tax planning strategies. The following key factors have been consider in the evaluation of the profitability history of realization the deferred tax asset, as follow: (1) recent profitability history, (2) Brazilian and global economic scenario, (3) forecasted revenue of the Group, (4) forecasted exchange rates of the US Dollar, (5) fuel price estimate, and (6) future impact of provisional taxable differences. The analysis of the realization of deferred tax credits were conducted by the Company and the forecasts of future income results and comply with the LATAM's strategic planning approved by its Board of Directors.

On December 31, 2015, tax credits resulting from tax losses and negative basis of social contribution were recorded based on the expectation of generation of future taxable income by the Company, observing the legal limitations. Forecasts of future taxable income over tax losses and negative tax basis of social contribution took into account the adverse conditions of the Brazilian political and



economic scenario, implying in constant oscillations of the US Dollar against the Brazilian Real.

The deferred tax asset recognition is also based on a series of actions already initiated and by others to begin, as listed below, which will contribute with the generation of future taxable income:

- Readjustment of the national network with an effective reduction on the second semester of 2015 of 2.5% and of 9.4% in the fourth quarter;
- Planning of a new readjustment of the national network, to be adopted in 2016, between 6% and 9% of offer reduction;
- Implementation of the cost pillar, aiming at a substantial cost reduction at the Group;
- Reduction of exchange exposure, with the management of assets and liabilities of the Company, reducing the exposure of balance to real fluctuation against the Dollar; and
- Enable the HUB of the northeast, aiming at a better connectivity of customers and increase of sales.

13. JUDICIAL DEPOSITS

The roll forward of the judicial deposits are presented below:

					Individual
	12/31/2014	Additions	Reversals	Price index update	12/31/2015
Civil	124	136	-	-	260
Court blocks	1,971	959	(341)	-	2,589
	<u>2,095</u>	<u>1,095</u>	<u>(341)</u>	<u>-</u>	<u>2,849</u>
					Consolidated
	12/31/2014	Additions	Reversals	Price index update	12/31/2015
Civil	20,271	12,009	(6,203)	-	26,077
Labor	53,598	37,657	(29,233)	210	62,232
Tax and social security	398,504	12,688	(25,020)	21,755	407,927
Court blocks	33,359	68,145	(66,961)	-	34,543
	<u>505,732</u>	<u>130,499</u>	<u>(127,417)</u>	<u>21,965</u>	<u>530,779</u>



TAM S.A. AND ITS SUBSIDIARIES



Explanatory notes to the financial statements

Years ended as of December 31, 2015 and 2014

(Amounts expressed in thousands of Reais - R\$, except when otherwise indicated)

14. INVESTMENTS

14.1 Investments breakdown

	Individual	
	12/31/2015	12/31/2014
Equity interest in subsidiaries	425,082	1,147,867
Provision for investments losses ⁽¹⁾	(435,883)	-
	(10,801)	1,147,867

⁽¹⁾ Amounts recorded in non-current liabilities

14.2 Roll forward of the interest in subsidiaries and associates

	Transportes		TP Franchising	Multiplus S.A	Corsair	ABSA	Total
	Tam Linhas Aéreas S.A	aéreos del mercosur S.A	Ltda		Participações S.A	Aerolíneas S.A	
As of December 31, 2013	796,332	75,107	822	135,416	191	95,203	1,103,071
Advance for future capital stock increase	697,789	-	-	-	-	-	697,789
Equity valuation adjustments	8,004	-	-	1,240	-	-	9,244
Capital gain on disposal of shareholding	-	-	-	2,776	-	-	2,776
Equity in subsidiaries	(673,935)	(17,317)	1,749	236,638	-	19,873	(432,992)
Cash flow hedge	-	-	-	9,242	-	-	9,242
Share-based payments	-	-	-	(2,775)	-	-	(2,775)
Exchange rate variation on foreign investments	-	4,247	-	-	-	-	4,247
Dividends and interests on shareholders' equity	-	(20,591)	-	(222,144)	-	-	(242,735)
As of December 31, 2014	828,190	41,446	2,571	160,393	191	115,076	1,147,867
Advance for future capital stock increase	316,000	-	-	-	-	-	316,000
Capital transaction with partners	-	-	-	(7,930)	-	-	(7,930)
Equity valuation adjustments	(8,004)	-	-	-	-	-	(8,004)
Equity in subsidiaries	(1,570,978)	25,747	585	349,072	(1,873)	(40,663)	(1,238,110)
Cash flow hedge	338	-	-	479	-	-	817
Share-based payments	253	-	-	1,490	-	-	1,743
Exchange rate variation on foreign investments	-	10,831	-	-	-	79,691	90,522
Dividends and interests on shareholders' equity	-	-	-	(313,706)	-	-	(313,706)
As of December 31, 2015	(434,201)	78,024	3,156	189,798	(1,682)	154,104	(10,801)

14.3 Summary of financial of investments

	Transportes		TP Franchising	Multiplus S.A	Corsair	ABSA	Total
	Tam Linhas Aéreas S.A	aéreos del mercosur S.A	Ltda		Participações S.A	Aerolíneas S.A	
Capital Stock	5,216,454	46,183	30	107,300	191	144,061	-
Number of stocks - total common stocks	2,064,602	87,653	30,100	162,246,573	1,000	4,060,702	-
Held-common	2,064,602	83,253	30,100	118,018,157	1,000	4,060,702	-
% stockholding interest							
In total capital	100.00%	94.98%	100.00%	72.74%	100.00%	100.00%	-
In voting capital	100.00%	94.98%	100.00%	72.74%	100.00%	100.00%	-
Equity	(434,201)	82,148	3,156	260,927	(1,682)	154,104	-
Investment value	(434,201)	78,024	3,156	189,798	(1,682)	154,104	(10,801)
Net profit (loss) for the year	(1,570,978)	27,108	585	479,741	(1,873)	(40,663)	-
Income from equity accounting	(1,570,978)	25,747	585	349,072	(1,873)	(40,663)	(1,238,110)

	Transportes		TP Franchising	Multiplus S.A	Corsair	ABSA	Total
	Tam Linhas Aéreas S.A	aéreos del mercosur S.A	Ltda		Participações S.A	Aerolíneas S.A	
Capital Stock	5,216,454	46,183	30	107,300	191	4,061	-
Number of stocks - total common stocks	2,064,602	87,653	30,100	162,246,573	1,000	1,337,487	-
Held-common	2,064,602	83,253	30,100	118,019,995	1,000	1,337,487	-
% stockholding interest							
In total capital	100.00%	94.98%	100.00%	72.74%	100.00%	100.00%	-
In voting capital	100.00%	94.98%	100.00%	72.74%	100.00%	100.00%	-
Equity	828,190	43,638	2,571	220,502	191	115,076	-
Investment value	828,190	41,446	2,571	160,393	191	115,076	1,147,867
Net profit (loss) for the year	(673,935)	(18,232)	1,749	325,016	-	19,873	-
Income from equity accounting	(673,935)	(17,317)	1,749	236,638	-	19,873	(432,992)



There were no changes to the equity interest during the year ended December 31, 2015.

15. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment roll forward is presented below:

							Consolidated
	Weighted average depreciation rate (p.a.)	12/31/2014	Additions	Transfers	Disposals ⁽ⁱⁱⁱ⁾	Exchange rate variation	12/31/2015
Cost							
Land	-	46,165	-	-	-	2,758	48,923
Flight equipment ⁽ⁱ⁾	-	8,449,562	491,630	-	(674,733)	-	8,266,459
Buildings and improvements	-	249,308	1,696	-	(4,957)	25	246,072
Computers and peripherals	-	234,590	28,493	-	(134)	1,089	264,038
Machinery and equipment	-	169,717	687	-	-	(293)	170,111
Construction in progress	-	16,918	89,057	(16,329)	(357)	(1,464)	87,825
Others	-	380,260	10,850	16,329	(6,795)	955	401,599
		<u>9,546,520</u>	<u>622,413</u>	<u>-</u>	<u>(686,976)</u>	<u>3,070</u>	<u>9,485,027</u>
Depreciation							
Flight equipment ^(*)	4.90%	(5,021,064)	(413,989)	-	281,391	-	(5,153,662)
Buildings and improvements	8.43%	(74,653)	(4,147)	-	1,515	-	(77,285)
Computers and peripherals	8.52%	(181,403)	(19,997)	-	84	-	(201,316)
Machinery and equipment	5.73%	(116,034)	(9,726)	-	-	-	(125,760)
Others	11.65%	(189,376)	(44,313)	-	4,872	-	(228,817)
		<u>(5,582,530)</u>	<u>(492,172)</u>	<u>-</u>	<u>287,862</u>	<u>-</u>	<u>(5,786,840)</u>
Property and equipment, net		<u>3,963,990</u>	<u>130,241</u>	<u>-</u>	<u>(399,114)</u>	<u>3,070</u>	<u>3,698,187</u>

							Consolidated
	Weighted average depreciation rate (p.a.)	12/31/2013	Additions	Transfers ^(iv)	Disposals ⁽ⁱⁱⁱ⁾	Exchange rate variation	12/31/2014
Cost							
Land	-	30,358	11,080	5,067	(340)	-	46,165
Flight equipment ⁽ⁱ⁾	-	10,264,860	346,144	38,173	(2,199,615)	-	8,449,562
Buildings and improvements	-	249,308	-	-	-	-	249,308
Computers and peripherals	-	203,013	29,356	2,859	(638)	-	234,590
Machinery and equipment	-	170,169	25,364	(24,683)	(1,133)	-	169,717
Construction in progress	-	12,547	11,873	(7,485)	(17)	-	16,918
Aircraft prepayment ⁽ⁱⁱ⁾	-	642,193	178,942	(38,273)	(782,862)	-	-
Others	-	293,614	60,587	27,002	(943)	-	380,260
		<u>11,866,062</u>	<u>663,346</u>	<u>2,660</u>	<u>(2,985,548)</u>	<u>-</u>	<u>9,546,520</u>
Depreciation							
Flight equipment ^(*)	3.62%	(4,649,653)	(371,411)	-	-	-	(5,021,064)
Buildings and improvements	8.43%	(63,792)	(10,861)	-	-	-	(74,653)
Computers and peripherals	7.69%	(165,786)	(15,617)	-	-	-	(181,403)
Machinery and equipment	7.46%	(103,346)	(12,688)	-	-	-	(116,034)
Others	9.32%	(161,997)	(27,379)	-	-	-	(189,376)
		<u>(5,144,574)</u>	<u>(437,956)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,582,530)</u>
Property and equipment, net		<u>6,721,488</u>	<u>225,390</u>	<u>2,660</u>	<u>(2,985,548)</u>	<u>-</u>	<u>3,963,990</u>

^(*) Linear depreciation, with residual of 20% for rotables, except for technical components depreciated based on the flight cycles and hours.

⁽ⁱ⁾ Includes the aircrafts, engines and spare parts sets. The acquisitions include the aircrafts under finance lease according to CPC 6/ IAS 17.



- (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. Group's historic experience shows the return of the prepaid amounts on the delivery of the aircrafts by manufacture is probable.
- (iii) In the year ended on December 31, 2014, 5 aircrafts and 12 engines classified as finance lease in flight equipment were transferred to LATAM, and subsequently subleased to TAM Linhas Aéreas.
- (iv) On December 31, 2014, balance corresponds to the transfer of items classified as intangible to fixed assets in Multiplus.

The additions of flight equipment are mainly represented by maintenance costs recorded during the year due to the change in accounting policy described in Note 4.16.

16. INTANGIBLE ASSETS

Intangible assets are comprised of the following items:

		Individual				
	Weighted average amortization rate (p.a.)	12/31/2014	Additions	Transfers	Disposals	12/31/2015
Cost						
Others	-	163,189	-	-	(38,262)	124,927
		163,189	-	-	(38,262)	124,927
Amortization						
Others	20.00%	-	-	-	-	-
		-	-	-	-	-
Intangible assets, net		163,189	-	-	(38,262)	124,927

		Individual				
	Weighted average amortization rate (p.a.)	12/31/2013	Additions	Transfers	Disposals	12/31/2014
Cost						
Others	-	163,189	-	-	-	163,189
		163,189	-	-	-	163,189
Amortization						
Others	20.00%	-	-	-	-	-
		-	-	-	-	-
Intangible assets, net		163,189	-	-	-	163,189



TAM S.A. AND ITS SUBSIDIARIES



Explanatory notes to the financial statements

Years ended as of December 31, 2015 and 2014

(Amounts expressed in thousands of Reais - R\$, except when otherwise indicated)

	Weighted average amortization rate (p.a.)					Consolidated
		12/31/2014	Additions	Transfers	Disposals	12/31/2015
Cost						
Trademarks	-	168,312	-	-	-	168,312
Software	-	597,541	6,842	99,309	(635)	703,057
Software being developed	-	137,145	63,644	(99,309)	(9,651)	91,829
Slots	-	124,927	-	-	-	124,927
Others	-	68,092	23,124	-	(42,624)	48,592
		1,096,017	93,610	-	(52,910)	1,136,717
Amortization						
Software	20.00%	(466,205)	(61,465)	-	-	(527,670)
Others	20.00%	(29,805)	(15,287)	-	-	(45,092)
		(496,010)	(76,752)	-	-	(572,762)
Intangible assets, net		600,007	16,858	-	(52,910)	563,955

	Weighted average amortization rate (p.a.)					Consolidated
		12/31/2013	Additions	Transfers ⁽ⁱ⁾	Disposals	12/31/2014
Cost						
Trademarks	-	168,312	-	-	-	168,312
Software	-	505,569	47,400	48,039	(3,467)	597,541
Software being developed	-	105,888	90,334	(50,699)	(8,378)	137,145
Slots	-	124,927	-	-	-	124,927
Others	-	68,092	-	-	-	68,092
		972,788	137,734	(2,660)	(11,845)	1,096,017
Amortization						
Software	20.00%	(397,311)	(68,894)	-	-	(466,205)
Others	20.00%	(29,805)	-	-	-	(29,805)
		(427,116)	(68,894)	-	-	(496,010)
Intangible assets, net		545,672	68,840	(2,660)	(11,845)	600,007

(i) On December 31, 2014, the balance corresponds to the transfer of items classified as intangible to fixed assets of subsidiary Multiplus.

17. LOANS AND FINANCING

				Consolidated			
				12/31/2015		12/31/2014	
	Effectiveness Start	Effectiveness End	Charges p.a.	Current	Non-current	Current	Non-current
In foreign currency - US\$							
Senior bonus - Tam Capital 1	04/2007	04/2017	7.38%	12,958	1,170,560	8,813	794,466
Senior bonus - Tam Capital 2	10/2009	06/2015	9.50%	-	-	29,979	789,630
Senior bonus - Tam Capital 3	06/2011	06/2021	8.38%	9,592	1,940,600	6,528	1,318,256
In local currency - R\$							
Credit card advance	-	-	2.00%	-	-	121,805	-
				22,550	3,111,160	167,125	2,902,352



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, with 7.375% interest per year and with an actual rate on date of transaction 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.

On June 03, 2011 TAM Capital 3 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 8.38% interest per year. (actual rate on date of transaction 8.570% p.a.) 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. Management concluded that the redemption premium offsets the interest losses of creditors as such the redemption option is related (clearly and closely) to the seniors' bonuses. Transaction rate of cost raising of R\$10.1 million.

18. FINANCE LEASES OBLIGATIONS

The Company is lessee in several contracts, which can be classified as operating or finance lease.

18.1 Financial leasing

The Company contracts financial leasing for computer equipment, aircraft, engines, machines and equipment for maintenance activities.

Mandatory minimum future payments are segregated as follows and were recorded in current and non-current liabilities:

	Cash flow contracted	Present value of minimum payments	Consolidated	
			Total 12/31/2015	12/31/2014
Less than 1 year	546,971	70,835	476,136	413,736
Between 1 and 5 years	1,886,179	147,518	1,738,661	979,171
More than 5 years	279,728	3,358	276,370	745,427
			2,491,167	2,138,334
		Current liabilities	476,136	413,736
		Non-current liabilities	2,015,031	1,724,598



The Company maintains control of the leased assets with are the follows:

	Average depreciation rate p.a.	Consolidated	
		12/31/2015	12/31/2014
Cost			
Aircrafts		2,229,387	2,647,994
Engines		575,189	278,670
		2,804,576	2,926,664
Depreciation			
Aircrafts	4.86%	(1,290,421)	(1,305,549)
Engines	4.86%	(209,500)	(86,789)
		(1,499,921)	(1,392,338)
Net assets		1,304,655	1,534,326

For these leases were offered letters of credit issued by the Company and guarantee deposits.

Terms of contracts of the above options, when it comes to renewal, adjustment and stock option are market practices. Moreover, there are no contingent payments clauses, or relating to dividend distribution restriction, interest payments on equity or additional debt funding.

On December 31, 2015, the Company has 26 aircrafts (31 aircrafts on December 31, 2014), acquired through finance leases.

18.2 Operating leasing

The Company assumed non-cancellable operating leasing operations of 139 aircrafts and 28 engines on December 31, 2015 (131 aircrafts and 4 engines on December 31, 2014). These contracts have in average 60 months and are based on the variation of the US\$, plus LIBOR; in order to ensure these operations, the Company contracted letters of guarantees, made deposits or offered promissory notes.

Expenses incurred with operating leasing included in the entry of cost of services rendered totaled R\$2,042,466 in the year ended on December 31, 2015 (R\$1,036,134 on December 31, 2014). The increase of the expense is mainly due to the appreciation of the US\$ against the R\$ during the year of 2015 in 47%.



Future minimum payments of non-cancelable operating leasing are as follows:

	<u>12/31/2015</u>	<u>Consolidated</u> 12/31/2014
Less than 1 year	1,648,349	1,489,369
Between 1 and 5 years	1,325,660	1,339,596
More than 5 years	184,213	287,096
	<u>3,158,222</u>	<u>3,116,061</u>

19. TRADE ACCOUNTS PAYABLE

	<u>Individual</u>		<u>Consolidated</u>	
	<u>12/31/2015</u>	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Third parties suppliers	876	-	1,661,843	1,237,699
Related parties (Note 26.2)	98,235	740	3,228,256	1,343,463
	<u>99,111</u>	<u>740</u>	<u>4,890,099</u>	<u>2,581,162</u>

The accounts payable increase is mainly due to the appreciation of the US\$ against the R\$ during the year of 2015 in 47% as well as the increase in the number of engines and aircrafts, of 26 and 8, respectively, leased by means of operating lease.

20. DEFERRED REVENUE

On December 31, 2015, the balance of transport to provide classified in current liabilities, of R\$2,270,613 (R\$2,060,538 on December 31, 2014), is represented by 2,201,606 coupons of tickets sold but yet unused (2,050,807 on December 31, 2014), with average term of use of 66 days (40 days on December 31, 2014). The balance of the deferred revenue in the consolidated is also composed by touristic packages yet unused.

The deferred revenue of the Multiplus Loyalty Program is recorded based on the number of unused points and the historical average rate of non-redemption of points (breakage) for the past 12 months. At Multiplus, points expire two years after the date of issue. On December 31, 2015, the balance of the deferred revenue of points classified in current liabilities totals R\$1,147,549 (R\$1,284,022 on December 31, 2014).

On December 31, 2015, the balance of other revenues originated by the sale of tourism packages amounted to a total R\$34,101 (R\$ 23,660 on December 31, 2014).



21. PROVISION FOR TAX, CIVIL AND LABOR RISKS

The Group and its subsidiaries are involved in certain legal proceedings arising from the normal course of business, which include civil, administrative, tax, social security and labor claims.

The Group classifies the risk of unfavorable decisions in the legal proceedings as “probable”, “possible” or “remote”. The provisions recorded relating to such proceedings is determined by the Company’s management, based on legal advice and reasonably reflect the estimated probable losses.

The Group’s management believes that its provision for tax, civil and labor risks, accounted for according to CPC 25 (IAS 37) - Provisions, Contingent Liabilities and Contingent Assets, is sufficient to cover estimated losses related to its legal proceedings, as presented below.

21.1 Contingencies for probable losses

	Individual					
	31/12/2014	Additions	Reversals	Payments	Price index update	12/31/2015
Tax and social security	287	-	-	-	-	287
	287	-	-	-	-	287
	Consolidated					
	31/12/2014	Provisions	Reversions	Payments	Price index update	12/31/2015
Tax and social security	507,658	11,869	(29,952)	-	41,793	531,368
Civil	170,593	66,175	(9,306)	(63,807)	-	163,655
Labor	69,819	38,085	(28,850)	(8,595)	-	70,459
	748,070	116,129	(68,108)	(72,402)	41,793	765,482

21.1.1 Tax contingencies

TLA contests judicially the collection equivalent to 2.5% over the monthly payroll, resource to be destined to private entities of social assistance and professional formation. The non-payment of this tax is supported by legal measure, however, TLA lost in first instance, and in order to continue the legal discussion, it was required to make a court deposit in the amount of R\$238,000. On December 31, 2015, the accrual related to this proceeding corresponds to the amount of R\$314,726 (R\$304,447 on December 31, 2014).

TLA recorded the credits deemed as undue by the tax authorities, related to PIS and COFINS resulting from the consumption of aviation fuel in Brazil to international routes, with such practice being contested by the inspecting agency. On December 31, 2015, the balance of the provision related to this proceeding was of R\$138,296 (R\$127,437 on December 31, 2014).



During 2008, the US authorities, with the intervention of the Internal Revenue Service ("IRS"), imposed a fine at the time equivalent to US\$ 21 million, but this penalty was fully assumed and liquidated by Lan Cargo Overseas, a stockholder of the Group at the time.

In 2009, the authorities of the Secretariat of Economic Law ("SDE") and the Administrative Council of Economic Defense ("CADE") imposed a new fine. The subsidiary ABSA was convicted in a decision dated August 28, 2013, to pay the amount of R\$114,134.

According to our legal counsel it was estimated a probability of about 60% (sixty percent) chance of reducing the fine calculation base imposed on ABSA, based on application of objective criteria of application of the principle of the *ne bis in idem* (*double jeopardy*), which ensures the widest possible way the removal of the collection of any type of punitive duplicity in order to avoid the penalty becomes disproportionate, among other arguments. At December 31, 2015, the provision for the cause in question totaled the amount of R\$32,710 (R\$32,710 at December 31, 2014).

21.1.2 Civil and labor contingencies

Among the legal proceedings of labor and civil contingencies evaluated by the Administration and by the legal counselors as of likely risk, there are not any proceedings with relevant individual values.

21.2 Contingencies classified as a risk of possible loss

The Group is involved in contingencies, for which losses have been assessed as possible by management with the support from legal counsel and therefore no provision was recorded. On December 31, 2015 the total amount of the possible contingencies was R\$2,415,745 (R\$1,907,269 on December 31, 2014), as demonstrated below:

	Consolidated	
	12/31/2015	12/31/2014
Tax	1,353,742	1,045,469
Labor	923,236	702,670
Civil	138,767	159,130
	<u>2,415,745</u>	<u>1,907,269</u>

On 19 August 2014 the Brazilian Federal Revenue Service tax assessment notice in the amount of R\$175,886, claiming that the offset credits of Social Integration Program (PIS) and Contribution to finance the Social COFINS Security by TLA are not directly related to the air transport activity. The Company filed an appeal at the administrative level on September 17, 2014, which is pending judgment.



TAM Linhas Aéreas contests judicially the notice of breach issued by the Brazilian Federal Revenue Service the amount of R\$141,253 related to offset credits related to Social Integration Program (PIS) and Contribution for Social Security Financing (COFINS) stated in PerdComp. The statement of discontentment presented by the Company was overruled, reason why a voluntary appeal was filed by the administration, pending judgment.

TAM Linhas Aéreas contests judicially the notice of breach issued on December 15, 2009, in the amount of R\$72,435, against which the inspection intended to require the social contribution on income (CSL), related to years 2004 to 2007, as a result of the deduction of expenses related to taxes with suspended enforceability. In 2010 and 2012, the opposition presented by the company was judged invalid. In light of the foregoing, the special appeal filed by the Company is waiting judgment of admissibility.

22. MAINTENANCE RESERVE

	Consolidated	
	12/31/2015	12/31/2014
Maintenance provision	1,591,893	1,346,229
	1,591,893	1,346,229
Current liabilities	685,373	527,867
Non-current liabilities	906,520	818,362

23. POST-EMPLOYMENT PLANS

During year 2015, TAM Linhas Aéreas changed the health plan benefit offered to its employees. This change had as its main objective to reduce part of the cost of the plan under responsibility of the collaborator, thus allowing a higher number of collaborators to have the benefit, with the modality of copayment being then introduced. In addition, as a result of such change, the actuarial obligation previously registered was extinguished, as shown below:



	Consolidated	
	12/31/2015	12/31/2014
Balance on January 1st,	42,481	42,442
Included in the result:		
Current service cost	3,751	3,912
Interest expense (income)	5,306	4,340
Impact of plan reduction	(59,262)	-
	(7,724)	50,694
Rollforward of comprehensive income		
Actuarial gains (losses) resulting from:		
Actuarial gains (losses) - hypothesis	14,958	(14,958)
Actuarial gains - experience	(6,954)	6,954
	8,004	(8,004)
Other		
Benefits paid	(280)	(209)
Ending balance (recorded under the caption of other accounts payable)	-	42,481

24. EQUITY

24.1 Share Capital

On December 31, 2015, capital subscribed and paid by the Company is 5,035,926,000.00 (five billion, thirty-five million, nine hundred and twenty-six thousand reais), which is composed of 150,132,715 book-entry shares of common stocks. There were no changes in corporate capital during the period of 2015.

24.2 Appropriated retained earnings

24.2.1 Legal reserve

The Brazilian legislation establishes that a legal reserve must be created, against the appropriation of 5% of net profit of each fiscal year, which shall not exceed twenty percent (20%) of the capital stock.

24.2.2 Equity Valuation Adjustment

The equity evaluation adjustment reserve includes the actual portion of the net accrued variation of the fair value of the hedging instruments of cash flow which operations under protection have not been recognized in the results of the year. The values recorded in equity evaluation adjustments are reclassified, in full or in part, for the results of the year, according to their performance.



As provided under Law no. 11,638/07, IFRS 1 and CPC 13 Statement - Initial Adoption of Law no. 11.638/07, the Group adopted the revaluated residual amount on December 31, 2007 as the new cost amount for the revaluated 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.

The effects of variation in exchange rates during the year are recognized on equity between the difference of net profit of the year converted at the average exchange rate at the end of each month and converted at the rate at the end of the year. They are recorded under the "equity evaluation adjustments" in equity.

25. SHARE BASED PAYMENT

➤ TAM S.A.

In the Extraordinary Shareholders Meeting ("AGE") held on July 12, 2012, the Company approved the extinction of the stock-based remuneration plan, so that:

(i) the plan is terminated from this date, regarding the concession of new benefits;

(ii) the stock options of the Company granted prior to this date are maintained until their Vesting are completed, under the terms and conditions of the plan and private instrument of concession of stock option executed with each beneficiary; and

(iii) on the dates of the respective vesting, the beneficiaries of the stock options receive the payment in cash equivalent to the product between the (a) total number of stock option exercisable; and (b) the difference, if any, between (b.1.) the price of exercise of the stock option discounting all applicable withholdings; and (b.2) the result of the multiplication 0.9 (zero point nine) by the closing price for the stock of LAN Airlines S.A. at the Santiago Stock Exchange on the business day immediately before that of exercise of the Stock Option".

The last exercise of concessions occurred in May 2015, implying that the Company has not any amounts payable in the future.

➤ Multiplus

On December 31, 2015, Multiplus had the following payment related share based payment:



(i) Stock option program (with liquidation in equity bonds) in the Extraordinary General Meeting held on October 4, 2010, the stockholders of the Company approved the maximum dilution of 3% (three percent) of the number of stocks in circulation that may be used by the management for the concession of options to its employees.

The table below shows the position in the year ended on December 31, 2015.

	Number of stocks in circulation	Average price
Beginning balance	637,399	39.91
Exercised	(49,481)	30.74
Not acquired due to withdrawal	(69,411)	43.38
Ending balance	518,507	40.32

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 Multiplus at such time. The contract validity of the options is seven years after the option granting.

As exception to the above rules, only 1st extraordinary granting was divided into two equal parts in order to exercise half of its options after three years and the other half after four years, and 2nd extraordinary granting was also split into two equal parts that can be exercised 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 the granted options. The exercise price is adjusted by IGP-M from the granting date of options up to the exercise date.



On December 31, 2015, premises used to determine the fair price of granting were the following:

	1 st granting	2 nd granting	3 rd granting	4 th granting	1 st extraordinary granting	2 nd extraordinary granting	3 rd extraordinary granting	4 th extraordinary granting
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
Exercise Price on the date of granting after the modification	15.12	17.83	17.19	19.07	7.87	10.43	17.10	N/A
Interests rate exempted from risk %	12.15	12.15	10.30	7.16	12.15	11.88	8.86	8.99
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\$	15.93	18.59	21.00	15.12	15.93	15.93	20.88	12.04
Price of the stock market on the date of last modification - R\$	17.42	17.42	N/A	N/A	17.42	17.36	N/A	N/A
Fair value of option on the granting date - R\$	6.86	8.29	8.04	3.23	10.02	6.24	7.54	3.35
Fair value of option on the modification date - R\$	7.80	6.86	N/A	N/A	11.11	9.15	N/A	N/A
Average adjusted price of ending balance	-	-	40.82	46.22	-	-	-	30.55
Quantity of outstanding options - 12/31/2015	-	-	102,621	255,995	-	-	-	159,891
Valuation of the outstanding options - 12/31/2015 - R\$	-	-	4,188,882	11,831,972	-	-	-	4,884,670

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.

25.1 Restricted stock plan (liquidation in equity bonds)

On May 21, 2015, the Board of Directors resolved upon and approved the plan of grant of Restricted Stocks, in the total of 91,103 common stocks, nominative, registered, and without par value, issued by the Company and granted to the beneficiaries.

The amount of Restricted Stock was calculated based on the compensation expectation to the Employee split by the simple average of the stock price of Multiplus negotiated in Bovespa BM&F in the month preceding the granting, April 2014. In this plan, Beneficiaries only owned all rights over Restricted Stocks when fulfilling cumulatively, the following conditions:

- Achievement of the performance goal set forth by this Board as the return on invested capital; and
- The beneficiary must remain continually linked as an administrator or employee of Multiplus, for the period from the date of granting and the dates described hereunder for acquisition of the rights concerning the following fractions: (i) 1/3 (one third) after the 2nd anniversary of the granting date; (ii) 1/3 (one third) after the 3rd anniversary of the granting date; and (iii) 1/3 (one third) after the 4th anniversary of the granting date.



On December 31, 2015, such plan had no diluted effects in the income per share.

	Number of outstanding stock options
Beginning balance	91,103
Granted	119,731
Not acquired due to withdrawal	(34,924)
Balance at the end of the year	<u><u>175,910</u></u>

26. RELATED PARTIES

As part of the Group's operations, rights and obligations arise between related parties, resulting from transactions of services, loans agreed on normal conditions of market for similar transactions, based on contracts. All the relationships between the company and its subsidiaries were disclosed irrespective of the existence or not of transactions between these parties.

26.1 Operational Contract

Signed on December 10, 2009, it established the terms and conditions governing the relationship between the Multiplus and TAM Linhas Aéreas, as regarding:

- Continued enjoyment by TAM Linhas Aéreas customers participating in the Multiplus' Loyalty Program ("Program") and the benefits of the program through the use of points granted; and
- Redemption of points by members of the Program through the Multiplus network. The conditions were established for the purchase and sale of points, the purchase and sale of airline tickets, the use of the database, the TAM Loyalty Program management and their respective compensation.

26.2 Share services agreement

For the year ended on December 31, 2015, Multiplus has disbursed the amount of R\$1,687 (R\$ 3,135 on December 31, 2014) to TAM Linhas Aéreas related to the use of these administrative services. The reduction of this expense compared to the year ended on December 31, 2014 it is due to completion of the process of internalization of these services in Multiplus.



26.3 Advances commitment of purchase and sale of air tickets

On December 04, 2013, Multiplus Executive Board approved the limit value for advance purchase of tickets and in October 2015, there was an adjustment which has to be considered the greater amount of R\$500 million and four (4) months considered the redeeming of the balance of the principal, without the limit of invoicing basis, approved by Multiplus' Executive Board, with the favorable recommendation of the Finance Committee, Audit, Governance and related parties.

The methodology used to obtain the rate for the operation was set by means of the arithmetic mean of the three best quotes that TAM obtained in similar operations in the financial market, which necessarily should be higher than the opportunity cost of the Multiplus. As of September/2014, the methodology was improved, which then took into account the average term of the portfolio of receivables of TAM, and the advance rate was set to the highest rate among the best quote that TAM has obtained in the financial market for similar operations and the opportunity cost of the Multiplus added by spread on the operation risk. The anticipated resources are used strictly for the purchase of air tickets redeemed by the members, in accordance with the conditions set out in the operating agreement, (item a). The use of such feature is not allowed otherwise. The mentioned change in the methodology adopted for the calculation of the compensation rate in anticipations of values to TAM, was approved by the Multiplus' Executive Board on August 28, 2014, with the favorable recommendation by the Finance, Audit, Governance and Related Parties Committee.

During the year ended on December 2015, Multiplus made prepayments for purchase of TLA air tickets totaling R\$980 million (R\$646 million on December 31, 2014). We do not have any outstanding balance related to tickets prepayment as of December 31, 2015 (R\$95.4 million on December 31, 2014).

The advance rate accrued in the year was equivalent to 106.1% of the ("CDI") (108.12% on December 31, 2014), versus the Multiplus' portfolio that yielded 104.9% of CDI (103.76% on December 31, 2014), without the air passage anticipations. In 2015, such investment generated financial income for Multiplus totaling R\$ 33,564 (R\$ 12,333 on December 31, 2014).



26.4 Trade accounts receivable with related parties

	Consolidated	
	12/31/2015	12/31/2014
Current assets		
Trade and other receivables		
LAN Airlines S.A.	1,965,467	1,084,181
LAN Cargo S.A.	762,194	465,954
Aerotransportes Más de Cargas. S.A.	24,453	16,047
LAN Argentina S.A.	20,920	7,815
LAN Peru S.A.	12,773	4,124
Other related parties	156,961	123,479
Total current assets	2,942,768	1,701,600
Non-current assets		
Loans		
Latam Airlines Group S.A. ⁽¹⁾	3,082,167	3,010,767
Total non-current assets	3,082,167	3,010,767
Total Assets	6,024,935	4,712,367

We demonstrate below the summary of loans operations receivable with LATAM Airlines, as follow:

On June 13, 2013, TAM Capital 1 Inc. entered into a loan operation with LATAM Airlines Group S.A, with an agreement amount of US\$236,370, which totaled R\$506,943, using the exchange rate on the date of the transaction. The nominal interest rate of this transaction is of 4.25% p.a., with such amount being fully amortized in 2017.

On September 27, 2013, TAM Capital 1 Inc. entered into a loan operation with LATAM Airlines Group S.A, with an agreement amount of US\$70,000, which totaled R\$157,416 using the exchange rate on the date of the transaction. The nominal interest rate of this transaction is of 4.50% p.a., with such amount being fully amortized in 2017.

On June 20, 2013, TAM Capital 3 Inc. entered into a loan operation with LATAM Airlines Group S.A, with an agreement amount of US\$359,803, which totaled R\$810,384 using the exchange rate on the date of the transaction. The nominal interest rate of this transaction is of 5.75% p.a., with such amount being fully amortized in 2021.

On June 24, 2013, TAM Capital 3 Inc. entered into a loan operation with LATAM Airlines Group S.A, with an agreement amount of US\$138,968, which amount R\$312,886 using the exchange rate on the date of the transaction. The nominal interest rate of this transaction is of 5.75% p.a., with such amount being fully amortized in 2021.



26.5 Trade accounts payable with related parties

	Consolidated	
	31/12/2015	31/12/2014
Current liabilities		
Suppliers		
LATAM Airlines Group S.A.	2,309,838	505,294
LAN Chile Cargo S.A.	523,823	436,718
LAN Argentina S.A.	85,433	181,515
Linhas Aéreas Cargas	239,496	174,554
Aerotransportes Más de Cargas. S.A.	16,714	13,204
LAN Peru S.A.	17,869	8,601
Other related parties	35,083	23,577
	3,228,256	1,343,463
Other accounts payable		
Mas Investment LTDA	-	3,851
Lan Cargo Overseas Limited	-	2,976
	-	6,827
Total current liabilities	3,228,256	1,350,290

26.6 Transactions with related parties

	Consolidated	
	31/12/2015	31/12/2014
Income from cargo services		
LATAM Airlines Group S.A.	443,728	-
LAN Cargo S.A.	95,666	-
Lan Chile S.A.	-	43,788
Lan Chile Cargo	-	8,029
Aerolane (Chile)	(155)	-
Aerotransportes Más de Cargas. S.A.	7,203	-
Aerolíneas Brasileñas S.A (ABSA)	(1,920)	-
Lineas Aereas Nacionales	51,427	-
Other operating revenues		
Lan Argentina S.A.	1,332	-
LATAM Airlines Group S.A.	49,843	-
LAN Peru S.A.	3,197	-
Aerovías de Integración Regional (Aires S.A)	1,593	-
LAN Cargo S.A.	2,932	-



	Consolidated	
	31/12/2015	31/12/2014
Other operating expenses		
LATAM Airlines Group S.A.	(414,580)	-
LAN Cargo S.A.	(117,154)	-
Lineas Aereas Nacionales	(56,636)	-
LAN Cargo Repair Station	(14,768)	-
Lan Argentina S.A.	(8,823)	-
Other related parties	(13,838)	-
Leasing		
LATAM Airlines Group S.A.	(1,234,171)	(663,921)
Financial result		
LAN Chile	1,405,177	144,228
LAN Argentina S.A (Aero 2000 S.A)	28,062	-
Lan Cargo S.A	7,926	-
Lineas Aereas Nacionales	2,035	-
Andes Airport Services S.A.	470	-
Lan Cargo Repair Station	(2,940)	-
Aerotransportes Más de Cargas. S.A.	(1,070)	-
Other related parties	(3,064)	-

26.7 Management compensation

The key administration personnel include all members of the Board of Directors, President, Vice-President, and statutory officers, totaling 6 positions (5 on December 31, 2014). The expense with remuneration of key administration personnel for the year ended on December 31, 2015 totaled R\$15.739 (R\$23,308 on December 31, 2014).

27. OPERATING REVENUE

The breakdown of the operating revenue is presented as follows:

	Consolidated	
	12/31/2015	12/31/2014
Passenger transport	13,392,941	13,779,083
Cargo transport	1,707,457	1,786,325
Loyalty program (Multiplus)	738,171	296,386
Other revenues	535,194	1,088,341
Gross revenue	16,373,763	16,950,135
Taxes and other deductions	(768,998)	(847,745)
Net operating revenue	15,604,765	16,102,390



Individually, no one of the Group's customers represents over 10% of its revenue at the year ended on December 31, 2015.

28. STATEMENT OF INCOME BY NATURE

	Consolidated	
	12/31/2015	12/31/2014
Cost of services		
Personnel	2,469,942	2,279,093
Fuel	4,441,748	5,514,597
Depreciation and amortization	457,937	392,260
Maintenance and repairs ⁽¹⁾	1,114,982	1,043,586
Aircraft insurance	49,390	36,030
Fares with taking off, landing, and navigation ⁽¹⁾	1,148,181	925,087
Aircraft, engines and equipment leasing ⁽¹⁾	2,042,466	981,470
Third party services ⁽¹⁾	744,399	508,276
Other	868,205	420,116
	13,337,250	12,100,515
Selling expenses		
Personnel	234,291	292,118
Depreciation and amortization	23,293	22,911
Third party services	420,363	437,926
Sales and marketing	808,540	1,035,643
Other	135,339	666,763
	1,621,826	2,455,361
General and administrative expenses		
Personnel	249,874	364,825
Depreciation and amortization	84,197	91,679
Third party services	314,689	369,638
Other	167,127	291,744
	815,887	1,117,886

⁽¹⁾ Refer to costs and expenses partially or totally exposed to US\$ variance.

29. FINANCIAL INCOME (EXPENSES), NET

	Individual		Consolidated	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014
Financial income				
Interest income on loan	-	-	337,536	144,228
Interest income	5,571	4,700	99,153	154,765
Other financial income	-	-	23,376	106,578
	5,571	4,700	460,065	405,571
Financial expenses				
Interest on loans and financing	-	-	(554,382)	(557,833)
Other financial expenses	(2,052)	(10,099)	(99,819)	(129,022)
	(2,052)	(10,099)	(654,201)	(686,855)
Exchange rate variation of foreign on net assets and liabilities	(42)	769	(1,213,891)	(214,162)
Net financial result	3,477	(4,630)	(1,408,027)	(495,446)



30. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A series of new standards, amendments of standards and interpretations were issued by the International Accounting Standards Board ("IASB") and will be effective for fiscal years beginning after January 1, 2014. However, these rules have not yet been approved by the Accounting Pronouncements Committee - CPC and consequently they have not yet been incorporated into the accounting practices adopted in Brazil. Therefore have not been adopted in these financial statements as they are not yet effective.

Those that may be relevant to the Company are listed below and the Company intends to adopt these pronouncements when they become applicable.

IFRS 9 - "Financial instruments"

On July 2014, IASB issued the final version of IFRS 9 - Financial Instruments, which reflects all phases of financial instruments project and replaces IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance about classification and measurement of financial instruments, including a new expected loss model of credit for the calculation of the reduction to recoverable value of financial assets, and new requirements on hedge accounting. The standard maintains the existing guidance on the recognition and non-recognition of financial instruments of IAS 39.

IFRS 9 is applicable to the years starting on or after January 1, 2018.

IFRS 11 - Accounting for Acquisition of Interests in Joint Operations - Amendment

On May 2014, IASB issued amendments to IFRS 11, which demands that a joint operator that is accounting an acquisition of equity interest in which the joint operation activity constitutes a business, applied the guidelines according to IFRS 3 for business combination accounting. The amendments also clarify that an equity interest previously held in a joint operation is not remeasured on an additional acquisition of interest in the same joint operation while the joint control is held. Additionally, the amendments are not applied when the parties sharing the control, including the reporting entity, are under common control of the parent company.

The amendments are applicable to both the acquisition of the final equity interest in a joint operation and on the acquisition of any additional equity interest in the same joint operation. This standard will be in force prospectively to periods beginning on January 1, 2017 or after. Early adoption in Brazil is not permitted by regulatory entities. The Company is evaluating the impact of adopting this standard in its consolidated financial statements.



IFRS 15 - Revenue from Contracts with Customers

On May 2014, IASB issued IFRS 15 that establishing a 5 steps model that will be applied to revenue obtained from a contract with customer. In accordance with this standard, revenues are recognized based on an amount that reflects the consideration which an entity expects to be entitled for the transfer of goods or services to a customer. The guidelines of IFRS 15 consider a more structured approach to measure and recognize revenue.

This standard is applicable to all entities and will replace all current requirements related to revenue recognition. Retrospective adoption, total or modified, is mandatory to periods beginning on January 1, 2017 or after. Earlier adoption is permitted, but it is under analysis for regulatory entities in Brazil. The Company is evaluating the impact of adopting this standard in its consolidated financial statements.

IFRS 16 - Leases

On January 2016, the IASB issued the final version of IFRS 16 - Leases, which supersedes IAS 17 - Leases, which will be applicable to periods beginning on January 01, 2019. Early adoption will be permitted for entities which also apply IFRS 15 - Revenue from Contracts with Customers. The adoption of this standard will affect mainly property, plant and equipment and financial liabilities, as the treatment between financial and operating lease will no longer exists, being the leases treated in a similar way of the financial lease as per IAS 17. The Company is evaluating the impact of adopting this standard in its consolidated financial statements.

IAS 16 and IAS 38 - Clarification of Accountable Methods of Depreciation and Amortization - Amendment

On May 2014, IASB issued amendments to clarify guidelines of IAS 16 and IAS 38, that revenue reflects a model of economic benefits generated from operation of business (of which the asset is a part), instead of economic benefits generated from the use of the asset. As a result, a method based on revenue cannot be used for property, plant and equipment depreciation purposes and may be used only under very limited circumstances to amortize intangible assets.

The amendments will be in force prospectively to amortize intangible assets fiscal years beginning on January 01, 2016 or after. The Company does not expect impact on its consolidated financial statements, since the Company does not use a method based on revenue to depreciate non-current assets.



31. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on April 29, 2016.

32. SUBSEQUENT EVENTS

On January 14, Group LATAM announced two commercial partnership agreements: one with International Airlines Group ("IAG"), including British Airways and Iberia in Europa, and another with American Airlines ("AAL").

These two agreements will allow the companies to manage more efficiently the networks between Europe and South America with IAG, and routes between North America and South America, with AAL.

Moreover, the agreements will strengthen the relationship of Group LATAM with these companies, since both are part of the Oneworld global alliance, aiming at enhancing the travel experience of passengers, offer more traveling options at competitive prices and to more destinations that are not part of the network of Group LATAM, further reducing downtime with better connections and times, and open new destinations or direct flights to destinations already operated by LATAM.

Such agreements may represent the beginning of a process that may last from 12 to 18 months, and that depends the approval of the competent authorities of different countries.

Claudia Sender Ramirez
Chief Executive Officer

Renata Bandeira G. do Nascimento
Controller
CRC 1SP-215231/O-3

Bruno Medeiros
Accountant 1SP-280396/O-6

Ricardo Temer
Controllership Manager

