



## TAM S.A. AND SUBSIDIARIES

Consolidated Financial Statements for the Years Ended  
December 31, 2016 and 2015 and January 1, 2015 and  
Independent Auditor's Report

A free translation of the original financial statements in Portuguese, , prepared in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board - IASB



## MANAGEMENT'S REPORT

TAM S.A. is a holding, holds with the control of TAM Linhas Aéreas S.A., which is one of the leading companies in the industry of passengers and cargo transportation in Brazil. As of April 10, 2017, Management presents the consolidated financial statements for the year ended December 31, 2016, as well as, the restatement of the comparative balances for the year ended December 31, 2015 and presents the opening balances as of January 1, 2015.

TAM S.A. ("TSA" or the "Company") refers to the consolidated entity and its subsidiaries, which activities are related to the passengers and cargo transportation within Brazil and internationally, acquisition and financing of aircraft, obtaining financial resources, development of travel and tourism agency services.

### MANAGEMENT' DISCUSSION AND ANALYSIS ON THE RESULTS FOR THE YEAR ENDED DECEMBER 31, 2016

The year of 2016 was extremely challenging for the Company, mainly due to the retraction occurred in the Brazilian economy, which among other consequences, and accumulated a sequence of 17 months of reduction in the domestic demand of passenger transportation, as a result occurred a decrease of 5.7% in the local demand, as disclosed by ANAC<sup>(1)</sup>. Facing turbulent economic and political and scenario, Company's Management, as in 2015, adopted as main measure to realign its business a change in its flights network in domestic market which resulted in a decrease of 11.0% of the offer.

The Company's gross revenue for the year ended December 31, 2016 was R\$16.0 billion, compared to R\$16,4 billion in the prior year. A reduction of 2.4% was observed in the gross revenue, which reflects the 3.9% reduction of the revenue of domestic and international passenger's transportation and 18.4% reduction in the revenues originated from cargo. In 2016 fiscal year the revenue from passenger's transportation, cargo, loyalty programs and other corresponded to 80.2%, 8.7%, 5.1% and 6.0% of the total gross revenue, respectively.

According to Management's opinion, the reduction in Company's gross revenue reflects the retraction of the Brazilian's economy, which presents the second consecutive year of drop in the gross domestic product of 3.8% in 2016 and 3.6% in 2015, affecting the demand, as described above.

Despite the challenging conditions, the Company improved its operational margin in 3.79 p.p.; however, worsen in 1.84% p.p. its operational loss, while the net loss presents an improvement of 88.3%, mainly due to the appreciation of the Real against the U.S. dollar. As presented in the note 1.1, of these financial statements, the Company, through its wholly owned subsidiary TAM Linhas Aéreas S.A., adopted a strategy of reducing its exposure to exchange rate variation transferring to its Parent Company the aircraft leased under financial agreements,



and afterwards, leasing it through an operational agreement. Such strategy generated an additional non-recurrent expenditure of R\$425.0 million (R\$74.2 million in 2015), excluding such effects in both fiscal years, the net loss would have presented an additional improvement of 21.6%, hence accumulating an total improvement of 109.9%, corresponding to a net profit of R\$126.3, after taxes.

The Company is part of LATAM Group, which is the airlines group best positioned in the Latin America, which in its consolidated financial statements keeps demonstrating consistent improvement in its operational margins and cash flow generation, thus revealing resilience of its business model.

The Company's Management has been proactive in searching for alternatives to battle the difficulties risen, mainly focusing on the aspects that are its control and the productivity increase in several areas. Management keeps gathering efforts to improve the profitability and cash generation of the Brazilian's operation aiming to reach sustainable levels of performance.

The Company's Management will be closely following the market changes in order to take the necessary measures to guarantee the realignment of the business and identification of opportunities to make the presence of the LATAM Group even stronger in Brasil, Latin America, and remaining countries of the world.

Additionally, the Company's Management is restating its financial statements for 2015 fiscal year, presenting the opening balance January 1, 2015, as a consequence of problems occurred during the implementation, and data transfer of a huge new system. During the 2016 fiscal year, Management identified such issues, because of that, the restatement was deemed necessary.

<sup>(1)</sup> Demand and Offer Report, issued by ANAC, available at:  
<http://www.anac.gov.br/assuntos/dados-e-estatisticas/demanda-e-oferta-do-transporte-aereo>

## **Independent Auditor's Report on individual and consolidated financial statements**

The Shareholders, Board of Directors and Officers

**TAM S.A.**

São Paulo – SP

### **Opinion**

We have audited the accompanying individual and consolidated financial statements of TAM S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2016 and the statement of profit or loss, of comprehensive income (loss), of changes in equity and of cash flows for the year then ended, and a summary of significant accounting practices and other explanatory information.

In our opinion, the financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of TAM S.A. as at December 31, 2016, and its individual and consolidated financial performance and individual and consolidated cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

### **Basis for opinion**

We conducted our audit in accordance with Brazilian and International standards on auditing. Our responsibilities, pursuant to these referred to standards, are described in the following section entitled "Auditor's responsibilities for the audit of individual and consolidated financial statements". We are independent in relation to the Company and its subsidiaries, in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants and the Professional Standards issued by the Brazil's National Association of State Boards of Accountancy (CFC), and we comply with the other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to support our opinion.

### **Other matters**

#### **Restatement and audit of prior-year corresponding figures**

The individual and consolidated financial statements of the Company for the year ended December 31, 2015 and January 1, 2015, presented for comparison purposes, were restated by management as a result of a correction of error in accordance with CPC 23 - Accounting Policies, Changes in Accounting Estimates and Errors, as detailed in Note 5, totaling an impact in equity of R\$ 236,012 thousand at December 31, 2015 and R\$ 31,105 thousand at January 1, 2015. These restated financial statements were audited by other independent auditors who issued an unqualified report on the restatement dated April 4, 2017.



## **Other information accompanying the individual and consolidated financial statements and the auditor's report**

Company management is responsible for such other information, including the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of audit conclusion on this report.

In connection with the audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the report is significantly inconsistent with the financial statements or with our knowledge obtained in the audit, or otherwise seems to contain material misstatements. If, based on our work, we conclude that there are material misstatements in the Management Report, we are required to communicate this matter. We have nothing to report in this regard.

## **Responsibilities of management and those charged with governance for the individual and consolidated financial statements**

Management is responsible for the preparation and fair presentation of these individual and consolidated financial statements in accordance with accounting practices adopted in Brazil and in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and its subsidiaries' financial reporting process.

## **Auditor's responsibilities for the audit of individual and consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the overall individual and consolidated financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect material misstatements when they exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of the audit conducted in accordance with Brazilian and International standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess risks of material misstatements of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve override of internal controls, collusion, forgery, intentional omissions or misrepresentations.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of Company and its subsidiaries.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast substantial doubt as to the Company's and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the corresponding transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with those charged with governance regarding, among other matters, of the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

São Paulo, April 4, 2017.

ERNST & YOUNG  
Auditores Independentes S.S.  
CRC-2SP015199/O-6

A handwritten signature in blue ink, appearing to read 'Ezequiel Litvac', is written over the printed name and title.

Ezequiel Litvac  
Accountant CRC-1SP249186/O-5

## TAM S.A. AND SUBSIDIARIES



Balance sheet as of December 31, 2016, 2015 and January 1, 2015

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

ASSETS	Explanatory note	Parent Company		
		12/31/2016	12/31/2015	Restated* January 1 <sup>st</sup> , 2015
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	7	36,403	3,338	1,236
Marketable securities	8	57,446	1,642	4,072
Trade accounts receivable	10	4,050	4,013	-
Recoverable taxes	12	21,070	28,192	35,443
Other accounts receivable		15,251	15,436	4,212
Total current assets		<u>134,220</u>	<u>52,621</u>	<u>44,963</u>
<b>NON-CURRENT ASSETS</b>				
Deferred income and social contribution taxes	15	57,786	61,490	43,748
Judicial deposits	16	172	2,849	2,095
Other accounts receivable		-	201	15,772
		<u>57,958</u>	<u>64,540</u>	<u>61,615</u>
Investments	17	352,764	425,082	1,147,867
Property, plant and equipment, net		63	76	90
Intangible assets		124,927	124,927	163,189
Total non-current assets		<u>535,712</u>	<u>614,625</u>	<u>1,372,761</u>
<b>TOTAL ASSETS</b>		<u><b>669,932</b></u>	<u>667,246</u>	<u>1,417,724</u>

Explanatory notes are integral part to the financial statements.

\*The Company is restating the year ended December 31, 2015 and presenting the opening balance on January 1<sup>st</sup>, 2015, as explained in the explanatory note 5.



## TAM S.A. AND SUBSIDIARIES



Balance sheet as of December 31, 2016, 2015 and January 1, 2015

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

<u>LIABILITIES</u>	Explanatory note	Parent Company		
		12/31/2016	12/31/2015	Restated* January 1 <sup>st</sup> , 2015
<b>CURRENT LIABILITIES</b>				
Trade accounts payable	22	<b>95,415</b>	99,111	740
Salaries, wages and benefits		<b>346</b>	2,521	929
Payable taxes		<b>2,290</b>	3,271	16,919
Other		-	329	1,174
Total current liabilities		<b>98,051</b>	105,232	19,762
<b>NON-CURRENT LIABILITIES</b>				
Provision for tax, civil and labor risks	24	-	287	287
Provision for investments losses	17	<b>1,044,567</b>	671,895	31,105
Related parties	29	<b>2,978</b>	-	94,617
Dividends		<b>858</b>	858	-
Other		-	-	2,978
Total non-current liabilities		<b>1,048,403</b>	673,040	128,987
<b>TOTAL LIABILITIES</b>		<b>1,146,454</b>	778,272	148,749
<b>SHAREHOLDERS' EQUITY</b>				
Paid in capital	27	<b>5,035,926</b>	5,035,926	5,035,926
Capital reserves		<b>127,570</b>	142,351	148,538
Accumulated losses		<b>(6,207,393)</b>	(5,920,709)	(4,465,357)
Equity valuation adjustment		<b>567,375</b>	631,406	549,868
Total shareholders' equity		<b>(476,522)</b>	(111,026)	1,268,975
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>669,932</b>	667,246	1,417,724

Explanatory notes are integral part to the financial statements.

\*The Company is restating the year ended December 31, 2015 and presenting the opening balance on January 1<sup>st</sup>, 2015, as explained in the explanatory note 5.

## TAM S.A. AND SUBSIDIARIES



Balance sheet as of December 31, 2016, 2015 and January 1, 2015

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

ASSETS	Explanatory note	Consolidated		
		12/31/2016	12/31/2015	Restated* January 1 <sup>st</sup> , 2015
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	7	<b>642,754</b>	816,121	359,991
Marketable securities	8	<b>1,749,204</b>	1,908,927	1,337,487
Restricted cash	9	<b>431,252</b>	13,755	10,260
Trade accounts receivable	10	<b>4,281,678</b>	3,821,143	3,604,156
Inventories	11	<b>335,521</b>	395,334	429,384
Recoverable taxes	12	<b>366,376</b>	625,395	476,491
Maintenance prepayment		<b>129,836</b>	202,169	75,598
Other financial assets	13	<b>60,968</b>	-	-
Other		<b>156,359</b>	335,715	163,172
Assets available for sale	14	<b>152,580</b>	-	-
Total current assets		<b>8,306,528</b>	8,118,559	6,456,539
<b>NON-CURRENT ASSETS</b>				
Restricted cash	9	<b>32,995</b>	2,458	30,128
Related parties	29	<b>2,493,832</b>	3,082,167	3,010,767
Deferred taxes	15	<b>1,122,729</b>	1,282,441	675,721
Judicial deposits	16	<b>627,101</b>	530,779	505,732
Maintenance prepayment		<b>21,184</b>	188,590	185,137
Other		<b>29,130</b>	86,146	85,820
		<b>4,326,971</b>	5,172,581	4,493,305
Property, plant and equipment, net	18	<b>2,626,826</b>	3,698,187	3,963,990
Intangible assets	19	<b>589,281</b>	563,955	600,007
Total non-current assets		<b>7,543,078</b>	9,434,723	9,057,302
<b>TOTAL ASSETS</b>		<b>15,849,606</b>	17,553,282	15,513,841

Explanatory notes are integral part to the financial statements.

\*The Company is restating the year ended December 31, 2015 and presenting the opening balance on January 1<sup>st</sup>, 2015, as explained in the explanatory note 5.

## TAM S.A. AND SUBSIDIARIES



Balance sheet as of December 31, 2016, 2015 and January 1, 2015

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

<u>LIABILITIES</u>	Explanatory note	<b>Consolidated</b>		
		<b>12/31/2016</b>	<b>12/31/2015</b>	<b>Restated* January 1<sup>st</sup>, 2015</b>
<b>CURRENT LIABILITIES</b>				
Loans and financing	20	<b>1,650,182</b>	22,550	167,125
Finance leases	21	<b>228,756</b>	476,136	413,736
Trade accounts payable	22	<b>4,966,313</b>	4,890,645	2,581,708
Salaries, wages and benefits		<b>638,202</b>	650,379	495,346
Deferred revenue	23	<b>3,519,877</b>	3,655,181	3,368,220
Payable taxes		<b>121,748</b>	144,856	133,206
Maintenance provision	25	<b>556,162</b>	699,781	527,867
Other financial liabilities		<b>41,820</b>	-	-
Other		<b>70,174</b>	39,982	117,758
Total current liabilities		<b>11,793,234</b>	10,579,510	7,804,966
<b>NON-CURRENT LIABILITIES</b>				
Loans and financing	20	<b>1,621,931</b>	3,111,160	2,902,352
Finance Leases	21	<b>1,254,868</b>	2,015,031	1,724,598
Provision for tax, civil and labor risks	24	<b>834,291</b>	765,482	748,070
Provision for investments losses	17	-	-	2,163
Related parties	29	<b>7,703</b>	-	-
Provision for maintenance	25	<b>599,362</b>	972,986	818,362
Dividends		<b>858</b>	858	-
Other		<b>123,479</b>	144,029	181,921
Total non-current liabilities		<b>4,442,492</b>	7,009,546	6,377,466
<b>TOTAL LIABILITIES</b>		<b>16,235,726</b>	17,589,056	14,182,432
<b>SHAREHOLDERS' EQUITY</b>				
Paid in capital	27	<b>5,035,926</b>	5,035,926	5,035,926
Capital reserves		<b>127,570</b>	142,351	148,538
Accumulated losses		<b>(6,207,393)</b>	(5,920,709)	(4,465,357)
Equity valuation adjustment		<b>567,375</b>	631,406	549,868
Total shareholders' equity		<b>(476,522)</b>	(111,026)	1,268,975
Equity attributable to non-controlling interest		<b>90,402</b>	75,252	62,434
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>15,849,606</b>	17,553,282	15,513,841

Explanatory notes are integral part to the financial statements.

\*The Company is restating the year ended December 31, 2015 and presenting the opening balance on January 1<sup>st</sup>, 2015, as explained in the explanatory note 5.

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

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

	Explanatory note	Parent Company		Consolidated	
		Restated*		Restate d*	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
Net operating revenue	30	-	-	<b>15,329,954</b>	15,604,765
Cost of services rendered	31	-	-	<b>(12,569,962)</b>	(13,387,019)
Gross operating profit		-	-	<b>2,759,992</b>	2,217,746
Selling expenses	31	-	(555)	<b>(1,392,393)</b>	(1,657,953)
General and administrative expenses	31	<b>(6,323)</b>	(4,526)	<b>(1,195,704)</b>	(854,025)
Other operational income (expenses), net	32	-	-	<b>(622,126)</b>	123,816
Operating loss		<b>(6,323)</b>	(5,081)	<b>(450,231)</b>	(170,416)
Financial income	33	<b>2,285</b>	5,571	<b>453,639</b>	460,065
Financial expenses	33	<b>(213)</b>	(2,052)	<b>(511,608)</b>	(654,201)
Exchange rate variation, net	33	<b>10</b>	(42)	<b>746,561</b>	(1,294,764)
Equity pick up method	17	<b>(278,833)</b>	(1,443,017)	-	-
Profit (loss) before income tax and social contribution		<b>(283,074)</b>	(1,444,621)	<b>238,361</b>	(1,659,316)
Income taxes					
Current	15	<b>(8,619)</b>	(2,851)	<b>(240,586)</b>	(243,597)
Deferred	15	<b>(3,704)</b>	(7,880)	<b>(151,951)</b>	579,740
Fiscal year losses		<b>(295,397)</b>	(1,455,352)	<b>(154,176)</b>	(1,323,173)
Attributed to:					
TAM S.A. shareholders		<b>(295,397)</b>	(1,455,352)	<b>(295,397)</b>	(1,455,352)
Non-controlling interest		-	-	<b>141,221</b>	132,179
		<b>(295,397)</b>	(1,455,352)	<b>(154,176)</b>	(1,323,173)

Explanatory notes are integral part to the financial statements.

\*The Company is restating the year ended December 31, 2015 and presenting the opening balance on January 1<sup>st</sup>, 2015, as explained in the explanatory note 5.

## Statement of comprehensive income for the years ended

December 31, 2015 and 2014

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

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>Restated* 12/31/2015</b>	<b>12/31/2016</b>	<b>Restated* 12/31/2015</b>
Fiscal year losses	<b>(295,397)</b>	(1,455,352)	<b>(154,176)</b>	(1,323,173)
Components of other comprehensive income:				
Remeasurement of post-employment plan liability	-	(8,004)	-	(8,004)
Gain (loss) on foreign currency translation adjustments	<b>(49,847)</b>	88,725	<b>(49,847)</b>	88,725
Cash flow hedges	-	817	-	817
Total of other comprehensive income, net of tax effects	<b>(345,244)</b>	(1,373,814)	<b>(204,023)</b>	(1,241,635)
Attributed to:				
TAM S.A.'s shareholders	<b>(345,244)</b>	(1,373,814)	<b>(345,244)</b>	(1,373,814)
Non-controlling interest	-	-	<b>141,220</b>	132,930
	<b>(345,244)</b>	(1,373,814)	<b>(204,024)</b>	(1,240,884)

Explanatory notes are integral part to the financial statements.

\*The Company is restating the year ended December 31, 2015 and presenting the opening balance on January 1<sup>st</sup>, 2015, as explained in the explanatory note 5.

TAM S.A. AND ITS SUBSIDIARIES



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

	Capital Reserves				Equity valuation adjustment	Accumulated losses	Total	Non-controlling interest	Total
	Paid in capital	Treasury Shares	Premium on capital	Share-based payments					
January 1 <sup>st</sup> , 2015	5,035,926	-	74,947	73,591	549,868	(4,434,252)	1,300,080	62,434	1,362,514
Correction of error, net (note 5)	-	-	-	-	-	(31,105)	(31,105)	-	(31,105)
December 31, 2015	5,035,926	-	74,947	73,591	549,868	(4,465,357)	1,268,975	62,434	1,331,409
Fiscal year losses	-	-	-	-	-	(1,455,352)	(1,455,352)	132,179	(1,323,173)
Post-employment plans	-	-	-	-	(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 of other comprehensive result	-	-	-	-	81,538	(1,455,352)	(1,373,814)	132,930	(1,240,884)
Transactions with shareholders and reserves constitution:									
Payment of dividends and Interest on own shareholders' equity	-	-	-	-	-	-	-	(117,699)	(117,699)
Share-based payments	-	-	-	1,743	-	-	1,743	559	2,302
Acquisition of own shares subsidiaries	-	(7,930)	-	-	-	-	(7,930)	(2,972)	(10,902)
<b>December 31, 2015 (restated*)</b>	<b>5,035,926</b>	<b>(7,930)</b>	<b>74,947</b>	<b>75,334</b>	<b>631,406</b>	<b>(5,920,709)</b>	<b>(111,026)</b>	<b>75,252</b>	<b>(35,774)</b>
Fiscal year losses	-	-	-	-	-	(295,397)	(295,397)	141,220	(154,177)
Loss on the translation of investments abroad	-	-	-	-	(49,847)	-	(49,847)	-	(49,847)
Total of other comprehensive result	-	-	-	-	(49,847)	(295,397)	(345,244)	141,220	(204,024)
Transactions with shareholders and reserves									
Payment of dividends and Interest on shareholders' equity	-	-	-	-	-	-	-	(142,059)	(142,059)
Deemed cost of fixed assets	-	-	-	-	(8,713)	8,713	-	-	-
Reclassification to deferred income taxes	-	-	-	-	(8,113)	-	(8,113)	-	(8,113)
Constitution of legal reserve in subsidiary	-	-	-	-	2,642	-	2,642	881	3,523
Share-based payments	-	-	-	(15,108)	-	-	(15,108)	15,108	-
Acquisition of subsidiaries own shares	-	327	-	-	-	-	327	-	327
<b>December 31, 2016</b>	<b>5,035,926</b>	<b>(7,603)</b>	<b>74,947</b>	<b>60,226</b>	<b>567,375</b>	<b>(6,207,393)</b>	<b>(476,522)</b>	<b>90,402</b>	<b>(386,120)</b>

Explanatory notes are integral part to the financial statements.

\*The Company is restating the year ended December 31, 2015 and presenting the opening balance on January 1<sup>st</sup>, 2015, as explained in the explanatory note 5.



TAM S.A. AND ITS SUBSIDIARIES  
Statement of cash flow for the years ended  
December 31, 2015 and 2014  
(Amounts expressed in thousands of Reais - R\$, except when otherwise indicated)



Explanatory note	Parent Company		Consolidated	
	Restated*		Restated*	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Fiscal year losses	(295,397)	(1,455,352)	(154,176)	(1,323,173)
<b>Adjustments to reconcile net income to cash used in operating activities</b>				
Deferred taxes	15	3,704	7,880	151,951
Depreciation and amortization	18/19	13	14	452,884
Result of disposal of property, plant and equipment and intangible assets	18/19	-	38,262	722,576
Interest and exchange variations on assets and liabilities		-	-	3,816
Equity pick up method	17	278,833	1,443,017	-
Allowance for doubtful accounts	10	-	-	10,772
Other provisions		57	-	(13,407)
Provision for assets available for sale	14	-	-	131,876
Maintenance provision	25	-	-	(517,243)
Provision for tax, civil and labor risks	24	(287)	-	12,581
Extinction of finance leasing obligation		-	-	(357,673)
Share-based payments		-	-	2,302
<b>Changes in operating assets and liabilities</b>				
Trade accounts receivable	10	(37)	(4,013)	(471,307)
Marketable securities	8	(55,804)	2,430	159,723
Restricted cash	9	-	-	(203,569)
Inventories	11	-	-	(16,469)
Recoverable taxes	12	7,122	7,251	259,019
Maintenance prepayment		-	-	239,739
Judicial deposits	16	2,677	(754)	(60,065)
Trade accounts payable	22	(3,696)	98,371	75,668
Salaries, wages and benefits		(2,175)	1,592	(12,177)
Payable taxes		(981)	(13,648)	(23,108)
Deferred revenue	23	-	-	(135,304)
Payment of tax, civil and labor claims	24	-	-	(53,309)
Interest paid		-	-	23,620
Other assets and liabilities, net		10,159	(26,037)	246,014
<b>Net cash provided used in operating activities</b>		<b>(55,812)</b>	<b>99,013</b>	<b>472,432</b>
<b>Investing activities</b>				
Capital increase	17	(293,167)	-	-
Receipt from related parties	29	2,978	-	(178,049)
Additions to property, plant and equipment	18	-	-	(288,069)
Additions to intangible assets	19	-	-	(85,640)
Receipt of dividends and interest on own equity	17	379,066	313,706	-
Collateral deposits		-	-	19,547
<b>Cash generated by (used in) investment activities</b>		<b>88,877</b>	<b>313,706</b>	<b>(551,758)</b>
<b>Cash flows from financing activities</b>				
Acquired loans		-	-	647,000
Restricted cash	9	-	-	(244,466)
Receipt/payment of hedge premium		-	-	1,569
Capital increase		-	(316,000)	-
Payment of related parties		-	(94,617)	-
Payment of principal of loans and financing		-	-	(6,963)
Dividends and interest on own shareholders' equity non-controller stockholders		-	-	(142,059)
Senior bonuses amortization		-	-	(928,386)
Finance leasing		-	-	(283,925)
<b>Cash used in financing activities</b>		<b>-</b>	<b>(410,617)</b>	<b>(1,472,289)</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>33,065</b>	<b>2,102</b>	<b>(108,170)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>-</b>	<b>-</b>	<b>(65,197)</b>
<b>Total change in cash and cash equivalents</b>		<b>33,065</b>	<b>2,102</b>	<b>(173,367)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>3,338</b>	<b>1,236</b>	<b>816,121</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>36,403</b>	<b>3,338</b>	<b>642,754</b>
<b>Total change in cash and cash equivalents</b>		<b>33,065</b>	<b>2,102</b>	<b>(173,367)</b>

Explanatory notes are integral part to the financial statements.

\*The Company is restating the year ended December 31, 2015 and presenting the opening balance on January 1<sup>st</sup>, 2015, as explained in the explanatory note 5.



## NOTES TO THE FINANCIAL STATEMENTS

The Company presents the notes, which are part of TAM S.A. and subsidiaries' financial statements, as set forth below:

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## 1. COMPANY'S OPERATIONS

TAM S.A. ("TAM" or "Company") was incorporated as of May 12, 1997 and is a wholly-owned subsidiary of LATAM Airlines Group S.A. ("Group" or "LATAM"), one of the largest Airlines Groups in the world in route network, which provides passenger and cargo transportation to approximately 140 destinations comprising 24 countries, with a fleet of 328 aircraft. LATAM has nearly 46 thousand employees. Parent company and consolidated financial statements comprise the Company and its subsidiaries.

LATAM's shares are listed on the stock exchanges of Santiago do Chile and New York, this last in the form of ADRs, under the ticker LFL. LATAM' shares are part of the Dow Jones Sustainability Indices of the New York Stock Exchange ("NYSE").

Company wholly owned subsidiaries TAM Linhas Aéreas S.A. ("TLA") and ABSA Aerolinhas Brasileiras S.A. ("ABSA"), in compliance with the concession by the Brazilian Civil Aviation Agency ("ANAC"), are engaged in passenger and cargo transportation, as well as domestic and international freight, using its own or leased aircraft, or by means of outsourcing services contracting and air cargo handling services.

Furthermore, TLA and ABSA corporate purposes are:

- Ø exploring complementary activities of passenger, cargo and mail freight transportation;
- Ø rendering maintenance, repairing own or third party aircraft, engines, parts and components;
- Ø hangar aircraft;
- Ø yard and lane service, catering and aircraft cleaning;
- Ø rendering engineering services, technical assistance, and other activities related to the aviation industry;
- Ø providing services of instruction and training related to aviation activities
- Ø purchasing and selling of aircraft parts and equipment;
- Ø trading and redemption of customers rights in the scope of loyalty programs;
- Ø activities relating to obtaining resources for aircraft financing;
- Ø exclusive development of travel and tourism agency activities;
- Ø development and carrying out related, correlated and complimentary activities to transportation; and
- Ø importing and exporting of finished lubricating oil.

TAM is a Brazilian registered company and its headquarters are located at Verbo Divino St, 2001, 4<sup>th</sup> Floor, São Paulo, SP.



## 1.1 Capital structure of the Company and net working capital

As of December 31, 2016, the Company presented negative shareholders' equity in the amount of R\$476,552 (R\$111,026 as of December 31, 2015 (restated)) and a negative consolidated working capital in the amount of R\$3,486,796 (R\$2,460,951 as of December 31, 2015 (restated) and R\$1,348,427 as of December 31, 2014 (restated)) and a net loss of R\$295,397 (R\$1,455,352 for the year ended December 31, 2015 (restated)).

The Company's results and working capital were strongly impacted by the historical effects of the devaluation of Real against the U.S. Dollar ("US\$"), which corresponded to 22.7%, in the last 24 months, as well as, by the retraction of the Brazilian economy, which, among other consequences, brought a sequence of 17 months of reduction in the domestic demand of passenger transportation, as disclosed by ANAC<sup>(1)</sup>. Wortelling thatonly during 2016 fiscal year, the balance was 5.7%. Company's Management highlights that took and has been taking several measures in order to offset the impacts derived from this scenario, as set forth below:

- Ø Changes in flight network resulting in an offer reduction of 11.0% in 2016, on the top of the reduction already promoted in 2015 of approximately 12.0%. Such action positively affected the load factor of the aircraft, which increased 1.4% in 2016, reaching 83.2% compared to 80.0% of the average market.
- Ø Continuity of the cost reduction plan which comprises several initiatives, that together, in 2016 fiscal year proportionate costs reduction of approximately R\$77 million;
- Ø Reduction of the exposure to exchange rate variation through a Group's asset and liability management strategy to decrease the balance sheet exposure to the fluctuations of the Real against US\$. During 2016, the Company transferred 14 aircraft, which were registered under financial lease to its Parent Company LATAM, and afterwards, leased them back under operation all agreements. Additionally, the Company returned 4 aircraft, hence considerably dropping its foreign currency exposure due to finance lease agreements.

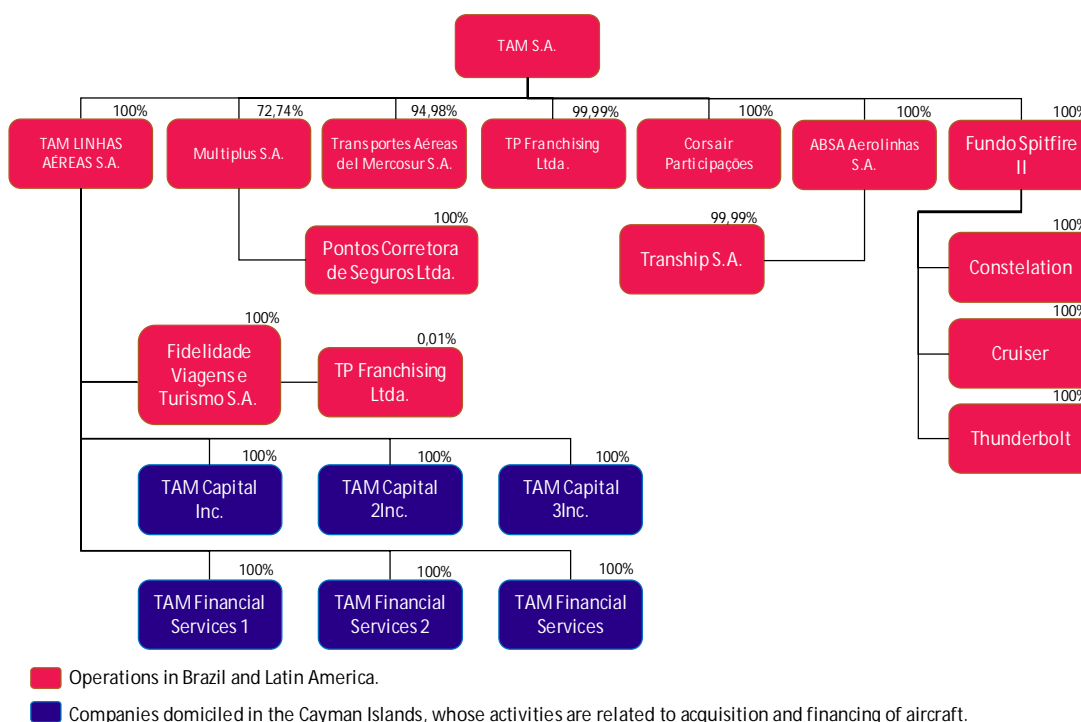
The Management is constantly evaluating Company's ability to remain normally operating and is convinced that it has the resources to continue its future activities. Moreover, the Company counts on, if necessary, financial support from its Parent Company LATAM Airlines.



## 2. CORPORATE STRUCTURE

During the year ended December 31, 2016, there were no changes in the corporate structure related to the Company or its subsidiaries.

The Company and its subsidiaries' corporate structure as of December 31, 2016, is set forth below:



As of December 16, 2015, the subsidiary Multiplus S.A. announced the incorporation of a limited liability entity, named Pontos Corretora de Seguros Ltda., for the purpose of conducting business relating to insurance brokerage, especially in elementary insurance lines such as damage, life (persons), capitalization, pension and healthcare plans, pursuant to the business plan prepared by Management. The operations began in June 2016 according to the licenses and permissions granted by the Brazilian Private Insurance Superintendence ("SUSEP").



### 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"), introduced in Brazil through the Accounting Pronouncements Committee ("CPC") and technical interpretations ("ICPC") and guidance ("OCPC"), approved by the Federal Accounting Council ("CFC").

The Company's individual and consolidated financial statements are expressed in thousands of Brazilian Reais ("R\$"), as well as the disclosed amounts of other currencies, 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 Management states that all relevant information related to these financial statements, and only it, are disclosed, and correspond to the one adopted by in the development of the activities of managing the business.

The Company reviews its judgments, estimates and assumptions constantly.

The individual and consolidated financial statements were prepared on the recoverable historical basis cost, except for the following material items recorded in the balance sheets:

- (i) marketable securities classified as cash and cash equivalents measured at fair value;
- (ii) marketable securities comprised of exclusively investment fund classified as available for sale, measured at fair value; and
- (iii) derivative and non-derivative financial instruments 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 consolidated, are prepared adopting 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, adopt the Real as their functional currency, hence the adopted exchange criteria are the following:

- Ø Non-monetary assets and liabilities are translated at the historical rate of the transaction;
- Ø Monetary assets and liabilities are translated at the exchange rate effective at year-end;
- Ø Statement of income accounts are translated based on monthly average rate;
- Ø The foreign currency transactions are translated at the exchange rates on the date of each transaction; and
- Ø The cumulative effects of gains or losses upon translation are recognized in the statement of income.

The functional currency of each subsidiary is presented below:

Name	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 2Inc	Cayman Islands	Real
TAM Capital 3Inc	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
Pontos Corretora de Seguros	Brazil	Real
Corsair Participações S.A.	Brazil	Real
ABSA Aerolinhas Brasileiras S.A	Brazil	Dollar



## 4.2 Consolidation

The consolidated financial statements comprise the Company's financial statements and of its subsidiaries in which direct or indirect controls exist. All the transactions and balances between TAM and its subsidiaries were eliminated in the consolidated, as well as unrealized gains or losses originated from such transactions, net of tax effects.

The accounting practices and policies were consistently applied over all the consolidated entities and are consistent with the ones adopted by the Parent Company.

## 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

Comprises 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 statement of income.

## 4.5 Restricted Cash

Restricted cash represents deposits in guarantee for the purpose of guaranteeing long term financing operations, if applicable, and demands related to judicial claims.

## 4.6 Financial Instruments

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

The Company 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 Company recognizes loans and receivables and debt instruments on the date 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 Company derecognizes a financial asset when the contractual rights to the asset's cash flows expire or when the Company 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 Company in such transferred financial assets is recognized as a separate asset or liability.

The Company 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 if, the Company 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 statement of income*

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

##### *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 direct 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 for the year and accumulated in shareholders' equity. When these assets are derecognized, the cumulative gains and losses kept as valuation adjustments are reclassified to statement of income.

#### 4.6.3 Non-derivative financial liabilities - measurement

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

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 Company 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 statement of income when incurred. After initial recognition, derivatives are measured at fair value and changes in fair value are recorded in statement of 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 within shareholders' equity. Any ineffective portion of changes in fair value of the derivative is recognized immediately in statement of income.

The accumulated value held in other comprehensive income are reclassified to the statement of income 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, and
- (iii) the hedging instrument expires or is sold, terminated or exercised, or has been 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 statement of income.

### *4.7 Trade accounts receivable*

Trade accounts receivable and other receivables 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 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 establishment of allowance for doubtful accounts analysis of historical losses. In case the customer has offered any collateral, the amounts in arrears will be excluded from the basis for the calculation and determination of the allowance for doubtful accounts.



#### 4.8 Inventory

Inventories include mainly spare parts and materials to be used in the activities related to maintenance, being recorded at their average acquisition price, net of 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 and tear from the use of such assets. As of December 31, 2016, prepayments for maintenance are stated at recoverable amounts.

#### 4.10 Income taxes

In Brazil, are comprised of corporate income tax ("IRPJ") and social contribution tax ("CSLL"), which are calculated monthly on taxable profit, 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 2159-35/2001 and most recently the Law 12973/14, respecting the tax treaty signed by each country with Brazil in order to avoid double taxation.

Deferred taxes represent credits and debits originated from IRPJ and CSLL tax losses, and temporary differences between the tax and accounting books basis carrying amounts. The deferred taxes assets or liabilities are 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 disclosed offset if a legally enforceable right exists to set off tax assets against 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.



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

#### 4.11 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.

In case the book value of an asset is greater than the recoverable estimated value, the value of the asset is immediately reduced to be stated at a recoverable amount (Note 4.14).

Gains or losses related to selling of property, plant and equipment are determined through the comparison of the selling amount against the net book value and are recorded in the statement of income on date of the disposal.

Depreciation is recognized based on the estimated economic useful life of each asset on a straight-line basis, except in the case of 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.

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 Company capitalizes necessary costs to maintain its aircraft and engines in condition to remain operating, incurred by the regular conduct of key inspections and/or maintenance 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 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 of whether the previous inspection cost had been identified in the transaction in which the item was acquired.



#### 4.12 Intangible assets

Expenses related to software maintenance are recorded as expenses when incurred. Expenditures incurred with software development are capitalized as intangible assets, when 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 straight-line method throughout their estimated useful life. Expenditures with trademark are amortized based on the expectation of future benefits that will flow to the Company.

Intangible assets with an indefinite useful life are not amortized, but are tested annually for impairment. In case, the book value of an intangible asset is greater than its recoverable amount a valuation allowance is recorded immediately (Note 4.14).

#### 4.13 Assets and liabilities of discontinued operations and held for sale

Such assets are measured based on the lower of its book value and fair market value deducted from the estimated sales costs and are no longer depreciated or amortized. These items are only classified as held for sale when the likelihood of selling is probable and they are immediately available for sale in the current conditions.

#### 4.14 Impairment of non-financial assets

The book values of the non-financial assets of the Company are reviewed on the date of each balance sheet in order to identify if there is indication of loss of 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 the 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.



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

#### 4.15 Trade accounts payable

Trade accounts payable are initially recognized at nominal value plus any accrued charges, monetary and exchange variations incurred through the balance sheet date, when applicable.

#### 4.16 Provision for tax, civil and labor risks

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

The Company 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 the most recent court decisions and their importance to the Brazilian legal system, also 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.

#### 4.17 Financial and operational 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 from sale and leaseback transactions resulting from financial leases will be deferred and recorded in the statement of income by the straight-line 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, when incurred.

Losses from sale and leaseback transactions resulting from finance leases are deferred to the extent in which the asset on leaseback is not impaired and are recorded in the statement of income by the straight-line method during the effectiveness of the lease.

Expenses related to operating lease agreements are recorded throughout the period of the lease. The payments to operating leases are recorded in the statement of income by the straight-line method according to the term of the lease. Benefits received will be recorded as part of the total lease costs, throughout the term of the lease.

#### 4.18 Maintenance provision

As described at 4.11, costs incurred with scheduled periodical maintenance to the airframe and engines of aircraft 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 aircraft or acquired under finance lease, these maintenance costs will be capitalized as fixed assets, while in the case of aircraft 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. These costs are recognized in the cost of services rendered.

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

#### 4.19 Determination of income

Results from operations are recorded based on an accrual basis method.



#### 4.20 Revenue

Revenue from passengers' transportation and cargo are recognized when the services are rendered. Passenger tickets sold but unused, and anticipate ticket sales will be accounted for as transport to be provided in the group of deferred revenues. For expired and unused tickets (breakage), the Company makes an estimate based on historical data and recognizes the related revenue.

The wholly-owned subsidiary TLA is the sponsor of the customer loyalty program, named *Programa TAM Fidelidade*, whose points are accumulated when flying with TAM or any partner airline 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 statement of income, when the points are redeemed and passengers are carried.

As of January 1, 2010, the wholly-owned subsidiary TLA, transferred the management of its loyalty program to Multiplus S.A., therefore, from this date the points became to be issued by Multiplus and sold to TLA.

The wholly-owned subsidiary TLA also originates revenues from auxiliary services comprised by fares applicable to flight booking changes, overweight luggage, revenue from the VIP rooms, among others, such revenues are recognized when the service is rendered.

In November 2016, the subsidiary Multiplus, as a consequence of the maturity of its business and the increase in the volume of information available about its operations, provided a change in the estimate for breakage and its recognition to the statement of income.

According to the previous methodology, the provision for revenue breakage was calculated based on the average historical rate, which comprised the breakage liability, which was recorded in the statement of income through the use of an average historical data of redeem pace. The new methodology considers the individual behavior of each harvest of points accumulation by segment, thus estimating the points.

In order to get this methodology more assertive and accurate, a confidence interval was considered and applied to regressions, thus accounting for a breakage liability and the corresponding expense in the statement of income. Consequently, every month the breakage liability is adjusted based in the last points harvey, getting closer to the effective amount throughout the months.



So that the methodology, as well as being more assertive, is also more precise, we consider a confidence margin for regressions, record the breakage revenue provision estimate and consider results taking the confidence margin into account. Accordingly, this difference remains in the breakage revenue provision and is adjusted in accordance with a batch's similarity with the previous month converging over the months to total actual breakage.

The change in estimate in accordance with accounting standards was treated prospectively from the date of the change in accordance with the criteria provided in CPC 23. The accounting effect on net income for 2016 generated by the change in the estimate was positive at R\$ 4.4 million.

Considering a future scenario with the same average billing as 2016 and breakage rates with a natural and expected decline given greater engagement of the participants with the network, it is expected there will be a negative impact on future net income in 2017 of R\$ 28 million and R\$ 7 million in 2018.

This effect is treated as an accounting estimate and does not produce impacts on the cash flow of the Company, and may not be confirmed depending on the behavior of a number of variables such as growth in revenue, increased participation segments billing with higher or lower rates of breakage and any increase or decrease in redemptions due to promotional campaigns realized by Multiplus and/or its partners.

#### 4.21 Employees benefits

##### 4.21.1 Short Term benefits to employees

Short-term benefit obligations to employees are recognized as personnel expenses 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.

##### 4.21.2 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. The total of profit sharing expenses is recognized in the statement of income for the period in which the targets are attained.





#### 4.21.3 Post-employment benefits

The Company offers to the retired employee according to the Law No. 9656/98 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 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.

#### 4.21.4 Share based payments

The subsidiary Miltiplus provides to certain employees and executives share-based payments, settled with shares its own shares. 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 28.

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 expenses, 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).

As of the balance sheet date, 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 shareholders' equity, prospectively.

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

These stocks will be purchased by Multiplus in 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 the shareholders' equity, which will be used for future purchase of such stocks.



#### 4.22 Financial income and expenses

Financial income and expenses of the Company include:

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

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

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

#### 4.23 Dividends and interest on shareholders' equity

The proposal for payment of dividends and interest on shareholders' equity made by the Company's Management, if any, 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; however 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.

#### 4.24 Revenue recognition of bonus-tickets issued

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

TLA's obligation to render services to the holder of bonus-ticket (purchased by Multiplus from TLA and granted to the members of Multiplus loyalty program) ceases only when the air transportation service is provided.

As required by the CPC 30 (IAS18) - revenue, for accounting recognition of the Customer Loyalty Programs assumes that the fair value of the consideration received or to be received related to the transaction is allocated between the award credits (points) and other components of the sale, on its turn, the revenue



allocated to award credits will be recognized only when the award credits are redeemed and the company accomplishes its obligations to supply awards. Whereas, on a consolidated basis, the award represented by airline tickets is the provision of air transport services, in this case, revenue allocated to award tickets must be recognized only when the TLA provides the transportation. The award credits revenue for which an award ticket has been issued, but not yet used, should not be recognized in the statement of income.

#### 4.25 Transactions and balances in foreign currency

Transactions in foreign currency are 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 gains 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>12/312016</u>	<u>12/31/2015</u>	<u>01/01/2015</u>
Final rate			
US Dollar (US\$)	<b>3.2591</b>	3.9048	2.6562
Euro (€)	<b>3.4384</b>	4.2504	3.2270
Annual average rates			
US Dollar (US\$)	<b>3.4833</b>	3.3387	2.3547
Euro (€)	<b>3.8543</b>	3.7000	3.1206

#### 4.26 Accounting judgments, estimates, and assumptions

As disclosed in note 3 of these financial statements, management made use of estimates, adopted assumptions and judgments, which have substantial effect over the values acknowledged in these financial statements, as follows:

- Ø fair value of financial instruments (Note 6.7);
- Ø annual analysis of the recoverable value of non-financial assets (Notes 18 and 19);
- Ø estimated losses in credits of doubtful accounts (Note 10.1);
- Ø annual analysis of recoverable taxes (Note 15.4);
- Ø useful life of items of the fixed assets and intangible with defined useful life (Notes 18 and 19);



- Ø provision for tax, civil, and labor risks (Note 24);
- Ø maintenance provisions (Note 25); and
- Ø provision for adjustment to realizable value of inventories (Note 11.1).

## 5 RESTATEMENT OF THE FINANCIAL STATEMENTS PRESENTED ON DECEMBER 31, 2015 AND PRESENTATION OF THE OPENING BALANCE OF THE STATEMENT OF POSITION AS OF JANUARY 1, 2015.

The financial statements related to the fiscal year ended on December 31, 2015 and 2014, originally issued on April 29, 2016 and March 30, 2015, respectively, are being restated, according to CPC 23 (IAS 8) - Accounting Policies, Changing in Estimates and Correction of Errors, as a consequence of the identification of errors by Management, which are presented below, that amounted to an impact in the shareholders' equity of R\$236,012 as of December 31, 2015 and R\$31,105 as of December 31, 2014.



## 5.1 Restatement of the Parent Company's balance sheet for the fiscal year ended December 31, 2015 and presentation of the opening balance as of January 1, 2015

ASSETS	Parent Company					
	12/31/2015			January 1 <sup>st</sup> , 2015		
	Original	Adjustments	Restated*	Original	Adjustments	Adjusted amount
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	3,338	-	3,338	1,236	-	1,236
Marketable securities	1,642	-	1,642	4,072	-	4,072
Trade accounts receivable	4,013	-	4,013	-	-	-
Recoverable taxes	28,192	-	28,192	35,443	-	35,443
Other	15,436	-	15,436	4,212	-	4,212
<b>Total current assets</b>	<b>52,621</b>	<b>-</b>	<b>52,621</b>	<b>44,963</b>	<b>-</b>	<b>44,963</b>
<b>NON-CURRENT ASSETS</b>						
Deferred income and social contribution taxes	61,490	-	61,490	43,748	-	43,748
Judicial deposits	2,849	-	2,849	2,095	-	2,095
Other	201	-	201	15,772	-	15,772
	64,540	-	64,540	61,615	-	61,615
Property, plant and equipment, net	76	-	76	90	-	90
Intangible assets	124,927	-	124,927	163,189	-	163,189
<b>Total non-current assets</b>	<b>614,625</b>	<b>-</b>	<b>614,625</b>	<b>1,372,761</b>	<b>-</b>	<b>1,372,761</b>
<b>TOTAL ASSETS</b>	<b>667,246</b>	<b>-</b>	<b>667,246</b>	<b>1,417,724</b>	<b>-</b>	<b>1,417,724</b>

<b>Consolidated</b>					
<b>Restated*</b>					
01/01/2015	Provisions	Reversals	Payments	Price index update	Restated* 12/31/2015
Aircraft workers reserve	304,160	-	-	10,567	<b>314,727</b>
Tax and social security	203,498	12,552	(29,952)	31,226	<b>217,324</b>
Civil	170,593	62,937	(9,306)	-	<b>160,417</b>
Labor	69,819	40,640	(28,850)	-	<b>73,014</b>
	<b>748,070</b>	<b>116,129</b>	<b>(68,108)</b>	<b>41,793</b>	<b>765,482</b>

LIABILITIES	Parent Company					
	12/31/2015			On January 1 <sup>st</sup> , 2015		
	Original	Adjustments	Restated*	Original	Adjustments	Adjusted amount
<b>CURRENT LIABILITIES</b>						
Trade accounts payable	99,111	-	99,111	740	-	740
Salaries, wages and benefits	2,521	-	2,521	929	-	929
Payable taxes	3,271	-	3,271	16,919	-	16,919
Other current	329	-	329	1,174	-	1,174
<b>Total current liabilities</b>	<b>105,232</b>	<b>-</b>	<b>105,232</b>	<b>19,762</b>	<b>-</b>	<b>19,762</b>
<b>NON-CURRENT LIABILITIES</b>						
Provision for tax, civil and labor risks	287	-	287	287	-	287
Provision for investments losses	435,883	236,012 (a)	671,895	-	31,105 (a)	31,105
Interest on own shareholders' equity and dividends payable	858	-	858	-	-	-
Other	-	-	-	2,978	-	2,978
<b>Total non-current liabilities</b>	<b>437,028</b>	<b>236,012</b>	<b>673,040</b>	<b>97,882</b>	<b>31,105</b>	<b>128,987</b>
<b>TOTAL LIABILITIES</b>	<b>542,260</b>	<b>236,012</b>	<b>778,272</b>	<b>117,644</b>	<b>31,105</b>	<b>148,749</b>
<b>SHAREHOLDERS' EQUITY</b>						
Paid in capital	5,035,926	-	5,035,926	5,035,926	-	5,035,926
Capital reserves	142,351	-	142,351	148,538	-	148,538
Accumulated losses	(5,684,697)	(236,012) (a)	(5,920,709)	(4,434,252)	(31,105) (a)	(4,465,357)
Equity valuation adjustments	631,406	-	631,406	549,868	-	549,868
<b>Total shareholders' equity</b>	<b>124,986</b>	<b>(236,012)</b>	<b>(111,026)</b>	<b>1,300,080</b>	<b>(31,105)</b>	<b>1,268,975</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>667,246</b>	<b>-</b>	<b>667,246</b>	<b>1,417,724</b>	<b>-</b>	<b>1,417,724</b>

(a) The amount of R\$236,012, as of December 31, 2015, and R\$31,105 as of January 1, 2015 refer to adjustments in the wholly-owned subsidiaries TLA and Fidelidade Viagens e Turismo ("LATAM Travel"), such adjustments are depicted in note 5.2.



## 5.2 Restatement of consolidated balance sheet for the fiscal year ended December 31, 2015 and presentation of the opening balance sheet as of January 1, 2015

ASSETS	Consolidated					
	12/31/2015			January 1 <sup>st</sup> , 2015		
	Original	Adjustments	Restated*	Original	Adjustments	Adjusted amount
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	816,121	-	816,121	359,991	-	359,991
Marketable securities	1,908,927	-	1,908,927	1,337,487	-	1,337,487
Trade accounts receivable	3,925,966	(104,823) (a)	3,821,143	3,634,715	(30,559) (a)	3,604,156
Inventories	440,477	(45,143) (b)	395,334	429,384	-	429,384
Recoverable taxes	630,021	(4,626) (c)	625,395	476,491	-	476,491
Maintenance prepayment	202,169	-	202,169	75,598	-	75,598
Other	349,470	-	349,470	173,432	-	173,432
Total current assets	8,273,151	(154,592)	8,118,559	6,487,098	(30,559)	6,456,539
<b>NON-CURRENT ASSETS</b>						
Related parties	3,082,167	-	3,082,167	3,010,767	-	3,010,767
Deferred income and social contribution taxes	1,282,441	-	1,282,441	675,721	-	675,721
Judicial deposits	530,779	-	530,779	505,732	-	505,732
Maintenance prepayment	188,590	-	188,590	185,137	-	185,137
Other	88,604	-	88,604	115,948	-	115,948
	5,172,581	-	5,172,581	4,493,305	-	4,493,305
Property, plant and equipment, net	3,698,187	-	3,698,187	3,963,990	-	3,963,990
Intangible	563,955	-	563,955	600,007	-	600,007
Total non-current assets	9,434,723	-	9,434,723	9,057,302	-	9,057,302
<b>TOTAL ASSETS</b>	<b>17,707,874</b>	<b>(154,592)</b>	<b>17,553,282</b>	<b>15,544,400</b>	<b>(30,559)</b>	<b>15,513,841</b>
<b>LIABILITIES</b>						
Consolidated						
LIABILITIES	12/31/2015			January 1 <sup>st</sup> , 2015		
	Original	Adjustments	Restated*	Original	Adjustments	Adjusted amount
	<b>CURRENT LIABILITIES</b>					
Loans and financing	22,550	-	22,550	167,125	-	167,125
Finance leases	476,136	-	476,136	413,736	-	413,736
Trade accounts payable	4,890,099	546 (d)	4,890,645	2,581,162	546 (d)	2,581,708
Salaries, wages and benefits	650,379	-	650,379	495,346	-	495,346
Deferred revenue	3,452,263	202,918 (e)	3,655,181	3,368,220	-	3,368,220
Payable taxes	144,856	-	144,856	133,206	-	133,206
Maintenance provision	685,373	14,408 (f)	699,781	527,867	-	527,867
Other current	242,900	(202,918) (e)	39,982	117,758	-	117,758
Total current liabilities	10,564,556	14,954	10,579,510	7,804,420	546	7,804,966
<b>NON-CURRENT LIABILITIES</b>						
Loans and financing	3,111,160	-	3,111,160	2,902,352	-	2,902,352
Finance leases	2,015,031	-	2,015,031	1,724,598	-	1,724,598
Provision for tax, civil and labor risks	765,482	-	765,482	748,070	-	748,070
Provision for investments losses	-	-	-	2,163	-	2,163
Maintenance provision	906,520	66,466 (f)	972,986	818,362	-	818,362
Interest on own shareholders' equity and dividends payable	858	-	858	-	-	-
Other	144,029	-	144,029	181,921	-	181,921
Total non-current liabilities	6,943,080	66,466	7,009,546	6,377,466	-	6,377,466
<b>TOTAL LIABILITIES</b>	<b>17,507,636</b>	<b>81,420</b>	<b>17,589,056</b>	<b>14,181,886</b>	<b>546</b>	<b>14,182,432</b>
<b>SHAREHOLDERS' EQUITY</b>						
Paid in capital	5,035,926	-	5,035,926	5,035,926	-	5,035,926
Capital reserves	142,351	-	142,351	148,538	-	148,538
Accumulated losses	(5,684,697)	(236,012) (g)	(5,920,709)	(4,434,252)	(31,105) (g)	(4,465,357)
Equity valuation adjustments	631,406	-	631,406	549,868	-	549,868
Total shareholders' equity	124,986	(236,012)	(111,026)	1,300,080	(31,105)	1,268,975
Equity attributable to non-controlling interest	75,252	-	75,252	62,434	-	62,434
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>17,707,874</b>	<b>(154,592)</b>	<b>17,553,282</b>	<b>15,544,400</b>	<b>(30,559)</b>	<b>15,513,841</b>

(a) The amount correspondent to R\$104,823, on December 31, 2015, and R\$30,559, on January 1, 2015, are related to errors identified in the conciliation of accounts receivable, when amounts received from customers were unduly recorded directly in the statement of income instead of against accounts receivable. The error was identified through aging list analysis;



- (b) The adjustment of R\$45,143 refers to amounts directly and manually recorded in the inventory account which were not considered in the average price calculation. The differences were identified in the accounting conciliations, and subsequently, detected that such amount have not been consumed, hence adjusting the accounting balances. Management corrected such errors;
- (c) The adjustment of R\$4,626 refers to the taxes paid in the acquisition of products and materials, which as described in item (b) were not attributed to products and materials through the kardex. The adjusted amount corresponds to the total that should comprises the cost of consumed products and materials up to December 31, 2015;
- (d) The amount of R\$546 is related to errors identified in the preparation of banks and suppliers accounting conciliations, when amounts paid to suppliers were unduly recorded as a debit in the statement of income, instead of against suppliers balance;
- (e) The amount of R\$202.918 is related to the reclassification of the deferred revenue recorded at Multiplus which was originally allocated as accounts payable in the financial statements as of December 31, 2017;
- (f) The amount of R\$14,408 and R\$66,465 refer to lack of update of the obligation related to maintenance in foreign currency ("US\$"); and
- (g) The amount refers to the total impact of the adjustments (a) to (f) above mentioned, before effect of income taxes, in note 15.



### 5.3 Restatement of statement of income for the year ended December 31, 2015

	Parent Company			Consolidated		
	12/31/2015			12/31/2015		
	Original	Adjustments	Restated*	Original	Adjustments	Restated*
Net operating revenue	-	-	-	15,604,765	-	15,604,765
Cost of services rendered	-	-	-	(13,337,250)	(49,769) (b)	(13,387,019)
Gross operating profit	-	-	-	2,267,515	(49,769)	2,217,746
Selling expenses	(555)	-	(555)	(1,621,826)	(36,127) (c)	(1,657,953)
General and administrative expenses	(4,526)	-	(4,526)	(815,887)	(38,138) (c)	(854,025)
Other operational income (expenses), net	-	-	-	123,816	-	123,816
Operating loss	(5,081)	-	(5,081)	(46,382)	(124,034)	(170,416)
Financial income	5,571	-	5,571	460,065	-	460,065
Financial expenses	(2,052)	-	(2,052)	(654,201)	-	(654,201)
Exchange rate variation, net	(42)	-	(42)	(1,213,891)	(80,873) (d)	(1,294,764)
Equity pick up method	(1,238,110)	(204,907) (a)	(1,443,017)	-	-	-
Loss before taxes	(1,239,714)	(204,907)	(1,444,621)	(1,454,409)	(204,907)	(1,659,316)
Income tax and social contribution:						
Current	(2,851)	-	(2,851)	(243,597)	-	(243,597)
Deferred	(7,880)	-	(7,880)	579,740	-	579,740
Fiscal year losses	(1,250,445)	(204,907)	(1,455,352)	(1,118,266)	(204,907)	(1,323,173)
Attributed to:						
TAM S.A.' shareholders				(1,250,445)	(204,907)	(1,455,352)
Non-controlling interest				132,179	-	132,179
				(1,118,266)	(204,907)	(1,323,173)

(a) The amount of R\$204,907 on December 31, 2015 refers to adjustments (a) to (f), presented in item 5.2 of these financial statements;

(b) The amount of R\$49,769 refers to the adjustments (b) and (c), presented in item 5.2 of these financial statements;

(c) The amounts of R\$36,127 and R\$38,138 refer to the effect in the fiscal year ended December 31, 2015 of the error described in item 5.2 (a), offset by the amount presented on January 1, 2015; and

(d) The amount of R\$80,873 refers to the adjustment (e) presented in item 5.2 of these financial statements.

## 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.







### 6.3 Interest rate risk management

The Company presents below sensitivity analysis table to changes in interest rates, considering the macroeconomic projections published by Brazilian Clearing House ("CETIP") on December 31, 2016, which indicated the following rates as probable scenario:

Index	Probable scenario estimated rate
Interbank Deposit Certificate - "CDI"	13.99% p.a.
LIBOR - London Interbank Offered Rate	1.70% p.a.
SELIC rate	13.65% p.a.

Parent Company						
12/31/2016						
Instruments	Carrying Amount	Index	Rate	Scenario I likely	Scenario II rate variance at 25%	Scenario III rate variance at 50%
Cash and cash equivalents	36,343	CDI	13.99%	41,427	48,672	50,121
Marketable securities	57,446	CDI	13.99%	65,483	76,934	79,224
Judicial deposits	172	SELIC	13.65%	196	230	237
Related parties loans	(2,978)	Libor	1.70%	(3,395)	(3,988)	(4,107)
<b>Impact to net financial income/expenses and equity</b>				<b>12,729</b>	<b>30,865</b>	<b>34,492</b>

Consolidated						
12/31/2016						
Instruments	Carrying Amount	Index	Rate	Scenario I likely	Scenario II rate variance at 25%	Scenario III rate variance at 50%
Cash and cash equivalents	201,982	CDI	13.99%	230,239	270,502	278,555
Marketable securities	1,749,204	CDI	13.99%	1,993,918	2,342,604	2,412,341
Restricted cash	464,247	CDI	13.99%	472,139	482,172	484,179
Related parties receivable loans	2,493,832	Libor	1.70%	2,536,227	2,590,122	2,600,901
Judicial deposits	627,101	SELIC	13.65%	637,762	651,314	654,025
Loans and financing	(3,272,113)	Libor	1.70%	(3,327,739)	(3,398,453)	(3,412,596)
Swap interest rate	(41,820)	CDI	13.99%	(42,531)	(43,435)	(43,615)
Related parties payable loans	(7,703)	Libor	1.70%	(7,834)	(8,000)	(8,034)
<b>Impact to net financial income/expenses and equity</b>				<b>277,451</b>	<b>672,096</b>	<b>751,025</b>



## 6.4 Exchange risks management

Assets and liabilities denominated in foreign currency are as follows:

	<b>Consolidated</b>		
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>Restated* January 1<sup>st</sup>, 2015</b>
<b>Assets denominated in US\$</b>			
Cash and cash equivalents	<b>334,817</b>	394,269	276,705
Related parties receivables	<b>2,432,402</b>	2,942,768	1,701,600
Trade accounts receivable	<b>1,329,103</b>	383,329	344,112
Maintenance prepayment	<b>151,020</b>	390,759	260,735
Non deliverable forward - NDF	<b>43,485</b>	-	-
Related parties loans	<b>2,493,832</b>	3,082,167	3,010,767
<b>Liabilities denominated in US\$</b>			
Loans and financing	<b>(3,272,113)</b>	(3,133,710)	(3,069,477)
Finance leases	<b>(1,483,624)</b>	(2,491,167)	(2,138,334)
Related parties payables	<b>(3,307,360)</b>	(3,228,256)	(1,357,117)
Maintenance provision	<b>(1,155,524)</b>	(1,672,767)	(1,346,229)
Foreign exchange rate, exposure net in US\$	<b>(2,433,962)</b>	(3,332,608)	(2,317,238)
Foreign exchange exposure in US\$	<b>(746,820)</b>	(853,464)	(593,433)

Considering the macroeconomic projections and foreign currency variation, management prepared the sensitivity table concerning to the US\$ to BRL parity, as follows:

Parity - R\$ x US\$ Operation/Instrument	<b>Consolidated</b>				
	<b>3.2591</b>	<b>2.4443</b>	<b>1.6296</b>	<b>4.0739</b>	<b>4.8887</b>
	<b>Current</b>	<b>Scenario I</b>	<b>Scenario II</b>	<b>Scenario I</b>	<b>Scenario II</b>
	<b>Scenario</b>	<b>Appreciation 25%</b>	<b>Appreciation 50%</b>	<b>Devaluation 25%</b>	<b>Devaluation 50%</b>
<b>Assets denominated in US\$</b>					
Cash and cash equivalents	334,817	251,113	167,409	418,521	502,226
Related parties receivable	2,432,402	1,824,302	1,216,201	3,040,503	3,648,603
Trade accounts receivable	1,329,103	996,827	664,552	1,661,379	1,993,655
Maintenance prepayment	151,020	113,265	75,510	188,775	226,530
Non deliverable forward - NDF	43,485	32,614	21,743	54,356	65,228
Related parties loans	2,493,832	1,870,374	1,246,916	3,117,290	3,740,748
<b>Liabilities denominated in US\$</b>					
Loans and financing	(3,272,113)	(2,454,085)	(1,636,057)	(4,090,141)	(4,908,170)
Finance leases	(1,483,624)	(1,112,718)	(741,812)	(1,854,530)	(2,225,436)
Related parties payables	(3,307,360)	(2,480,520)	(1,653,680)	(4,134,200)	(4,961,040)
Maintenance provision	(1,155,524)	(866,643)	(577,762)	(1,444,405)	(1,733,286)
Foreign exchange rate exposure, net	(2,433,962)	(1,825,471)	(1,216,981)	(3,042,452)	(3,650,943)
<b>Impact on statement of income and shareholders' equity</b>		<b>1,216,981</b>	<b>2,433,962</b>	<b>(1,216,981)</b>	<b>(2,433,962)</b>



## 6.5 Risk management related to variation in fuel price

As 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, 2016.

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\$43.33 (forty-three US dollars and thirty-three cents) for the fiscal year ended December 31, 2016 and with forecasted impact to statement of result, resulting in an increment of 25% and 50% in the price, as follows:

Scenario	Consolidated	
	12/31/2016	
	Impact statement of income shareholders' equity	
Appreciation of 25%	569,521	
Appreciation of 50%	1,139,041	
Devaluation of 25%	(569,521)	
Devaluation of 50%	(1,139,041)	

## 6.6 Financial instruments by category

	Parent Company			Consolidated		
	12/31/2016	12/31/2015	Restated* January 1 <sup>st</sup> , 2015	12/31/2016	12/31/2015	Restated* January 1 <sup>st</sup> , 2015
Loans and receivables						
Marketable securities	-	17	-	-	421,997	161,134
Restricted cash	-	-	-	464,247	13,755	10,260
Trade accounts receivable	4,050	4,013	-	4,281,678	3,821,143	3,604,156
Maintenance prepayment	-	-	-	151,020	390,759	260,735
Related parties loans	-	-	-	2,493,832	3,082,167	3,010,767
Judicial deposits	172	2,849	2,095	627,101	530,779	505,732
Other receivables	15,251	15,637	19,984	185,489	438,074	289,380
Loans and financing	-	-	-	(3,272,113)	(3,133,710)	(3,069,477)
Finance leases	-	-	-	(1,483,624)	(2,491,167)	(2,138,334)
Trade accounts payable	(95,415)	(99,111)	(740)	(4,966,313)	(4,890,645)	(2,581,708)
Related parties loans	(2,978)	-	(94,617)	(7,703)	-	-
Other payables	-	(329)	(4,152)	(193,653)	(386,929)	(299,679)
Measured at fair value through statement of income						
Cash and cash equivalents	36,343	3,338	1,111	234,641	816,121	359,991
Marketable securities	57,446	1,625	4,072	1,749,204	1,486,930	1,176,353
Non deliverable forward - NDF	-	-	-	43,485	-	-
Swap contract - fuel	-	-	-	17,483	-	-
Swap contract - interest rate	-	-	-	41,820	-	-





## 6.8 Comparison between book value and fair value of financial instruments

	Book value			Fair value		
			Restated*			Restated*
	12/31/2016	12/31/2015	01/01/2015	12/31/2016	12/31/2015	01/01/2015
Loans and financing	<b>3,272,113</b>	3,133,710	3,069,477	<b>3,992,774</b>	4,152,755	3,186,329
Finance leases	<b>1,483,624</b>	2,491,167	2,138,334	<b>1,604,566</b>	2,712,879	2,128,200
	<b>4,755,737</b>	5,624,877	5,207,811	<b>5,597,340</b>	6,865,634	5,314,529

## 7. CASH AND CASH EQUIVALENTS

	Parent Company			Consolidated		
			Restated*			Restated*
	12/31/2016	12/31/2015	01/01/2015	12/31/2016	12/31/2015	01/01/2015
<b>Cash and Banks</b>						
US Dollar	-	-	-	<b>223,981</b>	280,866	139,087
Brazilian Real	<b>60</b>	2,176	125	<b>105,955</b>	230,256	11,530
Euro	-	-	-	<b>4,099</b>	17,784	80
Other currencies	-	-	-	<b>74,078</b>	41,691	137,538
	<b>60</b>	2,176	125	<b>408,113</b>	570,597	288,235
<b>Cash equivalents</b>						
In Reais						
Mutual fund	<b>36,343</b>	1,162	1,111	<b>181,584</b>	183,455	71,756
Bank deposit certificates ("CDB")	-	-	-	<b>20,398</b>	2,475	-
Overnight	-	-	-	-	5,666	-
	<b>36,343</b>	1,162	1,111	<b>201,982</b>	191,596	71,756
In US Dollar						
Deposits	-	-	-	<b>32,659</b>	39,924	-
Overnight	-	-	-	-	4,695	-
Other currencies						
Deposits	-	-	-	-	9,309	-
	-	-	-	<b>32,659</b>	53,928	-
	<b>36,403</b>	3,338	1,236	<b>642,754</b>	816,121	359,991

The decrease in cash and cash equivalents balance, presented on December 31, 2016 compared to the fiscal year ended December 31, 2015, reflects a lower level of discount of credit card receivables without recourse at the subsidiary TLA.

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

Financial investments bear the weighted average rate of 94.73% of the CDI rate.





## 10. TRADE ACCOUNTS RECEIVABLE

	Parent Company			Consolidated		
	Restated*			Restated*		
	12/31/2016	12/31/2015	01/01/2015	12/31/2016	12/31/2015	01/01/2015
Credit cards	-	-	-	1,206,794	143,880	1,130,763
Debit cards	-	-	-	5,910	2,562	44,657
Direct credit	-	-	-	553,568	724,676	563,302
Other	-	-	-	253,624	167,105	282,704
Related parties	4,050	4,013	-	2,432,402	2,942,768	1,701,600
	<b>4,050</b>	4,013	-	<b>4,452,298</b>	3,980,991	3,723,026
Allowance for doubtful accounts	-	-	-	(170,620)	(159,848)	(118,870)
	<b>4,050</b>	4,013	-	<b>4,281,678</b>	3,821,143	3,604,156

The increase in credit cards balance presented on December 31, 2016 compared to previous periods disclosed, reflects a lower level of the discount credit card receivables without recourse, at subsidiary TLA.

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

### 10.1 Changes in allowance for doubtful accounts

	Consolidated		
	12/31/2016	12/31/2015	01/01/2015
Beginning balance	(159,848)	(118,870)	(110,039)
Additions	(82,781)	(58,117)	(18,757)
Reversals	72,009	17,139	9,926
Ending balance	<b>(170,620)</b>	<b>(159,848)</b>	<b>(118,870)</b>

The expenses of provision for bad debt allowance was included in "sales expenses" in the statement of income. 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 4.7.

### 10.2 Aging of trade accounts receivable

	Parent Company			Consolidated		
	Restated*			Restated*		
	12/31/2016	12/31/2015	01/01/2015	12/31/2016	12/31/2015	01/01/2015
Current	4,050	4,013	-	4,243,716	3,748,801	3,396,286
Overdue:						
within 60 days	-	-	-	7,554	31,932	125,319
from 61 to 90 days	-	-	-	3,305	29,618	26,163
from 91 to 180 days	-	-	-	18,681	19,020	22,511
from 181 to 360 days	-	-	-	61,933	18,140	26,943
more than 360 days	-	-	-	117,109	133,480	125,804
	<b>4,050</b>	4,013	-	<b>4,452,298</b>	3,980,991	3,723,026

Management evaluated that the amount of the provision for doubtful accounts reflects the best estimate, based on the information available on December 31, 2016.





## 11. INVENTORIES

	<b>Consolidated</b>		
	<b>Restated*</b>		
	<b>12/31/2016</b>	12/31/2015	01/01/2015
Parts and materials for maintenance and repairs	<b>365,741</b>	381,571	345,022
Other inventories <sup>(1)</sup>	<b>47,025</b>	58,066	105,509
	<b>412,766</b>	439,637	450,531
Provision for inventory losses	<b>(77,245)</b>	(44,303)	(21,147)
	<b>335,521</b>	395,334	429,384

<sup>(1)</sup> Other inventories include uniforms, catering items and other inventories.

Some items identified as obsolete or slow moving were subject to provisions for obsolescence, as set forth below:

### 11.1 Provision for obsolescence

	<b>Consolidated</b>		
	<b>Restated*</b>		
	<b>12/31/2016</b>	12/31/2015	01/01/2015
Beginning balance	<b>44,303</b>	21,147	106,621
Reversals	-	(9,149)	(96,127)
Additions	<b>32,942</b>	32,305	10,653
Ending balance	<b>77,245</b>	44,303	21,147

## 12. RECOVERABLE TAXES

	<b>Parent Company</b>			<b>Consolidated</b>		
	<b>Restated*</b>			<b>Restated*</b>		
	<b>12/31/2016</b>	12/31/2015	01/01/2015	<b>12/31/2016</b>	12/31/2015	01/01/2015
State ICMS ("VAT")	-	-	-	<b>116,490</b>	147,918	122,091
PIS and COFINS	-	7	-	<b>70,745</b>	302,736	149,190
IRPJ and CSLL	<b>21,070</b>	25,592	32,850	<b>18,504</b>	107,360	128,284
Taxes recoverable abroad	-	-	-	<b>52,334</b>	60,580	68,848
Other	-	2,593	2,593	<b>108,303</b>	6,801	8,078
	<b>21,070</b>	28,192	35,443	<b>366,376</b>	625,395	476,491

The reduction presented in the consolidated balance is related to previously unused credits of PIS and COFINS recorded in the fiscal year ended December 31, 2015, such credits were used during the current fiscal year.



### 13. OTHER FINANCIAL ASSETS AND LIABILITIES

	<u>Consolidated</u> <u>12/31/2016</u>
<b>Assets</b>	
Fuel Swap	17,483
Non deliverable forward - NDF	<u>43,485</u>
	<u>60,968</u>
<b>Liabilities</b>	
Interest rate swap	<u>41,820</u>
	<u>41,820</u>

There were no transactions of this nature on December 31, 2015 and January 1, 2015.

### 14. ASSETS AVAILABLE FOR SALE

	<u>Consolidated</u> <u>12/31/2016</u>
Aircraft and engines	240,328
Parts and supplies for maintenance and repairs	43,340
Buildings	<u>788</u>
	<u>284,456</u>
Impairment	<u>(131,876)</u>
	<u>152,580</u>

There were no transactions of this nature on December 31, 2015 and January 1, 2015.



## 15. DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION

### 15.1 Changes in deferred income and social contribution taxes balance

	Parent Company		
	Restated*		
	12/31/2015	Statement of income	12/31/2016
Tax losses	40,873	(2,723)	38,150
Social contribution negative basis	20,617	(981)	19,636
	<u>61,490</u>	<u>(3,704)</u>	<u>57,786</u>
	Consolidated		
	Restated*		
	12/31/2015	Statement of income	Reclassification
	12/31/2015	Statement of income	12/31/2016
Tax losses	470,353	22,082	-
Social contribution negative basis	186,061	60,991	-
	<u>656,414</u>	<u>83,073</u>	<u>-</u>
Temporary differences:			
Allowance for doubtful accounts	27,077	5,393	-
Provision for inventory losses and assets available for sale	15,063	56,038	-
Provision for fleet maintenance and leasing	451,909	27,284	-
Provision for bonus and employees' profit sharing	-	32,298	-
Provisions for tax, civil and labor risks	157,729	52,357	-
Resubmission adjustments of the Financial Statement 2015	67,961	(135,922)	-
Others	5,414	8,038	(7,761)
<b>Tax assets (liabilities) before compensation</b>	<u>1,381,567</u>	<u>128,559</u>	<u>(7,761)</u>
Provision for deferred taxes	(99,126)	(280,510)	-
<b>Net tax liabilities (assets)</b>	<u>1,282,441</u>	<u>(151,951)</u>	<u>(7,761)</u>
			<u>1,122,729</u>

### 15.2 Conciliation of the rate of Income Tax and Social Contribution on Profit

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
	Restated*		Restated*	
Losses before tax	(283,074)	(1,444,621)	238,361	(1,659,316)
Nominal tax rate	34%	34%	34%	34%
Tax calculated at nominal rates	96,245	491,171	(81,043)	564,167
Tax effects on permanent differences:				
Equity pick up method	(94,803)	(490,626)	-	-
Non-deductible expenses	-	(13,413)	(38,956)	(132,024)
Non-taxable income	-	-	41,820	-
Provision for write-off for non-recoverability of tax losses and negative basis	-	-	(280,510)	(99,126)
Outcome of investees based in Cayman	-	-	(84,923)	-
Others	(13,765)	2,137	51,075	3,126
Net income taxes	<u>(12,323)</u>	<u>(10,731)</u>	<u>(392,537)</u>	<u>336,143</u>
Current income tax	(8,619)	(2,851)	(240,586)	(243,597)
Deferred income tax	(3,704)	(7,880)	(151,951)	579,740



### 15.3 Deferred tax assets not recognized

The Company's subsidiary LATAM Travel has tax loss carryforwards and negative basis of social contribution of R\$378,084 (R\$34,315 on December 31, 2015), 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.

### 15.4 Estimate of realization of deferred tax asset

The Group periodically evaluates 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 comprises 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 considered in the evaluation of the profitability history of realization the deferred tax asset, as follows:

- Ø taxable profitability history;
- Ø Brazilian and global economic scenario;
- Ø the budget prepared by Management;
- Ø forecasted exchange rates of the US Dollar;
- Ø estimated fuel price;
- Ø supply and demand expectation of the Brazilian market;
- Ø Company' structural projects related to cost reduction and development of new opportunities;
- Ø Estimates considering several stress test models; and
- Ø The impact of future taxes over temporary differences

At December 31, 2016, 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.



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:

- Ø Readjustment of the national flights network with an offer reduction of 11.0% in 2016, additional to the reductions already made in 2015 of approximately 12.0%. Such actions had a positive effect on the load factor of the aircraft which increased 1.4% in 2016 reaching 83.2%, compared to a market average of 80.0%;
- Ø Continuity of Company's plan of cost reduction which comprises several initiatives, which all together, in 2016 amounted to a cost reduction of R\$77 million;
- Ø 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. During 2016, the Company transferred 14 aircraft to its Parent Company LATAM, which were previously accounted for as finance lease, afterwards leased as operational. Additionally, the Company returned 4 aircraft, hence, reducing, significantly its foreign exchange variation exchange originated from finance leases.

The estimated realization schedule of deferred tax assets from carryforward losses and negative basis of social contributions, prepared based on the assumptions presented above, is set forth below:

Year	Estimated realization value
2017	361,612
2018	378,624
2019	245,969
2020	136,524

## 16. JUDICIAL DEPOSITS

The rollforward of the judicial deposits balance is presented below:

	Parent Company				
	Restated*				
	12/31/2015	Additions	Payments	Reversals	12/31/2016
Civil	260	5		(265)	-
Judicial retention	2,589	2,774	(5,191)	(5,191)	172
	<u>2,849</u>	<u>2,779</u>	<u>(5,191)</u>	<u>(5,456)</u>	<u>172</u>



	Parent Company			
	Restated*			
	01/01/2015	Additions	Reversals	12/31/2015
Civil	124	136	-	260
Judicial retention	1,971	959	(341)	2,589
	<u>2,095</u>	<u>1,095</u>	<u>(341)</u>	<u>2,849</u>

	Consolidated					
	Restated*					
	12/31/2015	Additions	Payments	Reversals	Price index update	12/31/2016
Aircraft workers fund	341,205	-	43	-	34,454	375,659
Civil	26,077	116,752	-	(81,464)	4,549	65,914
Labor	62,232	52,213	-	(25,092)	-	89,353
Tax and social security	66,722	254,290	-	(260,339)	13,057	73,730
Judicial retention	34,543	278,763	-	(290,861)	-	22,445
	<u>530,779</u>	<u>702,018</u>	<u>43</u>	<u>(657,756)</u>	<u>52,060</u>	<u>627,101</u>

	Consolidated					
	Restated*					
	01/01/2015	Additions	Reversals	Price index update	12/31/2015	
Aircraft workers fund	260,223	-	-	80,982	341,205	
Civil	20,271	12,009	(6,203)	-	26,077	
Labor	53,598	37,657	(29,233)	210	62,232	
Tax and social security	138,281	12,688	(25,020)	(59,227)	66,722	
Judicial retention	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>	

## 17. INVESTMENTS

### 17.1 Investments breakdown

	Parent Company		
	Restated*		
	12/31/2016	12/31/2015	01/01/2015
Equity interest in subsidiaries	352,764	425,082	1,147,867
Provision for investments losses <sup>(1)</sup>	<u>(1,044,567)</u>	<u>(671,895)</u>	<u>(31,105)</u>
	<u>(691,803)</u>	<u>(246,813)</u>	<u>1,116,762</u>

<sup>(1)</sup> Amounts recorded in non-current liabilities



## 17.2 Rollforward of interest in subsidiaries and associates

	Transportes						Total
	Tam Linhas Aéreas S.A	Aéreos del Mercosur S.A	TP Franchising Ltda	Multiplus S.A	Corsair Participações S.A	ABSA Aerolineas S.A	
December 31, 2014	828,190	41,446	2,571	160,393	191	115,076	1,147,867
Correction of error (note 5)	(31,105)	-	-	-	-	-	(31,105)
January 1 <sup>st</sup> , 2015 (restated*)	797,085	41,446	2,571	160,393	191	115,076	1,116,762
Advance for future capital increase	316,000	-	-	-	-	-	316,000
Transaction with shareholders	-	-	-	(7,930)	-	-	(7,930)
Equity valuation adjustments	(8,004)	-	-	-	-	-	(8,004)
Equity pick up method	(1,775,885)	25,747	585	349,072	(1,873)	(40,663)	(1,443,017)
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 own shareholders' equity	-	-	-	(313,706)	-	-	(313,706)
December 31, 2015	(670,213)	78,024	3,156	189,798	(1,682)	154,104	(246,813)
Paid in capital	777,790	-	-	8,167	-	-	785,957
Advance for future capital increase	(434,000)	-	-	-	-	-	(434,000)
Repurchase of shares	-	-	-	(5,863)	-	-	(5,863)
Transaction with shareholders	-	-	-	(16,835)	-	-	(16,835)
Equity pick up method	(651,298)	21,903	(196)	373,740	2,528	(25,510)	(278,833)
Realization of revaluation reserve	-	401	-	-	-	-	401
Reclassification of IR / CS on revaluation reserve	(8,056)	-	-	-	-	-	(8,056)
Payment of stock compensation plan	(58,790)	-	-	-	-	-	(58,790)
Cumulative conversion adjustment	-	(20,023)	29	-	-	(29,910)	(49,904)
Dividends and interests on own shareholders' equity	-	-	-	(379,067)	-	-	(379,067)
December 31, 2016	(1,044,567)	80,305	2,989	169,940	846	98,684	(691,803)

## 17.3 Summary of subsidiaries information

	Transportes						Total
	Tam Linhas Aéreas S.A	Aéreos del Mercosur S.A	TP Franchising Ltda	Multiplus S.A	Corsair Participações S.A	ABSA Aerolineas S.A	
Paid in capital	5,994,245	5,450	30	107,300	191	144,061	6,251,277
Number of shares - total common shares	2,064,602	87,653	30,100	162,246,573	1,000	4,060,702	-
Owned common shares	2,064,602	83,253	30,100	118,018,157	1,000	4,060,702	-
% 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 (overdraft liabilities)	(1,044,567)	84,550	2,989	256,099	846	98,684	-
<b>Investment value</b>	<b>(1,044,567)</b>	<b>80,305</b>	<b>2,989</b>	<b>169,940</b>	<b>846</b>	<b>98,684</b>	<b>(691,803)</b>
Net profit (loss) of the year	(651,298)	23,063	(196)	513,802	2,528	(25,510)	-
<b>Income from equity pick up method of</b>	<b>(651,298)</b>	<b>21,903</b>	<b>(196)</b>	<b>373,740</b>	<b>2,528</b>	<b>(25,510)</b>	<b>(278,833)</b>

	Transportes						Total
	Tam Linhas Aéreas S.A	Aéreos del Mercosur S.A	TP Franchising Ltda	Multiplus S.A	Corsair Participações S.A	ABSA Aerolineas S.A	
Paid in capital	5,216,454	46,183	30	107,300	191	144,061	-
Number of shares - total common shares	2,064,602	87,653	30,100	162,246,573	1,000	4,060,702	-
Owned common shares	2,064,602	83,253	30,100	118,018,157	1,000	4,060,702	-
% 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 (overdraft liabilities)	(670,213)	82,148	3,156	260,927	(1,682)	154,104	-
<b>Investment value</b>	<b>(670,213)</b>	<b>78,024</b>	<b>3,156</b>	<b>189,798</b>	<b>(1,682)</b>	<b>154,104</b>	<b>(246,813)</b>
Net profit (loss) of the year	(1,775,885)	27,108	585	479,741	(1,873)	(40,663)	-
<b>Income from equity pick up method of</b>	<b>(1,775,885)</b>	<b>25,747</b>	<b>585</b>	<b>349,072</b>	<b>(1,873)</b>	<b>(40,663)</b>	<b>(1,443,017)</b>

There were no changes to the equity interest during the year ended December 31, 2016.



## 18. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment rollforward is presented below:

							Consolidated
	Weighted average depreciation rate (p.y.)	12/31/2015 Restated*	Additions	Transfers <sup>(3)</sup>	Disposals	Exchange rate variation	12/31/2016
<b>Cost</b>							
Land	-	42,358	-	-	-	(1,338)	41,020
Flight equipment	-	5,442,139	225,646 <sup>(1)</sup>	(280,076)	(1,100,315) <sup>(2)</sup>	-	4,287,394
Buildings and improvements	-	134,825	789	91,295	(294)	(2,339)	224,276
Hardware	-	230,671	8,727	318	(134)	(1,252)	238,330
Machinery and equipment	-	107,915	867	(204)	(44)	(160)	108,374
Construction in progress	-	98,515	35,404	(74,350)	(117)	(28)	59,424
Others	-	522,787	16,636	(50,863)	(7,161)	(2,146)	479,253
		6,579,210	288,069	(313,880)	(1,108,065)	(7,263)	5,438,071
<b>Depreciation</b>							
Flight equipment	5.29%	(2,335,168)	(288,091)	41,694	385,039	(1)	(2,196,527)
Buildings and improvements	8.43%	(33,156)	(3,567)	(42,495)	72	1,269	(77,877)
Hardware	8.68%	(166,500)	(20,032)	(110)	31	873	(185,738)
Machinery and equipment	8.61%	(69,181)	(9,288)	177	24	89	(78,179)
Others	8.34%	(277,018)	(43,581)	42,432	3,362	1,881	(272,924)
		(2,881,023)	(364,559)	41,698	388,528	4,111	(2,811,245)
<b>Property, plant and equipment, net</b>		<b>3,698,187</b>	<b>(76,490)</b>	<b>(272,182)</b>	<b>(719,537)</b>	<b>(3,152)</b>	<b>2,626,826</b>

							Consolidated
							Restated*
	Weighted average depreciation rate (p.y.)	12/31/2014	Additions	Transfers	Disposals	Exchange rate variation	12/31/2015
<b>Cost</b>							
Land	-	46,165	-	-	-	(3,807)	42,358
Flight equipment	-	5,622,170	306,497	(125,431)	(359,865)	(1,232)	5,442,139
Buildings and improvements	-	242,574	1,696	(114,912)	(4,957)	10,424	134,825
Hardware	-	202,433	28,496	875	(134)	(999)	230,671
Machinery and equipment	-	114,307	687	(5,430)	-	(1,649)	107,915
Construction in progress	-	16,314	89,056	(5,329)	(357)	(1,169)	98,515
Others	-	399,034	10,847	120,176	(6,782)	(488)	522,787
		6,642,997	437,279	(130,051)	(372,095)	1,080	6,579,210
<b>Depreciation</b>							
Flight equipment	7.30%	(2,203,157)	(410,490)	130,054	151,378	(2,953)	(2,335,168)
Buildings and improvements	8.43%	(68,224)	(4,149)	36,422	1,516	1,279	(33,156)
Hardware	9.88%	(148,107)	(19,998)	(51)	84	1,572	(166,500)
Machinery and equipment	8.51%	(61,010)	(9,726)	188	-	1,367	(69,181)
Others	11.10%	(198,509)	(44,312)	(36,562)	5,125	(2,760)	(277,018)
		(2,679,007)	(488,675)	130,051	158,103	(1,495)	(2,881,023)
<b>Property, plant and equipment, net</b>		<b>3,963,990</b>	<b>(51,396)</b>	<b>-</b>	<b>(213,992)</b>	<b>(415)</b>	<b>3,698,187</b>

(1) Additions of flight equipment are mainly represented by maintenance costs and spare parts, capitalized during the year according to accounting policy described in Note 4.11;

(2) Disposals of flight equipment mainly represent the transfer of 14 aircraft to LATAM as afterwards leased under operational model;

(3) The net amount of transfers is comprised of: (a) transfer to assets available for sales; R\$240,328 net amount of A-330 aircraft, and R\$788 building and improvements; and (b) transfer to intangible of expenditure related to software development projects for R\$31,066.





## 19. INTANGIBLE ASSETS

Intangible assets are comprised of the following:

	Restated*						Consolidated
	Average amortizati on rate (p.a.)	12/31/2015	Additions	Transfers	Disposals	Exchange rate variation	12/31/2016
<b>Cost</b>							
Trademarks	-	168,312	-	29,883	-	-	198,195
Softwares	-	703,057	3,935	163,543	(14)	-	870,521
Software under development	-	91,829	81,705	(113,768)	(3,025)	(14)	56,727
Slots	-	124,927	-	(124,927)	-	-	-
Other	-	48,592	-	76,335	-	-	124,927
		1,136,717	85,640	31,066	(3,039)	(14)	1,250,370
<b>Amortization</b>							
Softwares	20.00%	(527,670)	(71,864)	-	-	(2)	(599,536)
Trademarks	20.00%	(45,092)	(16,461)	-	-	-	(61,553)
		(572,762)	(88,325)	-	-	(2)	(661,089)
<b>Intangible assets assets, net</b>		<b>563,955</b>	<b>(2,685)</b>	<b>31,066</b>	<b>(3,039)</b>	<b>(16)</b>	<b>589,281</b>

	Consolidated Restated*						
	Average amortizati on rate (p.a.)	01/01/2015	Additions	Transfers	Disposals	Exchange rate variation	12/31/2015
<b>Cost</b>							
Trademarks	-	168,312	-	-	-	-	168,312
Softwares	-	597,541	6,842	99,309	(635)	-	703,057
Software under development	-	137,145	63,644	(99,309)	(9,651)	(14)	91,829
Slots	-	124,927	-	-	-	-	124,927
Other	-	68,092	23,124	-	(42,624)	-	48,592
		1,096,017	93,610	-	(52,910)	(14)	1,136,717
<b>Amortization</b>							
Softwares	20.00%	(466,205)	(61,465)	-	-	(2)	(527,670)
Other	20.00%	(29,805)	(15,287)	-	-	-	(45,092)
		(496,010)	(76,752)	-	-	(2)	(572,762)
<b>Intangible assets, net</b>		<b>600,007</b>	<b>16,858</b>	<b>-</b>	<b>(52,910)</b>	<b>(16)</b>	<b>563,955</b>

## 20. LOANS AND FINANCING

	Parent Company and Consolidated								
	Maturity		Effective rate	12/31/2016		12/31/2015		Restated* 01/01/2015	
				Current	Non-current	Current	Non-current	Current	Non-current
	Start	End	p.a.						
<b>Foreign currency - US\$</b>									
Working capital	09/2016	09/2017	Libor +2.45%	650,445	-	-	-	-	-
Senior bonus - Tam Capital 1	04/2007	04/2017	7.61%	990,215	-	12,958	1,170,560	8,815	794,465
Senior bonus - Tam Capital 2	10/2009	06/2015	9.50%	-	-	-	-	29,979	789,630
Senior bonus - Tam Capital 3	06/2011	06/2021	8.51%	9,522	1,621,931	9,592	1,940,600	6,526	1,318,257
<b>Local currency - R\$</b>									
Credit card anticipation	-	-	26.87%	-	-	-	-	121,805	-
				<b>1,650,182</b>	<b>1,621,931</b>	<b>22,550</b>	<b>3,111,160</b>	<b>167,125</b>	<b>2,902,352</b>



### Working capital

As of September 27, 2016, Company entered into a loan for working capital purposes, in the amount of US\$200,000; equivalent to R\$647,000. Such transaction bears nominal interest equivalent to LIBOR+2.15% p.a., with quarterly payments and principal amortization due in twelve months. Such operation, was guaranteed through lien of Multiplus shares of Company's property, in a proportion of 2:1 of the loan total amount, in case Multiplus shares reach a minimum price level, the collateral should be replaced. Consequently, observing such condition, in November the Company granted investment in CDB in the amount of R\$244,446, as explained in note 9, and as disclosed in note 33, on March 9, 2017, the Company granted an additional amount of R\$91,651 of collateral, both duly accounted for as restricted cash.

Simultaneously, the Company acquired non-deliverable forward ("NDF") assets, in the amount correspondent to US\$200,000, in order to eliminate the impact of exchange rate variation of this loan contract. Additionally, also related to this transaction Company acquired an asset position of interest rate swap LIBOR+2.45% p.a. and a liability position bearing interest of 116.2% of CDI. All transactions have its effects accounted for through the statement of income.

### Bonus senior - TAM Capital 1

As of 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 Securities and Exchange Commission ("SEC") on October 30, 2007. The issuance costs amount to R\$13,200.

### Bonus senior - TAM Capital 3

As of June 03, 2011 TAM Capital 3 Inc. concluded the offer for 5,000 senior 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. (effective 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 senior 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 senior bonuses. Transaction rate of cost raising of R\$10.1 million.



## 21. FINANCE LEASE OBLIGATIONS

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

### 21.1 Finance leasing

The subsidiary TLA contracts financial leasing for hardware, 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:

	Future cash flow	Present value of minimum payments	Consolidated		
			12/31/2016	12/31/2015	01/01/2015
Less than 1 year	274,394	45,638	<b>228,756</b>	476,136	413,736
Between 1 and 5 years	1,193,655	131,369	<b>1,118,686</b>	1,738,661	979,171
More than 5 years	136,517	335	<b>136,182</b>	276,370	<u>745,427</u>
			<b>1,483,624</b>	<b>2,491,167</b>	<b>2,138,334</b>
		Current	<b>228,756</b>	476,136	413,736
		Non-current	<b>1,254,868</b>	2,015,031	1,724,598

The Company maintains control of the leased assets with are set forth below:

	Average depreciation rate p.a.	Parent Company and Consolidated		
		12/31/2016	12/31/2015	01/01/2015
Cost				<b>Restated*</b>
Aircrafts	-	<b>327,299</b>	2,229,387	2,647,994
Engines	-	<b>177,115</b>	575,189	278,670
		<b>504,414</b>	2,804,576	2,926,664
Depreciation				
Aircrafts	10%	<b>(59,398)</b>	(1,290,421)	(1,305,649)
Engines	12%	<b>(85,153)</b>	(209,500)	(86,789)
		<b>(144,551)</b>	(1,499,921)	(1,392,438)
Net assets		<b>359,863</b>	1,304,655	1,534,226

For these leases were offered letters of credit issued by the Company in the amount of R\$80,161 and guarantee deposits in the amount of R\$243,168 on December 31, 2016 (R\$178,043 on December 31, 2015).

Contracts conditions related to renewal, adjustment and purchase option are equivalent to market practices. Moreover, there are no contingent payments clauses, or relating to dividend distribution restriction, interest payments on own equity or additional debt funding.



As of December 31, 2016, the subsidiary TLA has 12 aircraft (21 aircraft on December 31, 2015 and 26 on January 1, 2015), acquired through finance leases.

The decrease in the number of finance lease aircrafts is a consequence of Management plan of reducing exchange rate variation exposure related to US\$. Hence, finance lease were transferred to LATAM and subsequently, leased as operating leasing agreements.

## 21.2 Operating leasing

The subsidiary TLA assumed non-cancellable operating leasing operations of 157 aircraft and 40 engines and 1 auxiliary power unit ("APU") on December 31, 2016 (139 aircraft and 28 engines on December 31, 2015 and 131 aircraft and 4 engines on January 1, 2015). These contracts terms are average 60 months length and are denominated in 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 amounting R\$2,227,701 in the year ended on December 31, 2016 (R\$2,042,466 on December 31, 2015). The increase of the expense is mainly due to Company' strategy of leasing aircraft from its Parent Company, as disclosed in note 1.1.

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

	Parent Company and Consolidated		
	12/31/2016	12/31/2015	01/01/2015
Less than 1 year	1,840,705	1,648,349	1,489,369
Between 1 and 5 years	1,230,148	1,325,660	1,339,596
More than 5 years	77,437	184,213	287,096
	<b>3,148,290</b>	<b>3,158,222</b>	<b>3,116,061</b>

## 22. TRADE ACCOUNTS PAYABLE

	Parent Company			Consolidated		
	12/31/2016	12/31/2015	01/01/2015	12/31/2016	12/31/2015	01/01/2015
Third parties suppliers	148	876	-	1,658,953	1,662,389	1,238,245
Related parties	95,267	98,235	740	3,307,360	3,228,256	1,343,463
	<b>95,415</b>	<b>99,111</b>	<b>740</b>	<b>4,966,313</b>	<b>4,890,645</b>	<b>2,581,708</b>

The variation of the balance is mainly related to the appreciation of R\$ against US\$.



### 23. DEFERRED REVENUE

As of December 31, 2016, the balance of transport to provide classified in current liabilities, of R\$2,241,960 (R\$2,270,613 as of December 31, 2015 and R\$2,060,538 as of January 1, 2015).

Passenger deferred revenue is represented by 5,183,475 tickets sold and unused (2,201,606 in December 31, 2015 and R\$2,050,807 on January 1, 2015) with an average term for utilization of 63 days (66 days on December 31, 2015 and 40 days on January 1, 2015).

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 24 months. At Multiplus, points expire two years after the date of issue. As of December 31, 2015, the balance of the deferred revenue of points classified in current liabilities totals R\$1,277,917 (R\$1,350,467 on December 31, 2015).

Deferred revenue also comprises sales of tourism packages arranged by LATAM Travel.

### 24. PROVISION FOR TAX, CIVIL AND LABOR RISKS

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

The Company classifies the risk of unfavorable decisions in the legal claims as "probable", "possible" or "remote". The provisions recorded relating to such claims were determined by the Company's Management based on legal advice and reasonably reflect the estimated probable losses.

The Company'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 claims, as presented below.



## 24.1 Provision for contingencies probable losses

	Parent Company					
	Restated* 12/31/2015	Provisions	Reversals	Payments	Price index update	12/31/2016
Labor	287	-	(287)	-	-	-
	287	-	(287)	-	-	-
	Parent Company Restated*					
	01/01/2015	Provisions	Reversals	Payments	Price index update	Restated* 12/31/2015
Labor	287	-	-	-	-	287
	287	-	-	-	-	287
	Consolidated					
	Restated* 12/31/2015	Provisions	Reversals	Payments	Price index update	12/31/2016
Aircraft workers reserve	314,727	-	-	-	27,277	342,004
Tax and social security	217,324	25,720	(41,167)	-	16,103	217,980
Civil	160,417	122,751	(73,561)	(25,568)	5,965	190,004
Labor	73,014	179,803	(142,092)	(27,741)	1,319	84,303
	765,482	328,274	(256,820)	(53,309)	50,664	834,291
	Consolidated Restated*					
	01/01/2015	Provisions	Reversals	Payments	Price index update	Restated* 12/31/2015
Aircraft workers reserve	304,160	-	-	-	10,567	314,727
Tax and social security	203,498	12,552	(29,952)	-	31,226	217,324
Civil	170,593	62,937	(9,306)	(63,807)	-	160,417
Labor	69,819	40,640	(28,850)	(8,595)	-	73,014
	748,070	116,129	(68,108)	(72,402)	41,793	765,482

### 24.1.1 Aircraft workers reserve

TLA initiated a judicial claim in order to prevent the cash 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 monthly payments as judicial deposits.

As of December 31, 2016 the provision related to this claim amounted to R\$342,004 (R\$314,727 on December 31, 2015 and R\$304,447 on January 1, 2015), whereas, the judicial deposits amounted to R\$375,659 on December 31, 2016 (R\$341,205 on December 31, 2015 and R\$260,223 on January 1, 2015).



### 24.1.2 Tax contingencies

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 challenged by the Internal Revenue Service authorities. As of December 31, 2016, the balance of the provision related to this claims amount to R\$150,914 (R\$138,296 as of December 31, 2015 and R\$127,437 as of January 1, 2015).

The remaining claims do not have individual significant amounts.

### 24.1.3 Civil contingencies

During 2009, the subsidiary ABSA received a penalty, from the Secretary of economic rights (Secretaria de Direito Economico "SDE") and, subsequently, by Brazilian antitrust council (Conselho Administrativo de Defesa Econômica "CADE"). The subsidiary was required to pay a penalty for R\$114,134.

According to Company's external advisors, there is a chance of reducing the amount in approximately 60%, based on *ne bis in idem* criteria, which ensures the impossibility of punitive double charges. As of December 31, 2016 the provision amounted R\$38,097 (R\$32,710 as of December 31, 2015 and January 1, 2015).

The remaining claims do not have individual significant amounts.

## 24.2 Contingencies classified as a risk of possible loss

The Company and its subsidiaries are 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. The balances related to such contingencies, are set forth below:

	<b>Consolidated</b>		
	<b>Restated*</b>		
	<b>12/31/2016</b>	12/31/2015	01/01/2015
Tax	<b>2,135,733</b>	1,353,742	1,045,469
Labor	<b>942,407</b>	923,236	702,670
Civil	<b>188,024</b>	138,767	159,130
	<b><u>3,266,164</u></b>	<u>2,415,745</u>	<u>1,907,269</u>



The increase in the balance of contingencies assessed as a risk of possible loss is due to the reassessment of claims previously assessed as remote risk. The details of the main disputes are presented as follows:

### 24.2.1 Tax contingencies

#### 24.2.1.1 Services tax

The Company received a tax note from São Paulo Municipality pledging the payment of services tax over the intermediation of tourism packages that its subsidiary LATAM Travel commercializes, however, the Company understanding is that the revenue is related to the intermediation and not sales. As of December 31, 2016 the total amount of the claim correspond to R\$330,417 (R\$292,094 as of December 31, 2015).

#### 24.2.1.2 PIS and COFINS

As of August 19, 2014, the Brazilian Federal Revenue Service issued a tax notice in the amount of R\$175,886, claiming that the offset credits of PIS and COFINS 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. As of December 31, 2016 the total amount of this claim correspond to R\$227,474 (R\$204,398 on December 31, 2015).

TAM Linhas Aéreas contests judicially the notice of breach issued by the Brazilian Federal Revenue Service, in the amount of R\$141,253 related to offset credits related to PIS and COFINS. The statement of compliance presented by the Company was overruled, reason why a voluntary appeal was filed by the Management, pending judgment. As of December 31, 2016 the total amount of this claim corresponds to R\$199,365 (R\$180,833 as of December 31, 2015).

#### 24.2.1.3 Import tax ("II") and Excise tax ("IPI")

During 2005 and 2006, the subsidiary ABSA, received a tax notice in the amount of R\$36,305 alleging not paying taxes and penalties related to importing and excise taxes. The Company initiated an invalidation action, which is pending judgment, Company is pledging the illegitimacy of the notice since it did not transported the material mentioned in the notice, as well as, not charging the carrier for taxes over astray products. In 2015, Government started a fiscal execution for collecting the taxes, still pending of decision by courts. As of December 31, 2016 the total amount of this claim corresponded to R\$48,805.





### 24.2.2 Labor contingencies

During 2014, the Company was notified by the Labor Ministry, which alleges several irregularities over working hour's controls of employees. The claim is related to payment of overtime, intervals between journeys, additional due to night shifts, etc. The Company presented its allegations and the claim is pending judgment. As of December 31, 2016 the total amount involved is R\$53,077.

During 2016 Labor Ministry, notified the Company requiring changes in the workplace to comply with current law requirements related to ergonomics conditions of A-330 aircraft, in order to make available totally horizontal seats and isolated for crew rotation. Claim is still pending judgment. As of December 31, 2016 the total amount involved is R\$52,115. From April 2016, the Company terminates the operation with A-330.

During 2012, the Aircraft workers union filed a collective claim of former employees in complaint for work conditions and related additional compensation. ABSA was recurred on the primary court decision, the current exposure for losses are R\$30,166.

### 24.2.3 Civil contingencies

Among the civil claims assessed by Management and external counsels, there is no individual significant amounts.

### 24.2.4 Other

#### 24.2.4.1 Additional airport fees

During 2001, Company initiated a joint claim together with other airlines seeking for extinguishment of additional airport fees ("ATAERO"), and the reversal and refund to the amounts paid. However, in 2006, due to an unfavorable outcome, the assessment was changed to possible risk. It is important to note that the Company never defaulted on the payment of such fees, and is still pledging the extinguishment; in case the outcome be unfavorable to the Company, it has to pay the public attorney's fees. As of December 31, 2016 the amount attributed to the joint claim correspond to R\$4,981,295.

#### 24.2.4.2 CSLL

As of December 15, 2009, the Company received a tax notice in the amount of R\$72,435, in which the Internal Revenue Service, pledges the exclusion of certain expenses for determining the income taxes, referring to the years from 2004 to 2007. In the administrative court, Company was condemned to pay the taxes. As of December 31, 2016 the amount of such claim correspond to R\$125,001.



## 25. MAINTENANCE PROVISION

	<b>Consolidated</b>		
	<b>12/31/2016</b>	12/31/2015	<b>Restated*</b> 01/01/2015
Maintenance provision	<b>1,155,524</b>	1,672,767	1,346,229
	<b>1,155,524</b>	1,672,767	1,346,229
Current	<b>556,162</b>	699,781	527,867
Non-current	<b>599,362</b>	972,986	818,362

## 26. POST-EMPLOYMENT BENEFITS

According to the assessment made by actuaries for the fiscal years ended December 31, 2016 and 2015 there are neither liabilities nor expenses to be recorded.

As of January 1, 2015, the balance of liabilities related to post-employment benefits corresponded to R\$59,262, which was totally reverted during the current fiscal year, net of the amount recorded in other comprehensive income R\$8,777. The reversal was a consequence of a change in the medical plan offered by the Company to its employees. The main change was the co-participation of the employees in the cost of the plan, thus allowing a bigger portion of them to enroll in the plan.

## 27. SHAREHOLDERS' EQUITY

### 27.1 Capital

As of December 31, 2016, Company's capital subscribed and paid by correspond to 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 fiscal year.

### 27.2 Appropriated retained earnings

#### 27.2.1 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.



### 27.2.2 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 whose operations under protection have not been recognized in the P&L 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. 11638/07, IFRS 1 and CPC 13 Statement - First-time Adoption of Law no. 11638/07, the Group adopted the revaluated residual amount on December 31, 2007 as the new cost amount for the revaluated items. The realization of the revaluation reserve occurs in the same proportion of the related depreciation, disposal or sale of the asset, against the statement of income.

## 28. SHARE BASED PAYMENT

Ø 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 is 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 does not have any amounts payable in the future.



### Ø Multiplus

The share-based payment is measured by the fair value of equity instruments at the granting date. Expenses are recognized during the vesting period and which the benefit is exercised, and reflected on equity. Company's share-based benefits are as follows:

#### (i) Stock option program (in equity bonds)

In the Extraordinary General Meeting held on October 4, 2010, the shareholders of the Company approved the maximum dilution of 3% (three percent) of the number of stocks in outstanding shares 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 December 31, 2015.

	<b>Number of options outstanding</b>	<b>Fiscal year average price</b>
Beginning balance	<b>518,507</b>	<b>42.70</b>
Exercised	<b>(22,841)</b>	<b>32.75</b>
Forfeited	<b>(100,968)</b>	<b>48.49</b>
<b>Ending balance</b>	<b>394,698</b>	<b>42.48</b>

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.



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As of December 31, 2016, assumptions used to determine the fair value of granted options were the following:

	1st granting	2nd granting	3rd granting	4th granting	1st extraordinary granting	2nd extraordinary granting	3rd extraordinary granting	4th extraordinary granting	Total
Granting date	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	30/06/2011	06/30/2011	N/A	N/A	
Quantity of shares	98,391	36,799	378,517	566,491	1,370,999	154,570	62,046	205,575	2,873,388
Exercise price granting date after the modification	23.61	27.83	31.41	38.59	12.28	16.28	31.41	26.50	
Risk free rate	12.15 %	12.15 %	10.3 %	7.16 %	12.15 %	11.88 %	8.86 %	8.99 %	
Income expected from dividend	2.6 %	2.6 %	4.17 %	4.49 %	2.6 %	2.59 %	4.17 %	4.96 %	
Share's volatility	33.79 %	33.79 %	32.78 %	34.56 %	33.79 %	34.24 %	32.78 %	34.59 %	
Share's price at granting date - R\$	26.90	31.55	38.36	30.60	26.90	26.90	38.36	28.00	
Share's market price on the date of last modification - R\$	27.20	27.20	N/A	N/A	27.20	27.10	N/A	N/A	
Fair value of option on the granting date - R\$	11.58	14.06	14.68	6.53	16.91	10.53	13.86	7.80	
Option fair value on the modification date - R\$	12.17	10.71	N/A	N/A	17.35	14.29	N/A	N/A	
Fiscal year average adjusted price - 12/31/2016	-	-	43.75	49.54	-	-	-	32.75	
Quantity of outstanding options - 12/31/2016	-	-	84,249	173,399	-	-	-	137,050	394,698
Valuation of the outstanding options - 12/31/2016 - R\$	-	-	3,685,894	8,590,186	-	-	-	4,488,388	16,764,468

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



## (ii) Restricted shares plan (liquidation in equity bonds)

As of March 8, 2016, the Board of Directors resolved upon and approved granting option plans of restricted shares, in the total of 91,103 common shares, nominative, registered, and without par value, issued by the Company and granted to the beneficiaries.

Such shares will be bought by Multiplus in the market and delivered to its employees at liquidation, as a consequence, the subsidiary has been recording expenses against capital reserves, which will be used for future shares purchase. The expense is calculated thought the present value of the exercise price times the quantity of shares for the length of the plan.

In this plan, beneficiaries are entitled to all rights over restricted shares when fulfilling cumulatively, the following conditions:

- Ø Achievement of the performance goal set forth by this Board as the return on invested capital; and
- Ø 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 2<sup>nd</sup> anniversary of the granting date; (ii) 1/3 (one third) after the 3<sup>rd</sup> anniversary of the granting date; and (iii) 1/3 (one third) after the 4<sup>th</sup> anniversary of the granting date.

Rollforward of restricted shares during 2016:

	<b>Number of shares</b>
Beginning balance	<u>175,910</u>
Granted	<b>138,282</b>
Exercised	<b>(15,811)</b>
Forfeited	<b>(60,525)</b>
<b>Ending balance</b>	<u><u>237,856</u></u>



## 29. RELATED PARTIES

In the course of Company's business, rights and obligations with related parties arises, originated from services, loans, etc. hired in arm's length conditions. All transactions are based on agreements.

### 29.1 Operational agreements

As of December 10, 2009, an operational agreement was signed between the subsidiaries Multiplus and TLA which established the conditions of transaction to be operated between them:

- Ø Continuity of the rights and benefits of TLA' customers, that are enrolled in the frequent flyer program; and
- Ø Redemption of points by the member of the program through the Multiplus commercial net. Established the conditions for purchasing and selling points and flight tickets, use of the customers' data in the management of TAM frequent flyer program and its considerations.

### 29.2 Shared services agreement

During 2016, Multiplus paid to TLA R\$700 (R\$1,687 in 2015) related to administrative and IT services.

### 29.3 Asset positions with related parties

	Parent Company			Consolidated		
	12/31/2016	12/31/2015	01/01/2015	12/31/2016	12/31/2015	01/01/2015
Current assets						
Trade accounts receivables						
LATAM Airlines Group S.A.						
LAN Chile Cargo S.A.						
Aerotransportes Más de Cargas. S.A.						
LAN Argentina S.A.						
LAN Peru S.A.						
Other related parties						
Total current assets						
Non-current assets						
Loans						
LATAM Airlines Group S.A.						
Total non-current assets						
Total assets						

Intercompany loans are summarized below:

As of June 13, 2013, TAM Capital 1 Inc. entered into an intercompany loan with LATAM Airlines Group S.A, in the amount of US\$236,370, correspondent to R\$506,943. Nominal interest rate of this transaction is 4.25% p.a. As of December 31, 2016 total balance corresponds to R\$733,130 (R\$913,282 on December 31, 2015 and R\$632,959 on December 31, 2014).



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As of September 27, 2013, TAM Capital 1 Inc. entered into an intercompany loan with LATAM Airlines Group S.A, in the amount of US\$70,000, correspondent to R\$157,416. Nominal interest rate of this transaction is 4.50% p.a. As of December 31, 2016 total balance correspond to R\$230.162 (R\$275,762 on December 31, 2015 and R\$187,561 on December 31, 2014).

As of June 20, 2013, TAM Capital 3 Inc. entered into an intercompany loan with LATAM Airlines Group S.A, in the amount of US\$359,803, correspondent to R\$157,416. Nominal interest rate of this transaction is 5.75% p.a. As of December 31, 2016 total balance correspond to R\$1,075,316 (R\$1,344,929 on December 31, 2015 and R\$950,110 on December 31, 2014).

As of June 24, 2013, TAM Capital 3 Inc. entered into an intercompany loan with LATAM Airlines Group S.A, in the amount of US\$138,968, correspondent to R\$312,886. Nominal interest rate of this transaction is 5.75% p.a. As of December 31, 2016 total balance correspond to R\$455,224 (R\$545,241 on December 31, 2015 and R\$370,895 on December 31, 2014).

As of June 17, 2013, TAM Capital 2 Inc. entered into an intercompany loan with LATAM Airlines Group S.A, in the amount of US\$300,000, correspondent to R\$646,140. Nominal interest rate of this transaction is 5.75% p.a. The loan was fully amortized during 2016 (R\$2,953 on December 31, 2015 and R\$869,243 on December 31, 2014).





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29.4 Liability position with related parties

		<b>Consolidated</b>		
		<b>Restated*</b>		
		<b>12/31/2016</b>	<b>12/31/2015</b>	<b>01/01/2015</b>
<b>Current liabilities</b>				
<b>Trade accounts payable</b>				
LATAM Airlines Group S.A.	Parent Company	<b>2,433,229</b>	2,309,838	505,294
LAN Chile Cargo S.A.	Other related parties	<b>560,128</b>	523,823	436,718
LAN Argentina S.A.	Other related parties	<b>70,072</b>	85,433	181,515
Linhas Aéreas Cargas	Other related parties	<b>155,745</b>	239,496	174,554
Aerotransportes Más de Cargas. S.A.	Other related parties	<b>17,755</b>	16,714	13,204
LAN Peru S.A.	Other related parties	<b>24,101</b>	17,869	8,601
Other related parties	Other related parties	<b>46,330</b>	35,083	23,577
		<b>3,307,360</b>	<b>3,228,256</b>	<b>1,343,463</b>
<b>Other</b>				
LAN Cargo Overseas Limited	Other related parties	<b>2,978</b>	-	3,851
Aerotransportes M. de C. S.A.	Other related parties	<b>4,725</b>	-	2,976
		<b>7,703</b>	-	<b>6,827</b>
<b>Total liabilities</b>		<b>3,315,063</b>	<b>3,228,256</b>	<b>1,350,290</b>



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## 29.5 Transactions with related parties

		<b>Consolidated</b>		
		<b>Restated*</b>		
		<b>12/31/2016</b>	<b>12/31/2015</b>	<b>01/01/2015</b>
<b>Revenue from cargo services</b>				
LATAM Airlines Group S.A.	Parent Company	<b>451,421</b>	443,728	-
LAN Cargo S.A.	Other related parties	<b>64,500</b>	95,666	-
LAN Chile S.A.	Other related parties		-	43,788
LAN Chile Cargo	Other related parties		-	8,029
AeroLANe (Chile)	Other related parties		(155)	-
Aerotransportes Más de Cargas. S.A.	Other related parties	<b>9,077</b>	7,203	-
Aerolíneas Brasileñas S.A (ABSA)	Subsidiary		(1,920)	-
Lineas Aereas Nacionales	Other related parties	<b>(24)</b>	51,427	-
Other related parties	Other related parties	<b>6,655</b>	-	-
<b>Other operating revenues</b>				
LAN Argentina S.A.	Other related parties	<b>1,822</b>	1,332	-
LATAM Airlines Group S.A.	Parent Company	<b>11,156</b>	49,843	-
LAN Peru S.A.	Other related parties	<b>3,199</b>	3,197	-
Aerovías de Integración Regional (Aires S.A)	Other related parties	<b>1,421</b>	1,593	-
LAN Cargo S.A.	Other related parties	<b>4,152</b>	2,932	-
Linea Aerea Carguera de Colombia	Other related parties	<b>2,502</b>	-	-
Aerotransporte Mas de Carga S.A	Other related parties	<b>5</b>	-	-
<b>Other operating expenses</b>				
LATAM Airlines Group S.A.	Parent Company	<b>(324,659)</b>	(414,580)	-
LAN Cargo S.A.	Other related parties	<b>(102,566)</b>	(117,154)	-
Lineas Aereas Nacionales	Other related parties	<b>(30,826)</b>	(56,636)	-
LAN Cargo Repair Station	Other related parties	<b>(13,449)</b>	(14,768)	-
LAN Argentina S.A.	Other related parties	<b>(11,472)</b>	(8,823)	-
Other related parties	Other related parties	<b>(17,174)</b>	(13,838)	-
<b>Leasing</b>				
LATAM Airlines Group S.A.	Parent Company	<b>(1,694,054)</b>	(1,234,171)	(663,921)
Other related parties	Other related parties	<b>17,277</b>	-	-
<b>Financial result</b>				
LATAM Airlines Group S.A.	Parent Company	<b>(258,786)</b>	1,405,177	144,228
LAN Argentina S.A (Aero 2000 S.A)	Other related parties	<b>(832)</b>	28,062	-
LAN Cargo S.A.	Other related parties	<b>(6,228)</b>	7,926	-
Lineas Aereas Nacionales	Other related parties	-	2,035	-
Andes Airport Services S.A.	Other related parties	-	470	-
LAN Cargo Repair Station	Other related parties	-	(2,940)	-
Aerotransportes Más de Cargas. S.A.	Other related parties	-	(1,070)	-
Other related parties	Other related parties	<b>4,838</b>	(3,064)	-



## 29.6 Key-personnel remuneration

Management key-personnel comprise Board of Directors members, chief executive officer, vice-presidents and statutory directors, totalizing 8 people (6 people on December 31, 2015 and 5 people on January 1, 2015). The expenses with key-personnel remuneration for the year ended December 31, 2016 totaling R\$12,257 (R\$15,739 on December 31, 2015).

## 30 OPERATING REVENUE

The breakdown of the operating revenue is presented as follows:

	<b>Consolidated</b>	
	<b>12/31/2016</b>	12/31/2015
Passenger revenue	<b>12,864,521</b>	13,392,941
Cargo transport	<b>1,392,717</b>	1,707,457
Loyalty program (Multiplus)	<b>824,110</b>	738,171
Other revenue	<b>966,039</b>	535,194
Gross revenue	<b>16,047,387</b>	16,373,763
Taxes and other deductions	<b>(717,433)</b>	(768,998)
Net operating revenue	<b>15,329,954</b>	15,604,765

Individually, no one of the Company's customers represents over 10% of its revenue at the year ended December 31, 2016.



### 31 STATEMENT OF INCOME BY NATURE

	<b>Consolidated</b>	
	<b>12/31/2016</b>	Restated* 12/31/2015
Cost of services rendered		
Personnel	<b>2,359,977</b>	2,469,942
Fuel	<b>3,324,065</b>	4,441,748
Depreciation and amortization	<b>364,278</b>	457,937
Maintenance and repairs	<b>1,093,797</b>	1,119,608
Aircraft insurance	<b>49,886</b>	49,390
Fares with taking off, landing, and navigation	<b>1,151,369</b>	1,148,181
Leasing	<b>2,227,701</b>	2,042,466
Third party services	<b>711,831</b>	744,399
Cost with purchase of points	<b>130,891</b>	-
Other	<b>1,156,167</b>	913,348
	<b>12,569,962</b>	13,387,019
Selling expenses		
Personnel	<b>182,308</b>	234,291
Depreciation and amortization	<b>16,287</b>	23,293
Third party services	<b>368,913</b>	420,363
Sales and marketing	<b>718,929</b>	808,540
Other	<b>105,956</b>	171,466
	<b>1,392,393</b>	1,657,953
General and administrative expenses		
Personnel	<b>305,800</b>	249,874
Depreciation and amortization	<b>89,102</b>	84,197
Third party services	<b>375,583</b>	314,689
Other	<b>425,219</b>	205,265
	<b>1,195,704</b>	854,025

### 32 OTHER INCOME (EXPENSES), NET

	<b>Consolidated</b>	
	<b>12/31/2016</b>	Restated* 12/31/2015
Revenues		
Extemporaneous credits of PIS, COFINS and INSS	-	198,000
Expenses		
Transfer of aircrafts to LATAM	<b>(425,041)</b>	(74,184)
Provision for assets available for sale (A330)	<b>(131,876)</b>	-
Provision for sale of materials	<b>(32,943)</b>	-
Other	<b>(32,266)</b>	-
	<b>(622,126)</b>	123,816



### 33 FINANCIAL INCOME (EXPENSES), NET

	Parent Company		Consolidated	
	12/31/2016	Restated* 12/31/2015	12/31/2016	Restated* 12/31/2015
Financial income				
Interest on related parties loan	-	-	123,789	337,536
Interest	2,605	5,571	105,393	99,153
Other financial	(320)	-	224,457	23,376
	<b>2,285</b>	5,571	<b>453,639</b>	460,065
Financial expenses				
Interest	-	-	(393,589)	(554,382)
Other	(213)	(2,052)	(118,019)	(99,819)
	<b>(213)</b>	(2,052)	<b>(511,608)</b>	(654,201)
Net exchange variation	10	(42)	746,561	(1,294,764)
Net financial result	<b>2,082</b>	3,477	<b>688,592</b>	(1,488,900)

### 34 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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, the Accounting Pronouncements Committee - CPC, has not yet approved these rules and consequently they have not yet been incorporated into the accounting practices adopted in Brazil. Therefore were 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 effective.

#### *IFRS 9 - "Financial instruments"*

As of 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 impairment 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.

As of November 4, 2016, the CPC issued the standard 48- Financial Instruments, hence, fully adopting IFRS 9. CFC approved such standard on December 22, 2016.

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



### *IFRS 15 - Revenue from Contracts with Customers*

IFRS 15 established 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 standard will be applicable from January 1, 2018. The standard might be adopted retrospectively, using an accumulated effect approach.

### *IFRS 16 - Leases*

As of January 2016, the IASB issued IFRS 16 - Leases, which establishes the principles for recognition, measurement and disclosure of the leases transactions. IFRS16 will be applicable to periods beginning on January 01, 2019. IFRS 16 determines that a significant portion of lease agreement, the lessee records an asset related to the rights of using the identified asset, as well as, a liability. CPC and CFC has not yet adopted such standard.

The Management is evaluating the impact of adopting IFRS 9, 15 and 16 over the financial statements. The Company has not determined yet the transition method to be adopted or the effects of the adoption.

## **35 APPROVAL OF THE FINANCIAL STATEMENTS**

The Board of Directors approved the financial statements on April 4, 2017.

## **36 SUBSEQUENT EVENTS**

### **36.1 Approval of joint business agreement between LATAM and IAG**

As of March 8, 21017, the CADE unanimously approved the commercial agreement between LATAM Group and International Airlines Group ("IAG") which is comprised of British Airways and Iberia.

The joint business agreement, which was announced in January 2016, is still under analysis of the competent authorities of different countries where the companies operate. CADE's approval is part of this process and represents an important milestone for the implementation.

Within its decision, CADE required LATAM Group to launch two new routes between Brazil and Europe. The wholly owned subsidiary TAM Linhas Aéreas will



operate such route, bringing expansion to our flights network and growth opportunities to our team. These new operations will improve the connectivity of the region and increase the number of travel alternatives among the regions. Moreover, it was required that the companies involved in this agreement shall grant some of its slots in the route Sao Paulo- London as well as enter into interline agreements with companies which will be willing to operate this route. Such agreements must have a duration between 7 and 10 years, period which an independent consultant will audit the compliance with such requirements.

### 36.2 Hiring of additional collateral for working capital loan

As disclosed in note 20, related to the working capital loan, the Company offered collaterals through the Multiplus' shares of its property in the proportion of 2:1 of the principal. It was established that in case Multiplus' shares price reached a minimum level, the collateral should be replaced. Consequently, on March 9, 2017, the Company acquired a CDB in the amount of R\$91.651 which was duly recorded as restricted cash, since it comprises the collateral of this operation.

### 36.3 Changes on management key personnel

As of March 22, 2017, Company's management announced changes in its organizational structure. Therefore, the TAM Linhas Aerea's current chief executive officer, Mrs. Claudia Sender Ramirez, from May 1, 2017, will be the Customer Senior Vice-Presidency for the entire Group and accumulate the position of chief executive officer of TAM S.A. Mr. Jerome Cadier, who has been in LATAM's Group for 4 years and currently is the Marketing Senior Vice-President will fulfill the presidency of TAM Linhas Aereas. The changes will be in place smoothly and represent a continuity of Company's strategy of reconquer the operation growth.

### 36.4 Payroll charges

As of March 30, 2017, Brazilian Federal Government, through an announcement made by the Economy Minister Mr. Henrique Meirelles, communicated the decision to terminate the program of benefits granted in 2011, whose the main purpose was to provoke the increase in employment rate in the country and improve competitiveness condition of the Brazilian companies.

The benefit is granted through the replacement of payroll charges of 20% for a fixed percentage of gross revenue correspondent to 1.5%. The payroll charges model will be legalized through a Provisional Measure, observing the term of 90 days to be adopted. Management expectation is that returning to payroll charges model will affect the Company from 2<sup>nd</sup> semester of 2017. Management is in process of estimating the financial impact of such measures.



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Maurício Rolim Amaro  
Board of Directors President

Enrique Cueto Plaza  
Board Member

Flavia Turci  
Board Member

Henri Philippe Reichstul  
Board Member

Inácio Cueto Plaza  
Board Member

Claudia Sender Ramirez  
Chief Executive Officer

Nelson M. Shinzato  
Chief Operations and Maintenance Officer

José Roberto Beraldo  
Chief Finance Officer

Renata Bandeira G. do Nascimento  
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