

TAM S.A. and subsidiaries
Financial Statements at
December 31, 2012

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(A free translation of the original version in Portuguese)

TAM S.A. and Subsidiaries
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TAM S.A. and subsidiaries**Balance sheet****Years ended December 31**

(Amounts expressed in thousands of reais)

	Note	Parent company	
		2012	2011
Assets			
Current			
Cash and cash equivalents	6	150	1,029
Financial assets at fair value through profit and loss	4.2	5,289	330,125
Dividends receivable	11	15,226	187,926
Taxes recoverable		2,593	2,593
Income tax and social contributions recoverable		37,840	40,570
Other accounts receivable		440	212
		<u>61,538</u>	<u>562,455</u>
Non-current			
Deferred income tax and social contributions	25	74,874	29,975
Related parties	11	182	4,618
Judicial deposits		909	547
Investments in subsidiaries	17	376,651	1,653,711
Property, plant and equipment		123	96
		<u>452,739</u>	<u>1,688,947</u>
Total asset		<u>514,277</u>	<u>2,251,402</u>
Liability			
Current			
Accounts payable		243	492
Financial liabilities	20		174,650
Salaries and social charges		6,154	3,862
Deferred income		6	
Taxes, charges and contributions		15,858	14,555
Dividends payable		861	864
Related parties	11	1,410	
Other accounts payable		70	27
		<u>24,602</u>	<u>194,450</u>
Non-current			
Provisions		287	120
Related parties	11		4,015
		<u>287</u>	<u>4,135</u>
Total liability		<u>24,889</u>	<u>198,585</u>
Equity			
Share capital	26	830,768	819,892
Capital reserve		147,771	140,414
Profit reserve (accumulated losses)		(1,054,551)	530,020
Carrying value adjustments		565,400	562,491
		<u>489,388</u>	<u>2,052,817</u>
Total liabilities and equity		<u>514,277</u>	<u>2,251,402</u>

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

TAM S.A. and subsidiaries**Balance sheet****Years ended December 31**

(Amounts expressed in thousands of reais)

	Note	2012	Consolidated 2011
Assets			
Current			
Cash and cash equivalents	6	654,553	650,081
Financial assets at fair value through profit and loss	4.2	897,428	1,684,932
Financial assets held to maturity	7	150,426	
Accounts receivable	8	1,545,318	1,819,011
Inventory	9	262,419	212,609
Taxes recoverable	10	114,680	421,008
Income tax and social contributions recoverable		117,494	72,948
Guarantee deposits	15	47,210	
Prepaid aircraft maintenance	16	251,962	
Prepaid expenses		210,876	121,978
Related parties	11	71,780	
Derivative financial instruments	13	3,315	27,222
Other accounts receivable	12	86,097	85,397
		4,413,558	5,095,186
Non-current assets held for sale	14	18,221	21,474
Non-current			
Restricted cash		59,965	93,824
Financial assets – bank deposits			138,009
Related parties	11	70,715	
Deferred income tax and social contributions	25	542,626	48,517
Guarantee deposits	15	35,077	57,014
Prepaid aircraft maintenance	16	301,006	547,862
Derivative financial instruments	13	2,286	8,627
Other asset accounts	12	38,272	46,771
Investments	17	4,369	
Property, plant and equipment	18	9,132,284	9,317,951
Intangible assets	19	599,126	609,994
		10,785,726	10,868,569
Total asset		15,217,505	15,985,229

The notes are an integral part of these financial statements.

TAM S.A. and subsidiaries**Balance sheet****Years ended December 31**

(Amounts expressed in thousands of reais)

	Note	2012	Consolidated 2011
Liability			
Current			
Accounts payable		840,872	645,680
Financial liabilities	20	2,250,932	1,998,000
Salaries and social charges		499,950	473,088
Deferred income	21	1,937,144	1,472,055
Taxes, charges and contributions		450,573	367,279
Income tax and social contributions payable			
Interest on own capital and dividends payable		861	18,418
Related parties	11	93,701	
Derivative financial instruments	13	48,772	27,238
Refinanced taxes payable under the fiscal recovery program	22	39,206	46,924
Other accounts payable	23	349,914	197,444
		<u>6,511,925</u>	<u>5,246,126</u>
Non-current			
Financial liabilities	20	6,665,761	7,166,656
Derivative financial instruments	13	13,267	43,935
Deferred income	21	188,422	207,803
Provisions	24	273,055	271,119
Refinanced taxes payable under the fiscal recovery program	22	423,186	436,394
Taxes, charges and contributions			3,809
Deferred income tax and social contributions	25		45,206
Other accounts payable	23	609,412	440,061
		<u>8,173,103</u>	<u>8,614,983</u>
Total liabilities		<u>14,685,028</u>	<u>13,861,109</u>
Equity			
Share capital	26	830,768	819,892
Capital reserve		147,771	140,414
Profit reserve (accumulated deficit)		(1,054,551)	530,020
Carrying value adjustments		565,400	562,491
		<u>489,388</u>	<u>2,052,817</u>
Non-controlling interest		43,089	71,303
Total equity		<u>532,477</u>	<u>2,124,120</u>
Total liability and equity		<u><u>15,217,505</u></u>	<u><u>15,985,229</u></u>

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

TAM S.A. and subsidiaries
Income statement
Year ended December 31

(Amounts expressed in thousands of reais)

	Note	Parent company		Consolidated	
		2012	2011	2012	2011
Revenue	31			13,695,589	12,994,486
Costs and operating expenses	32	(160,094)	(43,992)	(14,333,979)	(12,017,429)
Equity share in the results of investees		(1,144,263)	(290,846)	(2,203)	
Operating profit before movements in the fair value of fuel derivatives		(1,304,357)	(334,838)	(640,593)	977,057
Movements in fair value of fuel derivatives				(31,018)	40,828
Operating profit		(1,304,357)	(334,838)	(671,611)	1,017,885
Finance income	34	22,668	31,354	2,281,365	2,941,572
Finance costs	34	(8,351)	(46,024)	(3,235,878)	(4,135,770)
Derivatives designated as cash flow hedges	4.1.1			17,715	(6,584)
Loss before income tax and social contributions		(1,290,040)	(349,508)	(1,608,409)	(182,897)
Income tax and social contributions	26 (a)	44,899	14,444	424,227	(78,616)
Loss for the year		(1,245,141)	(335,064)	(1,184,132)	(261,513)
Attributable to					
Equity shareholders of TAM S.A.				(1,245,141)	(335,064)
Non-controlling interest				61,009	73,551

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

TAM S.A. and subsidiaries
Statement of comprehensive income
Year ended December 31

(Amounts expressed in thousands of reais)

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Loss for the year	(1,245,141)	(335,064)	(1,184,132)	(261,513)
Other comprehensive income (loss):				
Currency translation gains (losses) on foreign operations, no tax	6,685	2,265	7,038	2,385
Cash flow hedges	(73)	(39,141)	(298)	(53,515)
Cash flow hedges – realized	(3,572)	1,229	(4,896)	1,680
Deferred income tax and social contribution effects	1,239	12,890	1,766	17,624
	(2,406)	(25,022)	(3,428)	(34,211)
Other comprehensive income (loss) for the year	4,279	(22,757)	3,610	(31,826)
Total comprehensive income (loss) for the year	(1,240,862)	(357,821)	(1,180,522)	(293,339)
Attributable to:				
Equity shareholders of TAM S.A.			(1,240,862)	(357,821)
Non-controlling interest			60,340	64,482

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

TAM S.A. and subsidiaries
Statement of changes in equity
Year ended December 31
(Amounts expressed in thousands of reais)

	Attributable to equity shareholders of TAM						Non-controlling interest	Total
	Capital	Capital Reserve (Note 27)	Profit Reserve (Note 28)	Carrying value adjustment (Note 29)	Accumulated deficit	Total		
As at December 31, 2010	819,892	120,605	895,592	585,824		2,421,913	205,478	2,627,391
Loss for the year					(335,064)	(335,064)	73,551	(261,513)
Other comprehensive income (loss):								
Foreign exchange losses on foreign operations, no tax				2,265		2,265	120	2,385
Cash flow hedges				(39,141)		(39,141)	(14,374)	(53,515)
Cash flow hedges – realized				1,229		1,229	451	1,680
Deferred income tax and social contribution effects				12,890		12,890	4,734	17,624
Total comprehensive income (loss):				(22,757)	(335,064)	(357,821)	64,482	(293,339)
Transactions with owners:								
Capital reduction of Multiplus – cash paid to non-controlling interests							(160,984)	(160,984)
Capital increase of Multiplus by non-controlling shareholders				905		905	446	1,351
Realization of deemed cost reserves				(1,481)	1,481			
Dividends distributed by TAM- R\$ 193.83 (per thousand shares outstanding)			(30,277)			(30,277)		(30,277)
Dividends of Multiplus to non-controlling interests – Paid (R\$ 22,023) and recorded but not yet paid (R\$ 18,444)							(40,467)	(40,467)
Dividends of TAM Airlines declared to non-controlling interests							(315)	(315)
Share-based payment		16,360				16,360	2,663	19,023
Acquisition of treasury shares		(1,879)				(1,879)		(1,879)
Sale of treasury shares		5,328			(1,712)	3,616		3,616
Absorption of losses with profits reserve			(335,295)		335,295			
Total of transactions with owners		19,809	(365,572)	(576)	335,064	(11,275)	(198,657)	(209,932)
As at December 31, 2011	819,892	140,414	530,020	562,491		2,052,817	71,303	2,124,120

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

TAM S.A. and subsidiaries
Statement of changes in equity
Years ended December 31
(Amounts expressed in thousands of reais)

	Attributable to equity shareholders of TAM					Non-controlling interest	Total	
	Capital	Capital reserve	Profit reserve	Carrying value adjustment	Accumulated deficit			Total
As at December 31, 2011	819,892	140,414	530,020	562,491		2,052,817	71,303	2,124,120
Loss for the year					(1,245,141)	(1,245,141)	61,009	(1,184,132)
Other comprehensive income (loss):								
Foreign exchange loss on foreign operations, no tax				6,685		6,685	353	7,038
Cash flow hedges				(73)		(73)	(225)	(298)
Cash flow hedges – realized				(3,572)		(3,572)	(1,324)	(4,896)
Deferred income tax and social contribution effects				1,239		1,239	527	1,766
Total comprehensive income (loss):				4,279	(1,245,141)	(1,240,862)	60,340	(1,180,522)
Transactions with owners:								
Capital increase – Note 26	10,876					10,876		10,876
Dividends from Multiplus declared to non-controlling interests							(93,897)	(93,897)
Capital increase in Multiplus by non-controlling shareholders				6,034		6,034	3,131	9,165
Write-off of deemed cost reserve - lands				(5,907)		(5,907)		(5,907)
Realization of deemed costs reserve				(1,497)	1,497			
Share-based payment		11,097				11,097	2,212	13,309
Share-based payment – transfer to liabilities (Note 30)		(6,299)				(6,299)		(6,299)
Cancellation of treasury shares		2,559	3,790			6,349		6,349
Cancellation of shares outstanding			(344,717)			(344,717)		(344,717)
Absorption of profit reserve with losses for the year			(189,093)		189,093			
Total of transactions with owners	10,876	7357	(530,020)	(1,370)	190,590	(322,567)	(88,554)	(411,121)
As at December 31, 2012	830,768	147,771		565,400	(1,054,551)	489,388	43,089	532,477

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

TAM S.A. and subsidiaries
Statement of cash flows – indirect method
Years ended December 31

(Amounts expressed in thousands of reais)

	2012	Parent company 2011
Loss for the year	(1,245,141)	(335,064)
Adjustments to income		
Deferred income tax and social contributions (Note 25)	(44,899)	(14,444)
Depreciation and amortization	18	1
Interest and exchange rate fluctuations on assets and liabilities	4,741	31,445
Equity share in the results of investees	1,144,263	290,846
Provisions	168	90
Changes in working capital		
Financial assets at fair value through profit or loss	324,836	(204,220)
Taxes recoverable	306	(291)
Judicial deposits	(362)	(373)
Related parties	1,637	(8,956)
Others accounts receivable	(229)	131
Trade accounts payable	(249)	470
Salaries and social charges	2,292	1,014
Taxes, charges and contributions	1,303	2,519
Deferred income	6	
Others accounts payable	40	(5)
Cash generated from (used in) operating activities	188,730	(236,837)
Interest paid	(12,727)	(37,920)
Net cash generated from (used in) operating activities	176,003	(274,757)
Cash flow from investment activities		
Capital increase	10,876	
Disposal of shares of Multiplus - exercise of options	6,034	
Advances on future capital increases	(112,000)	
Capital reduction of Multiplus		439,030
Acquisition of treasury shares		(1,879)
Dividends and interest on own capital received	423,282	69,329
Purchases of property, plant and equipment	(39)	(96)
Net cash generated from investment activities	328,153	506,384
Cash flow from financing activities		
Disposal of shares - exercise of options	6,349	3,616
Cancelation of shares outstanding	(344,717)	
Dividends and interest on own capital		(181,460)
Debentures - payments	(166,667)	(166,667)
Net cash used in financing activities	(505,035)	(344,511)
Decrease in cash and cash equivalents	(879)	(112,884)
Cash and cash equivalents at the beginning of the year	1,029	113,913
Cash and cash equivalents at the end of the year	150	1,029

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

TAM S.A. and subsidiaries
Statement of cash flows – indirect method
Years ended December 31

(Amounts expressed in thousands of reais)

	Consolidated	
	2012	2011
Loss for the year	(1,184,132)	(261,513)
Adjustments to income		
Deferred income tax and social contributions (Note 25)	(537,549)	(135,127)
Depreciation and amortization (Note 32)	759,728	730,375
Results on disposals of property, plant and equipment (Note 35)	501,848	10,108
Interest and exchange rate fluctuations on assets and liabilities	1,167,975	1,406,059
Others provisions	101,236	186,267
Provisions	224,620	72,450
Share-based payments	13,309	19,023
Share-based payments - transferred to liabilities	(6,299)	
Ineffective portion of hedging operations	(37,639)	6,584
Changes in working capital		
Financial assets at fair value through profit or loss	787,505	(277,234)
Inventory	(49,355)	2,149
Accounts receivable	282,532	(269,623)
Taxes recoverable	261,782	(417,893)
Prepaid expenses	(88,898)	40,810
Financial assets held to maturity	(12,417)	(87,729)
Prepaid aircraft maintenance	(5,106)	(137,556)
Related parties	(48,215)	
Judicial deposits	(219,237)	(22,633)
Others accounts receivable	(699)	(30,339)
Accounts payable	195,192	123,316
Salaries and social charges	(14,043)	(68,259)
Taxes, charges and contributions	157,749	418,484
Deferred income	445,708	(167,613)
Others accounts payable	321,821	264,095
Derivative financial instruments	53,559	(42,492)
Payments – REFIS	(49,806)	(30,648)
Cash generated from operating activities	3,021,169	1,331,061
Taxes paid	(77,374)	(346,772)
Interest paid	(431,124)	(358,387)
Net cash generated from operating activities	2,512,671	625,902
Cash flow from investment activities		
Capital increase – TAM S.A.	10,876	
Investment – Prismah Fidelidade S.A.	(4,369)	
Investments in restricted cash	33,859	23,248
Proceeds from the sale of property, plant and equipment	(584)	9,159
Purchases of property, plant and equipment	(697,997)	(142,994)
Purchases of intangible assets	(84,419)	(80,006)
Guarantee deposits – reimbursements	35,879	17,765
Guarantee deposits – deposits made	(59,563)	(24,080)
Pre-delivery payment – reimbursements	450,987	123,681
Pre-delivery payment – payments	(383,157)	(415,574)
Net cash used in investment activities	(698,488)	(488,801)

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

TAM S.A. and subsidiaries
Statement of cash flow – indirect method
Year ended December 31

(Amounts expressed in thousands of reais)

Cash flow from investment activities		
Disposal of shares of TAM S.A. - exercise of options	6,349	3,616
Acquisition of treasury shares		(1,879)
Capital decrease of Multiplus - cash paid to non-controlling interests		(160,984)
Capital increase of Multiplus by non-controlling shareholders	9,165	1,351
Cancellation of shares outstanding – TAM S.A.	(344,717)	
Dividends and interest on own capital paid to the non-controlling shareholders of Multiplus	(112,342)	(23,241)
Dividends and interest on own capital paid to the non-controlling shareholders of TAM Airlines		(315)
Dividends and interest on own capital paid to the non-controlling shareholders of TAM S.A (Note 26 (c))		(181,460)
Short and long-term loans - issue		101,429
Short and long-term loans - payments	(358,075)	(148,973)
Debentures – payment	(266,667)	(166,666)
Senior bonuses - issue		777,209
Financial leasing - payment of installments	(743,424)	(699,327)
Net cash used in financing activities	(1,809,711)	(499,240)
Increase (decrease) in cash and cash equivalents	4,472	(362,139)
Cash and cash equivalents at the beginning of the year	650,081	1,012,220
Cash and cash equivalents at the end of the year	654,553	650,081

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

TAM S.A. and subsidiaries
Notes to the financial statements
Year ended December 31, 2012

(Amounts expressed in thousands of reais, unless otherwise stated)

1. Operational context

TAM S.A. ("TAM" or the "Company" and subsidiaries) was incorporated on May 12, 1997, in order to invest in companies which carry out air transportation activities. The Company wholly owns TAM Linhas Aéreas S.A. ("TLA"), a company that operates in the transportation of passengers and cargo in Brazil and on international routes, and also owns 94.98% of Transportes Aéreos del Mercosur S.A. ("TAM Airlines"), an airline headquartered in Assunción, Paraguay, which operates in Paraguay, Argentina, Brazil, Chile, Uruguay and Bolivia. TAM is incorporated and domiciled in Brazil and its registered office is at Av. Jurandir, 856, Lote 4, 1st floor, São Paulo, SP. On June 22, 2012, after completing the Public Offering for the Exchange of Shares for the cancellation of its Registration as a Public Company, the Company became a subsidiary of Holdco I S.A. ("Holdco I"). Holdco I is controlled by TEP Chile S.A., which owns 80,58% of the voting shares of Holdco I.

The Company, through its subsidiary TLA, controls the companies TAM Capital Inc, ("TAM Capital"), TAM Capital Inc, 2 ("TAM Capital 2"), TAM Financial Services 1 Limited ("TAM Financial 1") and TAM Financial Services 2 Limited ("TAM Financial 2"), and from May 2011 also TAM Capital Inc, 3 ("TAM Capital 3") and Financial Services 3 Limited ("TAM Financial 3", established in August 2011) all headquartered in the Cayman Islands, whose main activities involve aircraft acquisition and the financing and issue of debt. Debt issued by these wholly-owned companies is wholly and unconditionally guaranteed by TAM. TLA also controls the company TAM Viagens e Turismo Ltda. ("TAM Viagens"), whose corporate purpose is to carry out the activities of a travel and tourism agency.

On February 1, 2012, the Company established TAM MRO - Manutenção Aeronáutica S.A. ("TAM MRO") to carry out maintenance, repairs and restoration of aircraft, for the Company and for third parties, on civil or military aircraft, including engines, parts, accessories and equipment. TAM MRO is currently in the pre-operational phase.

The Company controls TP Franchising Ltda. whose corporate purpose is the development of franchises.

These financial statements, of TAM and its subsidiaries were approved by the Board of Executive Officers on March 27, 2013.

1.1 Multiplus S.A. (2010)

Multiplus's main activity is the development and management of customer loyalty programs. A public offering of the shares of Multiplus was consummated on February 5, 2010. On February 5, 2010, upon closing of the Initial Public Offering, Multiplus obtained proceeds at a gross amount of R\$ 692,385, net of issue costs of R\$ 35,337 (including the related tax effect of R\$ 12,014) through the issue of 43,274,000 shares of the common stock of Multiplus at the issue price of R\$ 16.00 per share. At the time of the public offering, the transactions and activities of Multiplus were minimal, and Multiplus had shareholders' equity of less than R\$ 1 (one thousand Reais). As a result of the public offering, TAM had its interest in Multiplus reduced from 100% to 73.17% while maintaining control. The sale of shares resulted in an increase in the participation of the non-controlling interest by R\$ 179,947 and an transfer from non-controlling interests to shareholder of TAM of R\$ R\$ 489,115. As at December 31,2012, the Company has 72.87% ownership of Multiplus.

1.2 TAM Milor

On July 13, 2010, TLA acquired TAM Milor, which was the holder of the brand "TAM" and other related brands (the "TAM Brands") which are used by the Company, by TLA and by other related companies. On March 1, 2011, the Company legally merged its subsidiary TAM Milor into the Company. The merger did not have any impact on the consolidated financial statements.

The payment by TLA in 2010 was negotiated as follows: (a) cash payment of R\$ 25,481 at the agreement date, and (b) the issue of a promissory note by TLA to the selling shareholders at an amount of R\$ 144,395 ("Promissory Notes"), totaling R\$ 169,876. The amount represented by the promissory note was converted into a capital increase in the Company, within the authorized capital limit, totaling the issuance of 5,621,634 new shares.

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1.3 Pantanal Linhas Aéreas S.A.

Since March 15, 2010, the Company has controlled Pantanal Linhas Aéreas SA ("Pantanal"), when the National Civil Aviation Agency ("ANAC") approved the purchase. On December 22, 2011, the Board approved the establishment of a subsidiary called Corsair Participações SA ("Corsair") and on December 27, 2011 approved the demerger of Pantanal, which would be transferred to Corsair's liabilities subject to the plan payment of tax in the recovery process. This transaction became effective on March 28, 2012.

1.4 Association with LAN Airlines S.A. (2011)

On January 18, 2011, the Company published a significant event notice, informing the market that TAM and LAN Airlines S.A. had signed two agreements, the Implementation Agreement and Exchange Offer Agreement, regulating the final terms and conditions for the association contemplated in the Memorandum of Understanding entered into on August 13, 2010. The agreements define the new structure that will be established to create LATAM Airlines S.A. ("LATAM"), as well as the form of corporate management that will coordinate this new structure. On March 3, 2011 the National Civil Aviation Agency (Agência Nacional de Aviação Civil – ANAC), authorized the transfer of the shares of TAM S.A., the holding company that has direct ownership interest in the capital of TLA and Pantanal, in order to continue the combination process with LAN Airlines. The operation was approved by ANAC in Brazil, and the Tribunal de Defensa de la Libre Competencia ("TDLC"), in Chile, on March 3, 2011 and September 21, 2011, respectively.

On December 14, 2011, the Administrative Council for Economic Defense (Conselho Administrativo de Defesa Econômica – "CADE"), the Brazilian competition regulator approved the merger between TAM and LAN Airlines SA. CADE gave its approval, imposing two conditions: that LATAM resign from one of the airline alliances to which TAM (Star Alliance) and LAN (Oneworld) are party, and that TAM must grant two pairs of slots on the Sao Paulo/Guarulhos – Santiago route. The airlines have been assessing these measures, as well as the conditions imposed by the TDLC.

On December 2011, the stockholders of LAN approved the merger with TAM (by a majority of more than 99.99% of the voting shares), the change to the company's corporate name from LAN Airlines S.A. to LATAM Airlines Group S.A. and the other transactions necessary to give effect to the agreements between the parties.

The transaction resulted in LAN Airlines S.A. becoming the holding company of the combined companies. The result of this transaction was:

- i. LAN will own all of the preferred shares of TAM that were acquired as result of the exchange offer or were contributed by the controlling-shareholders
- ii. Holdco I will own all of the common shares that were acquired as result of the exchange or were contributed by the controlling shareholders, and in turn LAN will own 20% of the voting shares and 100% of the non-voting shares of Holdco I, and the controlling shareholders of TAM will own 80% of the voting shares of Holdco I
- iii. TAM shareholders will have received upon the exchange offer 0.90 shares of LAN Airlines S.A. for each share (common or preferred) or ADS of TAM previously held

The exchange offer described above was subject to several conditions, including: (a) more than 66.66% of the non-controlling shareholders of TAM accepting the offer, (b) the quantity of shares of TAM tendered in the exchange offer by non-controlling shareholders plus the quantity of shares of TAM held by the controlling shareholders representing more than 95% of all outstanding shares of TAM, allowing TAM to compulsorily redeem all shares not tendered in the exchange offer.

On June 22, 2012, TAM S.A. and LAN successfully completed the Public Offer for the Exchange of Shares in order to complete the cancellation of the Registration as a Public Company, and signed the shareholders' agreement on January 25, 2012 between TAM, LAN, TEP Chile S.A. and Holdco I S.A. Thus LAN and TAM completed their merger transaction and created LATAM.

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At December 31, 2012, the Company had a loss of R\$ 1,184,132 (2011 – R\$ 261,513) and an excess of current liabilities (current liabilities less deferred income) over current assets of R\$ 161,223 (2011 – excess of current assets over current liabilities - R\$ 1,321,115). The factors that led to this excess are: (i) the reclassification of debentures of R\$ 397,070 from long to short term; this item was recorded in the short term exclusively for compliance with the formalities required by the accounting standards, since a waiver was obtained from the debenture holders before the publication of this balance sheet, referring retrospectively to the third and fourth quarters of 2012 and prospectively to the first and second quarters of 2013, as disclosed in Note 20.4, and (ii) the impact of foreign exchange variations on financial liabilities contracted in U.S. dollars.

Management understands that there is no uncertainty regarding the Company's ability to continue as a going concern, since this is a specific event and there are solid strategies being implemented with regard to reduction of cost and exposure to foreign exchange risk. The Company is assisted by the LATAM Group in the implementation of these strategies.

1.5 Aerolinas Brasileira S.A.

On October 23, 2012, the Board of Directors approved the purchase of 2,707,135 preferred shares and 1,353,567 common shares of Aerolinas Brasileira SA ("ABSA"), corresponding to 100% of the share capital of this company. The transaction is pending approval from the competent authorities.

2. Summary significant accounting policies

The principal accounting policies applied in the preparation of these individual and consolidated financial statements are defined below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared considering the historical cost as basis of value and non-current assets available for sale and financial assets (including derivative instruments) at fair value.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

The Company's financial statements include:

(a) Individual financial statements

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

The individual parent company financial statements present investments in subsidiaries accounted for under the equity method. The same adjustments are made in both the financial statements and consolidated financial statements to achieve the same results and net profit attributable to the equity holders of the parent. Accordingly, these individual financial statements are not considered as being in conformity with IFRSs, which require that these investments be accounted for at their fair value or at cost in the separate financial statements of the parent company.

(b) Consolidated financial statements

The consolidated financial statements have been prepared in accordance with practices adopted in Brazil issued by Accounting Pronouncements Committee ("CPCs") and International Financial Reporting Standards ("IFRS")

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issued by International Accounting Standards Board ("IASB").

(c) Changes to the accounting policies and disclosure

There are no new pronouncements, guidelines and accounting interpretations prevailing from 2012 that would be expected to have material impact on the Company's financial statements.

2.2 Consolidation

The main accounting practices adopted for the preparation of these financial statements are as follow:

(i) Subsidiaries

The subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies, generally as a result of holding more than half of the voting rights. The existence and the effect of all potential voting rights currently exercisable or convertible are taken into account when assessing whether TAM controls another entity. Subsidiaries are fully consolidated from the date when control is transferred to TAM, and are no longer consolidated as from the date when this control ceases.

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

The Company uses the acquisition method of accounting for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of assets transferred, liabilities incurred and equity instruments issued by the Group. The consideration transferred includes the fair value of assets and liabilities resulting from a contingent consideration agreement, if applicable. Acquisition related costs are recognized in the income statement as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognizes the non-controlling interest in the acquiree either at fair value as the proportionate share of uncontrolled participation in the fair value of the net assets acquired. The measurement of non-controlling interest is determined on each acquisition.

The excess of the consideration transferred and the fair value at the acquisition date of any previous equity interest in acquiree over the fair value of the Group interest in the identifiable net assets acquired is recorded as goodwill. For acquisitions where the Group assigns fair value to non-controlling, the determination of goodwill also includes the value of any noncontrolling interest in the acquiree, and the goodwill is determined by considering the participation of the Group and non-controlling. When the consideration transferred is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement for the year.

(ii) Transactions and non-controlling interests

The Company treats transactions with non-controlling interests as transactions with the equity owners of the company. For purchases from non-controlling interests, the difference between any consideration paid and the acquired interest in the carrying value of the net assets of the subsidiary is recorded in equity. Gains and losses on disposals to non-controlling interests are also recorded in carrying value adjustments, in equity.

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

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disposed of the related assets or liabilities. This means that the amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(iii) Companies included in the consolidated financial statements

	Reporting date	Ownership	Ownership and voting power %	
			2012	2011
TLA	31.12.2012	Direct	100.00	100.00
TAM Viagens (i)	31.12.2012	Indirect	99.99	99.99
TAM Capital (i)	31.12.2012	Indirect	100.00	100.00
TAM Capital 2 (i)	31.12.2012	Indirect	100.00	100.00
TAM Capital 3 (i)	31.12.2012	Indirect	100.00	100.00
TAM Financial 1 (i)	31.12.2012	Indirect	100.00	100.00
TAM Financial 2 (i)	31.12.2012	Indirect	100.00	100.00
TAM Financial 3 (i)	31.12.2012	Indirect	100.00	100.00
Fundo Spitfire II (Fund for investments restricted to TAM and its subsidiaries) (ii)	31.12.2012	Indirect	100.00	100.00
TP Franchising	31.12.2012	Direct	100.00	100.00
TAM Airlines	31.12.2012	Direct	94.98	94.98
Multiplus	31.12.2012	Direct	72.87	73.14
Prismah Fidelidade S.A. (Note 21)		Indirect	50.00	
Corsair (iii)	31.12.2012	Direct	100.00	100.00
Pantanal	31.12.2012	Direct	100.00	100.00
TAM MRO (iv)	31.12.2012	Direct	100.00	100.00

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

(ii) TAM's investments are held 1 % directly, 7 % through TLA and 92 % through Multiplus, respectively.

(iii) Incorporated in March 2012 through a spin-off Pantanal.

(iv) Incorporated in February 2012.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of TAM's subsidiary entities are measured using the currency of the primary economic environment in which each entity operates (the "functional currency"). The individual and consolidated financial statements are presented in Reais, which is the Company's presentation currency.

The country of incorporation and the functional currency of the subsidiaries are presented below:

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<u>Company</u>	<u>Local</u>	<u>Functional currency</u>
TLA	Brazil	Real
TAM Viagens	Brazil	Real
TAM Capital	Cayman Islands	Real
TAM Capital 2	Cayman Islands	Real
TAM Capital 3	Cayman Islands	Real
TAM Financial	Cayman Islands	Real
TAM Financial 2	Cayman Islands	Real
TAM Financial 3	Cayman Islands	Real
TP Franchising	Brazil	Real
Fundo Spitfire II (Fund for investments restricted to TAM and its subsidiaries)	Brazil	Real
TAM Airlines	Paraguay	Guarani
Multiplus	Brazil	Real
Corsair	Brazil	Real
Prismah Fidelidade S.A.	Brazil	Real
TAM MRO	Brazil	Real
Pantanal	Brazil	Real

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. After the end of the reporting period, monetary items denominated in foreign currency are translated at the closing date.

Foreign exchange gains and losses resulting from the settlement of these transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the in the statement of operations, except when they are deferred in other comprehensive income as qualifying cash flow hedges.

(c) Entities with a different functional currency

The results and financial positions of all entities that have a functional currency different from the presentation currency are translated into the presentation currency as follow:

- The statement of operations, the cash flow statement and all other movements in assets and liabilities of the subsidiary TAM Airlines (the only subsidiary that has a functional currency different to the Company) are translated at annual average rates of exchange, which are considered a good approximation of the exchange rates prevailing on the dates of the underlying transactions. The balance sheet is translated at the year-end rates of exchange.
- The effects of exchange rate changes during the year on net assets at the beginning of the year are recorded as movements in stockholders' equity, as is the difference between the profit of the year at the average rates of exchange and at the year-end rates of exchange.
- Cumulative exchange differences arising are reported as a separate component of equity within the reserve "Carrying value adjustments". In the event of disposal or partial disposal of an interest in a group company, either through sale or as a result of a repayment of capital, the cumulative exchange difference is recognized in the statement of operations as part of the profit or loss on the disposal.

2.4 Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank deposits, short-term investments highly liquid with original maturities up to three months which insignificant risk of changes in value (Note 6).

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2.5 Restricted cash

Restricted cash represents pledged deposits with the purpose of guaranteeing some of Company's derivatives and long-term financing.

2.6 Financial Instruments

2.6.1 Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and held for sale. The classification depends on the purpose for which the financial assets were acquired, and management determines the classification of its financial assets at initial recognition. There are no financial assets classified as available for sale.

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

Financial assets measured at fair value through profit or loss represent financial assets held for active and frequent trading. Derivatives are also classified as held for trading and included in the category unless they have been designated as hedging instruments. Assets in this category are classified as current assets.

Gains or losses arising from the changes in the fair value of financial assets measured at fair value through profit or loss are recorded in the "financial results" in the period in which they occur, unless the instrument has been contracted in connection with another instrument. In this case, the variations are recognized in the same line item in the transaction was accounted protected.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortized cost using the effective interest method, less any impairment loss. Loans and receivables including Accounts receivable, Cash and cash equivalents, Other accounts receivable, Restricted Cash. These are classified in current assets, except for those with maturities of more than 12 months after the reporting date, which are classified as non-current assets.

(c) Financial assets held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has manifested the intention and financial capacity to do so (Note 7).

2.6.2 Measurement of financial assets

Financial assets carried at fair value through profit or loss are initially recognized at their fair values, with transaction costs expensed in the statement of operations. Financial assets are derecognized when the right to receive cash flow from the investment has expired or have been transferred, and the Company has transferred substantially all of the risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

The fair values of quoted investments are based on current bid prices. For unlisted securities, and for listed securities for which there is no active market, TAM establishes the fair value using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

2.6.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.7 Impairment of financial assets

Financial assets, except for those designated at fair value through profit or loss, are assessed based on impairment indicators at the end of each reporting period. Impairment losses are recognized if, and only if, there is objective evidence of impairment of the financial asset as a result of one or more events occurring after initial recognition, with an impact on the estimated cash flow from this asset.

The criteria used to determine if there is objective evidence of impairment may include:

- Significant financial difficulty of the issuer or counterparty
- Breach of contract, such as a default or delinquency in interest or principal payments
- Probability of the debtor entering bankruptcy or financial reorganization
- Disappearance of an active market for that financial asset because of financial difficulties.
- Observable data indicating a measurable decrease in the estimated future cash flow from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - Adverse changes in the payment status of borrowers in the portfolio
 - National or local economic conditions that correlate with defaults on the assets in the portfolio.

For certain categories of financial assets, such as accounts receivable, assets that are assessed as not being impaired based on an individual assessment may subsequently be assessed as impaired during a collective assessment. Objective evidence of impairment of a receivables portfolio may include the Company's past experience in the collection of payments and an increase in delayed payments after a period of days, as well as observable changes in national or local economic conditions which correlate with defaults on receivables.

The carrying amounts of the financial assets are reduced directly by the impairment loss for all financial assets, except for accounts receivable, for which the carrying amounts are reduced through the use of provisions. Subsequent recoveries of amounts previously written off are credited to the respective provisions. Any changes in the carrying amounts of these provisions are recorded in profit or loss.

2.8 Derivative financial instruments and hedging operations

Derivative financial instruments are initially recognized at their fair value at the date when a derivative contract is entered into and are subsequently re-measured at their fair value. Transaction costs are recognized as expenses as they are incurred. Derivatives financial instruments are classified in current assets, except for those with maturities of more than 12 months after the reporting date, which are classified as non-current assets.

The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Multiplus designates certain derivatives as hedges of the foreign exchange risk of highly probable forecasted sales of points (cash flow hedge).

Any changes in the fair values of financial instruments not designated as hedge for accounting purposes are immediately recognized in profit and loss.

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(a) Derivative financial instruments entered into by TAM Linhas Aéreas

Although the subsidiary TLA uses derivatives to mitigate the economic effects of changes in exchange rates and international oil prices, it does not apply hedge accounting. Any changes in the fair values of financial instruments are immediately recognized in profit and loss. The Company has not classified any derivative instruments as having “fair value hedge” or “net investment hedge” relationships.

Gains and losses arising from changes in the fair values of fuel derivatives are presented separately in the statement of operations.

(b) Derivative instruments entered into by Multiplus

Multiplus designates certain derivatives as hedges of the foreign exchange rate risk associated with highly probable forecast transactions (cash flow hedges).

Derivatives are initially recognized at their fair value on the date when a derivative contract is entered into and subsequently re-measured at their value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The subsidiary Multiplus designates certain derivatives as hedges of particular risks associated with recognized assets or liabilities, or highly probable forecast transactions (cash flow hedges).

Multiplus decided to apply hedge accounting considering that its revenue from sales of points to financial institutions is recognized after billing to the financial institutions and only at the moment when the participants in the loyalty program redeem their points for awards and that there is a mismatch between the moment at which the points are billed and recognized as deferred revenue and the moment when the points are redeemed and revenue is recognized in the statement of operations. By applying hedge accounting, management believes that is able to reduce the mismatch between the timing of the recognition of the effects of the derivative financial instruments in the statement of operations and the timing of the recognition of revenue with respect to the transactions being hedged. Management also believe that a highly effective hedge relationship will reduce the impact of the derivative instruments recognized in finance income and finance costs in the statement of operations.

Multiplus deems the cash flow from future sales of points to financial institutions designated for hedges to be highly probable and categorizes the changes in the intrinsic value of the derivative instruments contracted to protect this cash flow against exchange rate variations as “cash flow hedges” of these future sales. Derivative financial instruments designated as hedging instruments under hedge accounting are recognized as assets and liabilities in the balance sheet, initially measured at their fair value and subsequently re-measured to their fair value. The change in fair value attributable to the effective portion of the hedge relationship is recognized in other comprehensive income within shareholders’ equity, and the ineffective portion and the time value, which is not part of the hedging relationship, is recognized directly in the statement of operations. The effective portion originally recognized in shareholders’ equity in other comprehensive income, will only be released or recycled into the statement of operations when the hedged item affect the statement of operations. However, when a hedged item expires or when a hedging operation no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in stockholders’ equity at this time remains in stockholders’ equity until the moment in which the forecast transaction is ultimately recognized in income.

The gain or loss relating to the ineffective portion is recognized immediately in the statement of operations within finance income and finance costs. No significant amount of ineffectiveness has been recognized in the statement of operations for the periods presented.

Multiplus documents at the inception of each hedging operation the relationship between the hedging instruments and the hedged items, including the risk management objectives and the strategy for the entering into the hedge transactions. Multiplus also documents, both at the inception of the hedge relationship and on an ongoing basis, the calculations and/or assessments of whether the changes in the intrinsic value of the derivative instruments designated as hedging instruments are highly effective in offsetting the changes in highly probable points sales cash flow in Reais attributable to the change in the exchange rate between the Brazilian Real and the US Dollar.

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The hedging instruments are considered to be effective when the variations in the cash flow of the hedging instruments offsets between 80% and 125% of the changes in the hedged transactions.

The Company uses zero cost collars, swaps and forwards as hedging instruments, and the fair value calculations are performed based on methodologies widely accepted by the market as the Black & Scholes options for, and the discounted cash flow for swaps and forwards. Significant data included in the model were:

- Price of the object-asset
- Exercise price
- Volatility in the price object-asset
- Interest rate risk free
- Length
- Interest rate on foreign currency

The hedging instruments are considered to be effective when the variations in the cash flow from the hedging instruments offsets between 80% and 125% of the changes in the hedged transactions.

For the calculations, are used as the data source information disclosed by BM&FBovespa and Central Bank of Brazil.

2.9 Accounts receivable

Accounts receivable are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method, less the provision for impairment. Owing to their short-term nature, the Company initially recognizes accounts receivable at their original sale amounts. An allowance for impairment is established when there is objective evidence that the Company will not be able to realize the amounts due under the original terms of the accounts receivable. The allowance is the difference between the book value and the recoverable value.

The Company records an allowance for doubtful accounts which are overdue for longer than 180 days, except in the cases of renegotiations and related parties. The total of provision for losses is the difference between the carrying amount and recoverable amount (Note 8).

2.10 Inventory

Inventory, consisting mainly of spare parts and materials to be used in maintenance and repair activities, are stated at their average acquisition cost, or realizable value, where lower, net of provisions to write down the value of obsolete items (Note 9).

2.11 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amounts are to be recovered principally through a sale transaction, and the sale is considered highly probable. They are stated at the lower of their carrying amount and fair value less costs to sell (Note 14).

2.12 Intangible assets

(a) Computer software and IT projects

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

(b) Other intangible assets

These amounts relate to: (a) the rights to slots arising from the acquisition of Pantanal in March 2010, based on the expected profitability of operating regular flights from the airports object of the acquired right, (b) the "TAM" brand acquired in July 2010 as result of the acquisition of TAM Milor, and (c) licenses and other contractual rights acquired from third parties, which are capitalized as intangible assets and amortized over their estimated useful lives.

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

(c) Goodwill

Goodwill is represented by the positive difference between the amount paid and/or payable for the acquisition of a business and the net fair value of assets and liabilities of the acquired subsidiary. Goodwill on acquisitions of subsidiaries is recorded within intangible assets in the consolidated financial statements. In the case of discounts, the amount is recorded as a gain in the income statement on the date of acquisition. Goodwill is recorded at cost less accumulated impairment losses. Impairment recognized on goodwill is not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill arises on acquisitions of subsidiaries and represents the excess of the consideration transferred over the Company's interest in the net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquired entity, and the fair value of the non-controlling interest in the acquiree.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which goodwill is monitored for internal management purposes. Goodwill is monitored at operating segment level.

Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of its value in use and fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

2.13 Property, plant and equipment including aircraft pre-delivery payments

Assets included in property, plant and equipment, including rotatable parts, are recorded at their acquisition cost or construction cost, including interest and other financial charges capitalized. Depending on the type of the asset and the timing of its acquisition, the cost may refer to the historical acquisition cost, deemed cost, or to the historical acquisition cost adjusted for the effects of hyperinflation, for the years in which the Brazilian economy was considered hyperinflationary. Brazil was considered a hyperinflationary economy for IFRS purposes until 1997.

Land is not subject to depreciation. Each component of the asset that has a significant cost in relation to the total asset is depreciated separately. Depreciation is recognized based on the estimated useful life of each asset using the straight line method, so that the cost less its residual value after its useful life is fully written off. The estimated useful lives, residual values and depreciation methods are reviewed annually, and the effect of any changes in estimates is accounted for prospectively. The useful lives of items of equipment are shown in Note 18. Assets held through finance leases, as well as related rotatables and spare engines purchased separately, are depreciated over the shorter of the useful life of the asset and the lease term.

Under IAS 16 – "Property, plant and equipment", major engine overhauls including replacement spares and labor costs, are considered as a separate component and depreciated over the average expected period to the next major

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overhaul (the "built-in overhaul method"). All other replacement spares and other costs relating to the maintenance of flight equipment assets, including all amounts payable under "power by the hour" maintenance contracts, are charged to the statement of operations upon consumption or as incurred respectively, as described in item (b) below.

Interest costs incurred on borrowing to fund progress payments on assets under construction, including pre-delivery payments for the acquisition of new aircraft, are capitalized and included as part of the cost of the assets through the earlier of the date of completion or the aircraft delivery.

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value might be greater than its estimated recoverable amount.

A property, plant and equipment item is written off after disposal or when there are no future economic benefits expected as a result of the continued use of the asset. Any gains or losses on sales or disposals of property, plant and equipment items are determined as the difference between the sale proceeds and the carrying amount of the asset, and are recognized in profit or loss.

(a) Pre-delivery payments

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

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

(b) Aircraft and engine maintenance

Engine maintenance contracts cover all significant engine maintenance activity. The basis on which maintenance expenses are considered to be incurred depends on the nature of the services provided:

- Time and materials contracts: amounts are payable to the maintenance provider, and are recognized in the statement of operations, based on the actual maintenance activities performed by the maintenance providers. The costs incurred reflect the actual amount of time spent by the maintenance providers, and the cost of the materials and components used in the maintenance activities.
- Power-by-the-hour contracts: amounts are contractually payable to the maintenance provider based on the hours flown, and for which a liability and a corresponding expense in the statement of operations are recognized as the hours are flown.

2.14 Impairment of non-current assets

Assets that have an indefinite useful life are not subject to amortization, and are tested annually, or more frequently if changes in circumstances indicate a potential impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized at the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the asset. For impairment testing purposes, assets are grouped at the lowest level for which cash flow can be separately identified (cash generating units - "CGUs"). Impaired non-financial assets, except for goodwill, are subsequently reviewed for an analysis of the possible reversal of the impairment at the reporting date.

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2.15 Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business. Accounts payable are classified as current liabilities if payment is due within one year or less (or within the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.16 Non-derivative financial liabilities

Non-derivative financial liabilities (including loans, senior notes and debentures) are initially recognized at fair value, less transaction costs incurred. Subsequently, they are measured at amortized cost using the effective interest method.

The effective interest method is used to calculate the amortized cost of a financial liability and allocate its interest expenses over the related period. The effective interest rate is the rate that exactly discounts the estimated future cash flow (including fees and points paid or received, that are an integral part of the effective interest rate, transaction costs and other premiums or discounts) to the amount initially recognized, over the estimated life of the financial liability or, when appropriate, over a shorter period.

Loans are classified in current liabilities, unless that Company has an unconditional right not to settle the liability for at least 12 months after the reporting date.

Non-convertible debentures and senior notes are recorded in the same manner as loans.

2.17 Income tax and social contribution

The income tax and social contribution expenses represent the sum of current and deferred taxes. Income tax and social contributions, current and deferred, are recognized in the income statement, except to the extent that they relate to items directly recognized in equity or other comprehensive income. When current and deferred taxes are derived from the initial recognition in a business combination, the tax effect is considered in the recognition of the business combination.

The current income tax and social contribution charges are calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates the positions taken in the tax returns with respect to situations in which the applicable tax regulations are subject to interpretation, it establishes provisions where appropriate on the basis of the amounts expected to be paid to the tax authorities.

Deferred income tax and social contributions are recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities, and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination which, at the time of the transaction, affects neither the accounting nor taxable profit or loss liability is settled. Deferred income tax and social contributions are calculated on temporary differences arising from differences between the tax bases of assets and liabilities and their carrying amounts.

The rates currently enacted for income tax and social contributions in Brazil are 25% and 9%, respectively (Note 25).

Deferred tax assets are recognized to the extent that it is probable that sufficient future taxable income will be

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available for offset against tax losses, considering the projections of future income based on internal assumptions and future economic scenarios which may, therefore, suffer changes. The Company's management revises these projections annually. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the group, and it is probable that the temporary difference will not be reversed in the foreseeable future.

Deferred tax and social contribution assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or on different taxable entities, where there is an intention to settle the balances on a net basis.

2.18 Deferred income

Deferred income accounts include advance ticket sales, gains on sales and leaseback transactions and revenue related to Loyalty Programs (Note 21).

The revenue from the loyalty programs is initially measured at fair value, against accounts receivable, and is recognized in profit or loss as program points are redeemed.

The advance ticket sales account includes airlines tickets sold in the last 12 months but not yet used. These amounts are recognized as revenue when the service is provided or the tickets expire.

2.19 Provisions

The Company recognizes provisions when: (i) it has a present legal or constructive obligation as a result of past events, (ii) it is probable that an outflow of resources will be required to settle the obligation, and (iii) the amount can be reliably estimated. Provisions are measured at the present value of the expenditure required to settle the obligation, using a pre-tax discount rate which reflects current market assessments of the time value of money and the specific risks of the obligation. The increase in the obligation amount as a result of the passage of time is recognized as finance costs. Provisions are presented net of the related judicial deposits.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, an asset is recognized if, and only if, the reimbursement is virtually certain and the amount can be reliably measured.

2.20 Employee benefits

(a) Profit-sharing and bonuses

The Company recognizes a liability and an expense for bonuses and profit-sharing, based on a Profit Sharing Program and certain operating indicators. The Company recognizes a provision where this is contractually obliged or where there is a past practice that has created a constructive obligation.

(b) Share-based payments

The Company operates two types of share-based compensation: (i) a cash-settled scheme, which is operated by TLA and (ii) an equity-settled scheme which is operated by Multiplus. Details regarding the determination of the fair value of these plans are described in Note 30.

The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined with reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and

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sales growth targets). Non-market vesting conditions are included in assumptions used to define the number of options that are expected to vest. At each reporting date, the Company revises its estimates of the number of options that are expected to vest, recognizing the impact of the revision of the original estimates, if any, in the statement of operations, with a corresponding adjustment to liabilities.

(c) Pension plans

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

2.21 Share capital

Common shares and non-redeemable preferred shares are classified as stockholder's equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.22 Dividends and interest on own capital

Distributions of dividends and interest on own capital to the Company's shareholders are recognized as a liability in the Company's financial statements at the end of the year. The financial statements reflect only the minimum mandatory dividends, as provided for in the Company's bylaws, of 25% of the net profit and prepayment approved by the Board of Directors. Any amount above the minimum mandatory dividend is only accrued on the date when it is approved by the shareholders in General Meeting Ordinary or the Meeting of the Board of Directors. The tax benefit of interest on own capital is recognized in the income statement.

2.23 Lease agreements

Leases are classified at inception. Leases under which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of operations on a straight line basis over the period of the lease.

The Company leases certain property, plant and equipment. Leases of property, plant and equipment where the Company has substantially all of the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement, at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance costs is charged to the statement of operations over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term, unless there is reasonable certainty that ownership of the asset will be obtained by the end of the lease term, in which case it is depreciated over its useful life.

Gains arising on sale and leaseback transactions resulting in finance leases are deferred and recognized in the statement of operations on a straight line basis over the period of the lease. Gains and losses arising on sale and leaseback transactions resulting in operating leases are generally recognized in the statement of operations immediately.

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Losses arising on the sale and leaseback of finance leases are deferred to the extent that the object and leaseback transactions is not subject to impairment and are recognized in the statement of operations on a straight line basis during the term of the lease.

2.24 Revenue

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

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

On January 1, 2010, the subsidiary TLA transferred the management of the loyalty program to its subsidiary Multiplus. From January 1, 2010, points are be issued by Multiplus, who will sell points to TAM in order to grant these points to its flying customers, as well as selling points to commercial partners.

Revenue from points sold by Multiplus to third parties is recognized in the statement of operations when points are redeemed for awards or, in the case of points that are not expected to be redeemed, is recognized over the period of validity of the points, of two years.

Other operating revenue, represented by fees arising from alterations to flight reservations, sub-leases of aircraft and maintenance services provided to other airlines and other services, are recognized when the services are provided.

Interest income is recognized using the effective interest rate method.

2.25 Cost and operating expenses recognition

Mainly costs related to the Company are redeemed points and jet fuel. Operating expenses, including selling, general and administrative expenses, salaries, taxes and benefits, rentals of aircraft, engines and equipment rates, takeoff, landing and navigation, sales and marketing and other (Note 32).

2.26 Finance revenue recognition

Interest revenue is recognized on an accruals basis, taking into consideration the outstanding principal and the effective interest rates up to maturity or the year end.

2.27 The recognition of revenue for reward tickets issued but not yet flown

The Company through its subsidiary Multiplus offers participants in the Multiplus loyalty program the possibility to exchange airline tickets for points which are accumulated through the Multiplus loyalty program. Participants in the Multiplus program accumulate points in different ways and can exchange their points for various prizes, including airline tickets. A significant portion of the points redeemed by the participants of the Multiplus loyalty program are exchanged for airline tickets, all of which are purchased by Multiplus from TLA. The obligation of TLA to provide services to the holders of reward tickets (tickets purchased by Multiplus from TLA and granted to participants of Multiplus loyalty program) expires only when the air transportation services are provided.

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Interpretation to CPC 30/IAS 18 – Revenue identified as “Loyalty programs” considers that the fair value of the consideration received or receivable from a transaction is allocated between the awarding of credits (points) and the other components of the sale and revenue allocated to the award credits is recognized as revenue in the income statement only once these credits are redeemed, and the Company fulfills its obligation to supply the rewards. Considering that on a consolidated basis the award represented by reward tickets consists of transportation services revenue allocated to award tickets should be recognized as revenue once TLA provides the transportation. Reward credits for which a plane ticket has been issued but not yet flown should not have its revenue recognized in the statement of income.

For all periods through December 31, 2011, the Company had not recognized liabilities under “Deferred revenue” for plane tickets issued but not yet flown, and recognized the revenue on these tickets upon the exchange of the points for reward tickets. Management concluded that this misstatement was not material to all prior period financial statements, and that the correction of this error as an out-of-period adjustment is also not expected to be material for the year ending December 31, 2012. For that reason the effect of correcting this error is being recorded in the three months ended March 31, 2012.

The cumulative effect of the adjustments recognized in the three months ended March 31, 2012 was a reduction of revenue of R\$ 98,618 and the corresponding deferred tax effect of R\$ 33,530 resulting in a net effect in net income of R\$ 65,088.

From January 1, 2012 upon the exchange of points for reward tickets the Company recognizes the amount allocated to the award as “Deferred revenue”, and revenue is recognized in the income statement when the holder of the ticket is transported.

2.28 Presentation of the statement of operations

On the income statement figures for movements in the fair value of fuel derivatives are shown separately as part of operating income. This item is material in nature and value, and is being published separately in order to help the users of financial statements to understand the Company’s financial performance.

2.29 New standards, amendments and interpretations not yet effective

Standards, amendments and interpretations not yet effective for IFRS were issued by the IASB for the year ended December 31, 2012, and have not been applied in preparing these financial statements. It is expected that these new standards will have no material effect on the Company’s financial statements except for IFRS 9 – “Financial Instruments”, which is mandatory from January 1, 2015 and may change the classification and measurement of the financial assets held by the Company. The Company expects to adopt these standards early and the impact of its adoption has yet been measured.

CPC has not yet issued equivalents to the IFRS pronouncements cited above, but is expected to do so before the required date of their entry into force. The early adoption of IFRS pronouncements is subject to prior approval by a normative act of CVM.

- IFRS 9 – “Financial instruments” addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010 and replaces the parts of IAS 39 that relate to the classification and fair value measurement, and those measured at amortized cost. The determination is made at initial recognition. The basis of classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instruments. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that in cases where the fair value option is taken for financial liabilities, the part of a fair value change that is due to an entity’s own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The standard is applicable for periods beginning on or after January 1, 2015. The Company is evaluating the full impact of IFRS 9.
- IFRS 10 – “Consolidated financial statements” replaces the current IAS 27 Consolidated and Separate financial statements and SIC 12 Consolidated – Special purpose entities. Changes to the definition of control so that the

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same criteria apply to all entities to determine control. Excludes guidance specific for investment entities. The standard is applicable for periods beginning on or after January 1, 2013. This standard was included as an amendment to the text of CPC 36 (R3) – “Consolidated Financial Statements”. This standard does not have any impact on the Company.

- IFRS 11 – “Joint arrangements” replaces the current standards and interpretations on the subject (IAS 31 – “Interests in joint ventures”. Reduces the types of joint arrangements to two, i.e. joint operations and joint ventures, and eliminates the accounting policy choice of proportionate consolidation for joint subsidiaries, meaning that the equity method will be mandatory for participants in joint ventures. The standard is applicable for periods beginning on or after January 1, 2013. This standard was included as an amendment to the text of CPC 19 (R2) – “Joint arrangements”. The application of this standard does not impact on the Company, as the already registered investments are valued using the equity method.
- IFRS 12 – “Disclosure of interests in other entities” replaces the disclosure requirements currently found in IAS 28 – “Investments in associates”. It establishes the disclosure requirements for entities that reports under IFRS 10 and IFRS 11, and requires entities to disclose information that enables users of financial statements to evaluate the nature, risks and financial effects of associates with investments in subsidiaries, associates, joint ventures and unconsolidated entities/structures. The standard is applicable for periods beginning on or after January 1, 2013. This standard was considered in a new pronouncement, CPC 45 – “Disclosure of interests in other entities”. The application of this standard does not impact on the Company.
- IFRS 13 – “Fair value measurement” explains how to measure fair value and aims to enhance fair value disclosure, and applies when a standard requires or permits the measurement and disclosure of fair value, and the classification level (level 1, 2 or 3) of the items measured at fair value. This standard was issued in June 2011 and is applicable beginning on or after January 1, 2013. This standard was considered in a new pronouncement CPC 46 – “Fair value measurement”. The application of this standard does not impact on the Company.
- IAS 1 – “Presentation of financial statements” require companies to separate items presented in other comprehensive income into two groups, based on whether the items are made against the result or at a later time. Companies that present items of other comprehensive income before taxes must present the total taxes separately for these two groups. The amendment is applicable beginning on or after January 1, 2013. This standard does not impact on the Company.
- IAS 19 – “Employee benefits” relates to the elimination of the corridor approach, recognizing all gains and losses in comprehensive income as they occur, in order to immediately recognize all past service costs in the income statement, and to replace interest costs and the expected return on plan assets with a net interest amount calculated by applying the discount rate to the net defined benefit, asset or liability. This standard was issued in June 2011 and is applicable beginning on or after January 1, 2013. This amendment was considered in the text of the pronouncement CPC 33 (R1) – “Employee benefits”. The application of this standard does not impact on the Company.

3. Critical accounting estimates and judgments

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

3.1 Revenue recognition – Loyalty program

Revenue related to the loyalty program is deferred based on the number of outstanding points and a historical average rate for non-redemption of points (breakage) in the last 12 months. The fair value of points issued to participants when flying with TAM or its partner airlines is determined based on the weighted average of points

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sold to trading partners and free tickets granted to passengers. Also, the deferral of revenue depends on the estimate of the quantity of points to be cancelled when they expire after two years from the issue date.

3.2 Deferred taxes

The Company recognizes deferred income tax assets and liabilities based on the differences between the carrying amounts shown in the financial statements and the tax bases of the assets and liabilities, using prevailing tax rates. TAM regularly reviews deferred tax assets for recoverability, taking into account historical income generated and projected future taxable income based on a study of technical viability.

3.3 Contingencies

The Company is currently involved in various judicial and administrative proceedings, as described in Note 24. Provisions are recognized for all contingencies in judicial proceedings that represent probable losses (present legal obligations as a result of past events, where it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated). The probability of loss is evaluated based on the available evidence, including the views of internal and external legal counsel. Management believe that these contingencies are properly recognized in the financial statements.

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

The Company records the financial instruments used to mitigate the risks of variations in jet fuel prices at their fair market value based on market quotations for similar instruments. Derivative financial instruments are used in order to mitigate the risk against variations in fuel prices. Sensitivity to movements in the price of oil is discussed in Note 4.1.1 (e).

4. Financial risk management

4.1 Financial risk management policy

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

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

- Deciding any increase in the percentage level of protection based on strategic issues and monitoring the comparison between the actual market and the budgeted scenarios
- Managing and monitoring the risk exposure
- Monitoring compliance with the risk policy
- Deciding on the level of exposure to market risks
- Establishing financial limits for all of the institutions authorized to enter into derivative transactions
- Monitoring the performance of derivative transactions.

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

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

4.1.1 Market risks

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

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

One of the most important financial risks faced by airlines is the volatility of the fuel price. The QAV price is linked to the variation of the oil price in the international market. The Company has entered into derivative transactions in order to hedge itself against this risk, and TAM's Risk Committee has established policies for achieving this. The policy establishes to carry out derivative transactions covering a maximum level of 60% of the projected fuel consumption for the following 24 months, and then a minimum level of 20% of the consumption projected for the first 12 months and of 10% for the subsequent twelve months. Swaps, options, or a combination of these instruments, using the market prices for crude oil, heating oil or jet fuel as the underlying, may be used to achieve TAM's aims. With the creation of LATAM Airlines Group S.A., the corporate treasury became responsible for operations of the derivatives and uses the vehicle LATAM as counterparty to derivative financial instruments agents. For this reason the percentage of coverage appears outside the level set by the policy in some periods. However, the policy and exposure limits are reviewed frequently by the Finance Committee and the Board of LATAM.

TAM protects itself against the volatility in kerosene prices by using derivatives based mainly on crude oil (West Texas Intermediate or "WTI"). The choice of this underlying item was based on studies that indicate that the hedging of QAV based on WTI is, historically, highly effective, in addition to the high liquidity of the financial instruments referenced in WTI. As at December 31, 2012 all contracted financial instruments were over-the-counter.

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

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

The aviation fuel consumed in the periods ended December 31, 2012 and 2011 accounted for 38.5 % and 34.8 %, respectively, of the cost of services provided by the Company (Note 32).

(a.1) Outstanding jet fuel derivatives:

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

	<u>2012</u>	<u>2011</u>
As at December 31		
% of coverage anticipated for the next 12 months	15%	28%
Average strike price for outstanding derivatives	US\$ 101/bbl	US\$ 94/bbl
Market price of WTI at the year-end	US\$ 92/bbl	US\$ 98/bbl

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
As at December 31, 2012					
Notional amount – thousands of barrels (bbl)		500	2,550	600	3,650
Fair value, net – R\$ thousand		2,056	17,235	6,028	25,319
As at December 31, 2011					
Notional amount – thousands of barrels (bbl)	5,660	2,425	325		8,410
Fair value, net – R\$ thousand	18,076	(7,803)	826		11,099

(b) Exchange rate risk

(b.1) TAM Linhas Aéreas

A significant portion of the operating costs and expenses, such as aircraft and engine maintenance services, aircraft lease payments and aircraft insurance, are denominated in US Dollars. The Company also has significant exposure to foreign currency fluctuations (mainly the US Dollar) from its foreign currency denominated liabilities less its foreign currency denominated assets. The amount of the exposure to foreign currency as at December 31, 2012 and 2011 of assets and liabilities is presented in the corresponding explanatory notes.

The Company may enter into derivative contracts to protect against a possible appreciation or depreciation of the Real against the US Dollar. No derivatives have been entered into other than the one described below.

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

	<u>2012</u>	<u>2013</u>
As at December 31, 2012		
Notional amount – US\$		30,000
Fair value – R\$		
As at December 31, 2011		
Notional amount – US\$	31,000	
Fair value – R\$	(68)	

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

The collar transaction described above is the only foreign currency derivative outstanding as at December 31, 2012 and 2011.

(b.2) Multiplus

Multiplus is exposed to exchange rate risk arising from its normal commercial activities, considering that most of the point sale agreements with financial institutions are quoted in US Dollars. The variations in exchange rates between the R\$/US\$ could negatively affect Multiplus' cash flow, future billing and results. The Company is at risk of possible decrease in future cash flow due to an increase or reduction in the R\$/US\$ exchange rate.

As at December 31, 2012 if the Real had varied upwards or downwards by 10% compared to the US Dollar, with all other variables held constant, the finance result would be have been higher/lower by R\$ 44,507/R\$ 57,106 (2011 – R\$ 19,041/R\$ 1,283), mainly due to gains/losses on translation of foreign currency hedging transactions.

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The following table presents both the notional amount and the fair value of outstanding derivatives as at each date, broken down by maturity. The maturity date of the derivative is the date on which the highly probable sale of points is expected to be billed. The probable sales of points are expected to be recognized in income after billing, and management expects that they will be recognized in income on average up to six months after billing:

	<u>2013</u>	<u>2014</u>	<u>Total</u>	
As at December 31, 2012				
Notional amount – US\$	(283,000)	(18,000)	(301,000)	
Fair value – R\$	(30,002)	(1,118)	(31,120)	
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
As at December 31, 2011				
Notional amount – US\$	303,000	265,000	2,000	570,000
Fair value – R\$	(20,125)	(25,722)	(508)	(46,355)

(c) Interest rate risk

TAM's earnings are affected by changes in interest rates due to the impact of these changes on interest expenses for variable-rate debt instruments, variable-rate lease contracts and interest income generated from its cash and short-term investment balances. To minimize the possible impact of interest rate fluctuations, TAM has adopted a policy of diversification, alternating between contracting fixed and variable rates, such as the London Interbank Offered Rate ("LIBOR") and –the Certificate of Deposit Intermediate Rate ("CDI").

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

(d) Sensitivity analysis

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

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

TAM Linhas Aéreas

Fuel price:

On December 31, 2012, if the price of WTI had varied around 10%, and all other variables remained constant, the fair value of WTI would present an increase/decrease of approximately US\$ 17 million/US\$ 20.3 million, equivalent to R\$ 34.6 million/R\$ 41.2 million (2011 – US\$ 36.6 million/US\$36.7 million, equivalent to R\$ 68.6 million/R\$ 68.9 million). This increase/decrease would directly affect the Company's net income. In terms of cash flow, however, these changes in the WTI price would be more than offset by a decrease/increase in the Company's kerosene-type jet fuel costs. The cash payments for settling the derivatives are due at their respective maturities, distributed from 2013 through 2014.

Exchange rate – US Dollars:

On December 31, 2012, if the Brazilian Real had varied around 10% against the US Dollar and all other variables remained constant, the financial result would have been affected by approximately R\$ 829 million/R\$ 829 million (2011 – R\$ 791 million/R\$ 791 million), mainly as a result of foreign exchange gains/losses on the translation of

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US Dollar denominated trade receivables and US Dollar denominated financial assets at fair value through profit or loss, and foreign exchange losses/gains on the translation of US Dollar-denominated borrowing and finance leases.

Interest rate – LIBOR and CDI:

On December 31, 2012, if there was an increase of 100 basis point in foreign market (LIBOR) would increase its aircraft rental and interest expenses over a one year period by approximately US\$ 19,698, equivalent to R\$ 40,253 (2011 – US\$ 22,007, equivalent to R\$ 41,281).

On December 31, 2012, if there was an increase/decrease of 100 basis point in domestic market (CDI) interest rates would increase/decrease the loan and financing interest expenses over a one year period by approximately R\$ 4,510 (2011 - R\$ 7,684).

4.1.2. Credit risk

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

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

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

Currently, management does not expect losses, beyond those already provided for, due to default on the part of its counterparties and does not have (except for receivables from credit card issuers) any individually significant exposure to any counterparty separately.

4.1.3. Liquidity risk

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

Excess cash is invested mainly through TAM's exclusive investment fund. The fund has a clear investment policy, with limits on the concentration of risk in the underlying investments.

The table below analyses TAM's financial liabilities into the relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. The amounts disclosed in the table represent contractual undiscounted cash flow and included interest, except for derivatives, for which the fair value is disclosed.

Financial guarantees represent guarantees of liabilities of subsidiaries and are the maximum values. There are no expected losses in relation to these guarantees.

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	<u>Less than one year</u>	<u>Effect of discounting</u>	<u>Parent company Carrying value</u>
Non-derivative financial liabilities			
As at December 31, 2012			
Accounts payable	243		243
As at December 31, 2011			
Debentures	187,168	(12,518)	174,650
Accounts payable	4,354		4,354

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	Consolidated						
	<u>Less than one year</u>	<u>Between one and two years</u>	<u>Between three and five years</u>	<u>More than five years</u>	<u>Total</u>	<u>Effect of discounting</u>	<u>Carrying value</u>
Non-derivative financial liabilities							
As at December 31, 2012							
Finance lease obligation	857,336	1,493,167	1,725,228	1,659,013	5,734,744	(561,120)	5,173,624
Senior notes	184,879	369,756	1,102,170	1,931,239	3,588,044	(1,328,596)	2,259,448
Borrowing	1,009,494	4,377	4,047	4,125	1,022,043	(54,372)	967,671
Debentures	623,851				623,851	(107,901)	515,950
Refinanced taxes payable under fiscal recovery program	44,525	88,965	157,458	411,311	702,259	(239,867)	462,392
Accounts payable	845,179				845,179		845,179
As at December 31, 2011							
Finance lease obligation	816,750	1,488,034	1,689,975	1,865,986	5,860,745	(530,906)	5,329,839
Senior notes	169,708	339,414	1,051,956	1,902,223	3,463,301	(1,393,083)	2,070,218
Borrowing	979,176	3,986	3,714	5,029	991,905	(34,749)	957,156
Debentures	371,321	325,726	376,541		1,073,588	(266,145)	807,443
Refinanced taxes payable under fiscal recovery program							
Accounts payable	645,680				645,680		645,680

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	<u>Less than one year</u>	<u>Effect of discounting</u>	<u>Consolidated Carrying value</u>
Derivative financial liabilities			
As at December 31, 2012			
Fuel price risk	(21,469)	(9,256)	30,725
Exchange rate risk	(27,303)	(4,011)	31,314
As at December 31, 2011			
Fuel price risk	(15,527)	(22,208)	(22,208)
Exchange rate risk	(28,408)	(48,965)	(48,965)

4.2. Fair value estimation and fair value hierarchy

The Company and subsidiaries discloses the fair value of financial instruments according to their level of the following fair value measurement hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs). None of the financial instruments carried at fair value by the Company or its subsidiaries fall into this category at December 31, 2012.

(a) Parent company

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

	<u>Level 1</u>	<u>Level 2</u>	<u>2012 Total</u>
Financial assets at fair value through profit or loss			
Brazilian government securities (1)	2,722		2,722
Corporate securities (2)		1,365	1,365
Other bank deposits (3)		1,202	1,202
As at December 31	<u>2,722</u>	<u>2,567</u>	<u>5,289</u>
			<u>2011</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Financial assets at fair value through profit or loss			
Brazilian government securities (1)	245,132		245,132
Corporate securities (2)		54,086	54,086
Other bank deposits (3)		30,907	30,907
As at December 31	<u>245,132</u>	<u>84,993</u>	<u>330,125</u>

b) Consolidated

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

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	<u>Level 1</u>	<u>Level 2</u>	<u>2012</u> <u>Total</u>
Financial assets at fair value through profit or In local currency			
Restricted investment funds			
Brazilian government securities (1)	474,714		474,714
Corporate securities (2)		237,973	237,973
Other		50,362	50,362
Bank deposit certificates – CDB (3)		15,748	15,748
Other bank deposits (3)			
Other		1,633	1,633
	<u>474,714</u>	<u>305,716</u>	<u>780,430</u>
In foreign currency			
Other bank deposits (3)		116,998	116,998
		<u>116,998</u>	<u>116,998</u>
As at December 31	<u>474,714</u>	<u>422,714</u>	<u>897,428</u>
Derivative financial assets			
Fuel hedge – WTI (4)		5,406	
Foreign exchange (4)		195	
As at December 31		<u>5,601</u>	<u>5,601</u>
Derivative financial liabilities			
Fuel hedge – WTI (4)		30,725	30,725
Foreign exchange derivatives (4)		31,340	31,340
As at December 31		<u>62,039</u>	<u>62,039</u>

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	<u>Level 1</u>	<u>Level 2</u>	<u>2011</u> <u>Total</u>
Financial assets at fair value through profit or loss			
In local currency			
Restricted investment funds			
Brazilian government securities (1)	1,162,087		1,162,087
Corporate securities (2)		255,442	255,442
Other		21,411	21,411
Bank deposit certificates – CDB (3)		108,118	108,118
Other bank deposits (3)		27,128	27,128
Other		2,167	2,167
	<u>1,162,087</u>	<u>414,266</u>	<u>1,576,353</u>
In foreign currency			
Other bank deposits (3)		108,579	108,579
		<u>108,579</u>	<u>105,579</u>
As at December 31	<u>1,162,087</u>	<u>522,845</u>	<u>1,684,932</u>
Derivative financial assets			
Fuel hedge – WTI (4)		33,307	33,307
Foreign exchange (4)		2,542	2,542
As at December 31		<u>35,849</u>	<u>35,849</u>
Derivative financial liabilities			
Fuel hedge – WTI (4)		22,208	22,208
Foreign exchange derivatives (4)		48,965	48,965
As at December 31		<u>71,173</u>	<u>71,173</u>

No transfer of assets or liabilities between the levels of the fair value hierarchy took place during the year ended December 31, 2012 and 2011.

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

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

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

The management of marketable securities in the domestic market is primarily performed through an exclusive investment fund. This structure enables transparency and corporate governance standards. The custody of securities and units of funds and the management of funds are carried out by an independent management institution. The mandates and regulations are consistent across each type of management, and are subject to clear limits and measurement methods for the market, credit and liquidity risks contracted. The average return on these funds was 8.74% per annum for the period ended December 31, 2012 (2011 – 11.63%).

Investments in international markets essentially represent time deposits, notes and overnight transactions, in US Dollar, with first tier banks with which the Company maintains business relationships. As at December 31, 2012 the annual return contracted on these investments was 0.65% (2011 - 1.17%).

4.3 Capital management

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

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

Capital is not managed at parent company level, only on a consolidated basis.

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

We define the total capital as the total of shareholder's equity and net debt as defined below:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents (Note 6)	(564,553)	(650,081)
Financial assets at fair value through profit and loss (Note 4.2)	(897,428)	(1,684,932)
Financial assets held-to-maturity (Note 7)	(150,426)	
Borrowing (Note 20.3)	967,671	957,156
Debentures and senior notes	2,775,398	2,877,661
Operating lease commitments (Note 36 (a))	1,383,148	1,320,378
Finance lease obligations (Note 20.1)	5,173,624	5,329,839
Net debt (1)	<u>8,597,434</u>	<u>8,150,021</u>
Total equity	<u>532,477</u>	<u>2,124,120</u>
Total capital (2)	<u>9,129,911</u>	<u>10,274,141</u>
Leverage ratio (1) / (2)	94.17%	79.33%

The leverage ratio of the Company increased by 14.84%, mainly due to the loss for the period, which reduced the shareholders' equity of R\$ 1,591,643, or 74.93% compared to December 31, 2011.

The Administration's plan to reverse the above situation is described in Note 1.

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5. Financial instruments by category

	Parent company		
	Loans and receivables	Financial assets at fair value through profit and loss	Total
Assets per balance sheet			
Cash and cash equivalents	150		150
Financial assets at fair value through profit or loss		5,289	5,289
As at December 31, 2012	150	5,289	5,439
Liabilities as per balance sheet			
Accounts payable and other obligations, excluding statutory liabilities		6,397	6,397
As at December 31, 2012		6,397	6,397

	Parent company		
	Loans and receivables	Financial assets at fair value through profit and loss	Total
Assets per balance sheet			
Cash and cash equivalents	1,029		1,029
Financial assets at fair value through profit or loss		330,125	330,125
As at December 31, 2011	1,029	330,125	331,154
Liabilities as per balance sheet			
Debentures		174,650	174,650
Accounts payable and other obligations, excluding statutory liabilities		4,354	4,354
As at December 31, 2011		179,004	179,004

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	Loans and receivables	held-to- maturity	Financial assets at fair value through profit and loss	Derivatives	Consolidated Total
Assets per balance sheet					
Cash and cash equivalents	654,553				654,553
Derivative financial instruments				5,601	5,601
Financial assets at fair value through profit or loss			897,428		897,428
Financial assets held-to-maturity		150,426			150,426
Accounts receivable	1,545,318				1,545,318
Restricted cash	59,965				59,965
Guarantee deposits	82,287				82,287
As at December 31, 2012	2,342,123	150,426	897,428	5,601	3,395,578
			Liabilities measured at amortized cost	Derivatives	Total
Liabilities per balance sheet					
Accounts payable and other obligations, excluding statutory liabilities			1,340,822		1,340,822
Finance lease obligations			5,173,624		5,173,624
Senior notes			2,259,448		2,259,448
Borrowing			967,671		967,671
Debentures			515,950		515,950
Derivative financial instruments				62,039	
As at December 31, 2012			10,257,515	62,039	10,319,554

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	Loans and receivables	Financial assets at fair value through profit and	Derivatives	Consolidated Total
Assets per balance sheet				
Cash and cash equivalents	650,081			650,081
Derivative financial instruments			35,849	35,849
Financial assets at fair value through profit or loss		1,684,932		1,684,932
Accounts receivable	1,819,011			1,819,011
Financial assets - Bank deposits	138,009			138,009
Restricted cash	93,824			93,824
Deposits in guarantee	57,014			57,014
As at December 31, 2011	2,757,939	1,684,932	35,849	4,478,720
Liabilities per balance sheet				
		Liabilities measured at amortized cost	Derivatives	Total
Accounts payable and other obligations, excluding statutory liabilities		1,118,768		1,118,768
Finance lease obligations		5,329,839		5,329,839
Senior notes		2,070,218		2,070,218
Borrowing		957,156		957,156
Debentures		807,443		807,443
Derivative financial instruments			71,173	71,173
As at December 31, 2011		10,283,424	71,173	10,354,597

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6. Cash and cash equivalents

	Parent company		Consolidated	
	2012	2011	2012	2011
Cash and bank accounts	150	1,029	352,588	517,437
Short-term deposits			301,965	132,644
As at December 31	150	1,029	654,553	650,081

As at December 31, 2012 and 2011 no amounts have been used as part of overdraft facilities.

Cash and cash equivalents are maintained in the following currencies:

	Parent company		Consolidated	
	2012	2011	2012	2011
Reais	150	1,029	488,134	289,745
US Dollars			59,423	277,277
Euros			12,988	31,033
Guarani			67,597	27,093
Pounds sterling			2,516	3,751
Other			23,895	21,182
As at December 31	150	1,029	654,553	650,081

7. Financial assets held-to-maturity

The subsidiary Multiplus has funds invested in "Financial Letters", which have as their main characteristics the prohibition of full or partial redemption, before the agreed term. Management believes that these types of investments should be classified as "Financial assets held-to-maturity". On December 31, 2012, the Company classified the amount of R\$ 150,426 recorded in the short term (2011 - R\$ 138,009 on the long term).

8. Accounts receivable

	Consolidated			
	Domestic	International	Total	%
Credit cards	879,996	88,504	968,500	58.7
Travel agents	171,657	26,091	197,748	12.0
Loyalty Program - Multiplus	164,075		164,075	9.9
Current account	58,923	844	59,767	3.6
Cargo	1,000	799	1,799	0.1
Other	198,645	60,158	258,803	15.7
Total	1,474,296	176,396	1,650,692	100.0
Provision for impairment	(76,712)	(28,662)	(105,374)	
As at December 31, 2012	1,397,584	147,734	1,545,318	

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	Consolidated			
	Domestic	International	Total	%
Credit cards	1,184,088	80,747	1,264,835	65.7
Travel agents	236,771	62,494	299,265	15.5
Loyalty Program - Multiplus	24,525		24,525	1.3
Current account	87,866	555	88,421	4.5
Cargo	8,662	74,433	83,095	4.3
Other	134,791	29,793	164,584	8.7
Total	1,676,703	248,022	1,924,725	100.0
Provision for impairment	(70,762)	(34,952)	(105,714)	
As at December 31, 2011	1,605,941	213,070	1,819,011	

Trade accounts receivable are maintained in the following currencies:

	2012	2011
Reais	1,103,254	1,717,708
US Dollars	288,379	100,421
Euros	141,475	35,126
Pounds sterling	9,321	13,834
Other	108,263	57,636
As at December 31	1,650,692	1,924,725

(a) Aging list - receivables by due date

Breakdown	2012	%	2011	%
Not yet due	1,417,047	85.8	1,760,483	91.5
Overdue				
Up to 60 days	54,854	3.3	46,089	2.4
From 61 to 90 days	7,948	0.5	16,619	0.9
From 91 to 180 days	17,691	1.1	6,597	0.3
From 181 to 360 days	52,647	3.2	5,834	0.3
Over 360 days	100,367	6.1	89,103	4.6
As at December 31	1,650,692	100.0	1,924,725	100.0

(b) Provision for impairment of trade receivables

	2012	2011
Balance at the beginning of the year	105,714	98,321
Charge for the period	6,014	12,078
Amounts reversed	(6,354)	(4,685)
Balance at the end of the year	105,374	105,714

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

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

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

9. Inventory

	<u>2012</u>	<u>Consolidated 2011</u>
Spare parts and materials for repairs and maintenance	222,390	179,446
Other inventory (*)	<u>40,029</u>	<u>33,163</u>
As at December 31	<u><u>262,419</u></u>	<u><u>212,609</u></u>

(*) "Other inventory" is mainly composed of uniforms, stationery and catering items.

10. Taxes recoverable

	<u>2012</u>	<u>2011</u>
State Value Added Tax ("ICMS")	40,258	25,552
Taxes recoverable	38,597	25,140
Tax on Industrialized Products ("PIS") and Social Security Financing Contribution ("COFINS") (i)	43,375	362,509
Income tax withheld - Imposto de renda retido na fonte ("IRRF")		18,365
Other	<u>8,394</u>	<u>5,386</u>
	130,624	436,952
Provision for impairment - ICMS	<u>(15,944)</u>	<u>(15,944)</u>
As at December 31	<u><u>114,680</u></u>	<u><u>421,008</u></u>

(i) During 2011, TLA reviewed the criteria used to determine the PIS and COFINS credits initiated in the prior quarter. During the year ended December 31, 2011 R\$ 599 million of PIS and COFINS credits were recognized (of which R\$ 525 million was a reduction in Operating costs - Fuel, R\$ 34 million was a reduction of Finance costs and R\$ 40 million was a reduction in Operating costs - Take-off, landing and navigation aid charges) as result of the changes in estimates regarding international passenger revenue. Considering management's assessment of the tax rules and the legal opinion of its independent tax advisors, the subsidiary recognized the PIS and COFINS credits over purchases considering the relationship between revenue subject to the cumulative and to the non-cumulative regime. Management has finalized the review of the credits during the third quarter of 2011, and no further amounts are expected to be recognized in relation to this matter in future periods.

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11. Related parties

(a) Balances

(i) Parent Company

	<u>Parent Company</u>	
	<u>2012</u>	
	<u>TLA</u>	<u>Total</u>
Current assets		
Dividends receivable	15,226	15,226
Non-current assets		
Intercompany loans	182	182
Current liabilities		
Related parties	1,410	1,410

	<u>Parent Company</u>				
	<u>2011</u>				
	<u>BTG</u>	<u>Multiplus</u>	<u>Pantanal</u>	<u>TLA</u>	<u>Total</u>
	<u>Pactual (*)</u>				
Current assets					
Cash and cash equivalents	175				175
Dividends receivable		47,801		140,125	187,926
Non-current assets					
Intercompany loans			193	4,425	4,618
Non-current liabilities					
Related parties				4,015	4,015

	<u>Consolidated</u>
	<u>2012</u>
Current assets	
Accounts receivable	
TAM Aviação Executiva e Táxi Aéreo S.A.	29
LATAM Airlines Group S.A.	1,282
Lan Cargo S.A.	2,291
Aerolineas Brasileña S.A. ("ABSA")	64,971
Lan Argentina S.A.	1,807
Aerotransp. Mas de Carga S.A. De C.V. ("Mas Air")	40
Líneas Aéreas de Ecuador S.A.	26
Andes Airport Services S.A.	110
Prismah Fidelidade S.A.	1,220
Made in Everywhere Repr Com Distr Ltda	4
	<u>71,780</u>

TAM S.A. and subsidiaries
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(Amounts expressed in thousands of reais, unless otherwise indicated)

Non-current assets	
Intercompany loans – LATAM Airlines Group S.A.	70,715
	<u>70,715</u>
Non-current liabilities	
Accounts payable	
LATAM Airlines Group S.A.	23,214
Aerolineas Brasileña S.A. (“ABSA”)	12,996
Transporte Aéreo S.A.	19
Lan Argentina S.A	56,019
Lan Peru S.A.	1,192
Andes Airport Services S.A.	
Aires S.A.	210
	<u>93,650</u>
Other accounts payable	
Made in Everywhere Repr Com Distr Ltda	51
TAM Aviação Executiva e Táxi Aéreo S.A.	
	<u>51</u>
	<u>93,701</u>
	<u>Consolidated</u>
	<u>2011</u>
BTG Pactual (*)	
Current assets	
Cash and cash equivalents	102,390
Derivative financial instruments	4,850
Non-current assets	
Derivative financial instruments	454
Current liabilities	
Derivative financial instruments	8,276
Non-current liabilities	
Derivative financial instruments	7,779
Equity	
Cash flow hedges	(14,639)

(*)From July 2012, BTG has ceased to be a related party of Multiplus, and therefore no longer has a representative on the Board of Directors of the Company

TAM S.A. and subsidiaries
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(Amounts expressed in thousands of reais, unless otherwise indicated)

(b) Transactions

	<u>2012</u>
Results	
Leases	
LATAM Airlines Group S.A.	26,445
Aerolineas Brasileña S.A. (ABSA)	38,412
Net sales and purchases of cargo space	
LATAM Airlines Group S.A.	(12,485)
Aerolineas Brasileña S.A. (ABSA)	27,180
Finance results	
Intercompany loans	
Lan Chile S.A.	(2,004)
Lan Cargo S.A.	(39)
Aerolineas Brasileña S.A. (ABSA)	1,469
Lan Argentina S.A.	1,450
Lan Peru S.A.	6
Andes Airport Services S.A.	(7)
	<u>2011</u>
Finance results	
BTG Pactual	
Finance income	61,436
Finance costs	(44,525)

(c) Key-management compensation

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

	<u>2012</u>	<u>2011</u>
Salaries	20,907	27,587
Board of Directors' fees	1,464	1,761
Share-based payment		16,360
As at December 31	<u>22,371</u>	<u>45,708</u>

12. Other accounts receivable

	<u>2012</u>	<u>Consolidated</u> <u>2011</u>
Advances to suppliers	41,852	25,062
Advances to employees	26,406	26,723
Advances for the acquisition of points	21,215	24,624
Contributions to defined contribution pension plans paid in advance		17,379
Other advances	13,527	8,873
Other	21,370	29,507
As at December 31	<u>124,371</u>	<u>132,168</u>
Current	<u>(86,097)</u>	<u>(85,397)</u>
Non-current	<u>38,273</u>	<u>46,771</u>

TAM S.A. and subsidiaries
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13. Derivative financial instruments

	<u>2012</u>	<u>Consolidated 2011</u>
Assets		
West Texas Intermediate crude oil derivatives		
Seagulls		13,858
Collars	5,406	19,449
	<u>5,406</u>	<u>33,307</u>
Foreign currency derivatives		
Collars	195	2,542
	<u>5,601</u>	<u>35,849</u>
Current	<u>(3,315)</u>	<u>(27,222)</u>
Non-current	<u>2,286</u>	<u>8,627</u>
Liabilities		
West Texas Intermediate crude oil derivatives		
Forwards	18,391	
Seagulls		1,789
Collars	12,334	20,419
	<u>30,725</u>	<u>22,208</u>
Foreign currency derivatives		
Collars	31,314	48,965
	<u>31,314</u>	<u>48,965</u>
As at December 31	<u>62,039</u>	<u>71,173</u>
Current	<u>(48,772)</u>	<u>(27,238)</u>
Non-current	<u>13,267</u>	<u>43,935</u>

(a) Distribution of fair value by counterparty credit rating

The distribution of fair value by counterparty credit rating and by type of risk being protected against as at December 31, 2012 and 2011 is presented below:

TAM S.A. and subsidiaries
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		2012			2011		
Counterparties with external credit rating (Standard & Poor, Moody's or Fitch)	Trading place	TLA	Multiplus	Total	TLA	Multiplus	Total
AAA*	<i>Over-the-counter</i>				2,623	(24,956)	(22,333)
AA+, AA or AA-*	<i>Over-the-counter</i>				2,979	(21,399)	(18,420)
A+, A ou A-*	<i>Over-the-counter</i>	(25,319)	(4,538)	(29,857)	5,429		5,429
BBB or -BBB*	<i>Over-the-counter</i>		(26,582)	(26,582)			
		<u>(25,319)</u>	<u>(31,120)</u>	<u>(56,439)</u>	<u>11,031</u>	<u>(46,355)</u>	<u>(35,324)</u>
Fuel derivatives in an asset position - WTI		5,406		5,406	33,307		33,307
Fuel derivatives in a liability position - WTI		(30,725)		(30,725)	(22,208)		(22,208)
Fuel derivatives net - WTI		<u>(25,319)</u>		<u>(25,319)</u>	<u>11,099</u>		<u>11,099</u>
Foreign exchange derivatives in an asset position			194	194		2,542	2,542
Foreign exchange derivatives in a liability position			(31,314)	(31,314)	(68)	(48,897)	(48,965)
Foreign exchange derivatives net			<u>(31,120)</u>	<u>(31,120)</u>	<u>(68)</u>	<u>(46,355)</u>	<u>(46,423)</u>
		<u>(25,319)</u>	<u>(31,120)</u>	<u>(56,439)</u>	<u>11,031</u>	<u>(46,355)</u>	<u>(35,324)</u>
Amounts outstanding in equity							
Carrying value adjustments							
Cash flow hedges - Recognition in other comprehensive income			(53,813)	(53,813)		(53,515)	(53,515)
Cash flow hedges - Amount recycled into income			(3,216)	(3,216)		1,680	1,680
Deferred income tax and social contributions effective			19,390	19,390		17,624	17,624
			<u>(37,639)</u>	<u>(37,639)</u>		<u>(34,211)</u>	<u>(34,211)</u>

(*) The ratings can be expressed either in the global scale. Each agency has a slightly different way of presenting ratings. The table above unifies the presentations into what we believe is the best-known international scale.

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The total fair value of a hedging derivative is classified as a non-current asset or liability if the remaining period to maturity of the hedged item is more than 12 months, and as a current asset or liability if less than 12 months.

Gains and losses resulting from changes in fair value are segregated between intrinsic value and time value. The intrinsic value corresponds to the effective portion of the cash flow hedge and is initially recorded in shareholders' equity, before being released to income at the same time when the hedge transaction is recorded in income, at the same time as the transaction becomes a protected place and considering the speed of points redemption of the hedged object. The time value corresponds to the ineffective portion of the cash flow hedge, and is recorded in a specific account in the Company's financial results (Note 34).

The Company monitors any concentration of financial instruments on a single counterparty. Internal policies require the reporting of any such excessive concentrations to the Risk Committee. At December 31, 2012 there were counterparties that exceeded the limits established. However, the Company believes this concentration of risk is acceptable.

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

14. Non-current assets held for sale

Non-current assets held for sale correspond to aircraft acquired as part of the purchase of Pantanal, which are no longer in use. As at December 31, 2011 they are recorded as non-current assets separately from other non-current assets, because: (i) the completion of the sale is highly probable, (ii) management is committed with a plan to sell these assets, (iii) the sale is expected to take place over a period of 12 months from December 31, 2011, and (iv) the assets are available of sale in their present condition. The assets recorded in this group are valued at the lower of the carrying amount and fair value less costs to sell. As at December 31, 2012, the balance of non-current assets held for sale was R\$ 18,221 (2011 – R\$ 21,474). In October 2012, Pantanal received an advance deposit amounting to R\$ 1,000, ensuring that recognition is in progress. If renegotiation fails to materialize, Pantanal must return the amount received.

15. Guarantee deposits

Deposits and collateral relating to the lease of aircrafts and engines are denominated in US Dollars and accrued interest based on LIBOR plus a spread of 1% per annum. The terms for redemption are defined in the lease contracts. As at December 31, 2012, the balance of deposits was R\$ 82,287 (2011 – R\$ 57,014) corresponding to US\$ 40,268 (2010 - US\$ 30,395).

16. Prepaid aircraft maintenance

Prepaid aircraft maintenance reserves represent guarantees provided to the lessor of the aircraft and/or engines that when the aircraft/engine is returned, it can be restored to its original condition. Certain aircraft leasing agreements require that advance deposits be made on behalf of the lessor, in the form of maintenance reserves held in a restricted bank account in the lessor's name. The lessor may withdraw funds from this account if the required maintenance is not carried out upon return of the aircraft. Should TLA perform maintenance of the aircraft or its parts, such as the fuselage, engines, landing gear, among others, it can ask the lessor to the related amount, which will otherwise revert to the owner. As at December 31, 2012, the amounts held in maintenance reserves totaled R\$ 552,968 (2011 – R\$ 547,862).

TAM S.A. and subsidiaries
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17. Investments

(a) Parent company

(i) Balance breakdown

	<u>TLA</u>	<u>TAM Airlines</u>	<u>TP</u>	<u>Multiplus</u>	<u>Pantanal</u>	<u>Corsair</u>	<u>Total</u>
As at December 31, 2011	1,465,678	31,003	(600)	189,535	(31,905)		1,653,711
Equity share in the results of investees	(1,315,496)	10,935	293	163,875	(3,870)		(1,144,263)
Hedge accounting (net of tax)				(2,406)			(2,406)
Share-based payment	5,186			5,911			11,097
Share-based payment – transfer to liability	(6,299)						(6,299)
Write off deemed cost reserve - Lands	(5,907)						(5,907)
Advance for future capital increase (“AFAC”)	112,000						112,000
Exchange variation on foreign subsidiary		6,685					6,685
Dividends and interest own on capital				(248,158)			(248,158)
Capital increase with net assets arising from the split-off of Pantanal						191	191
As at December 31, 2012	<u>255,162</u>	<u>48,623</u>	<u>(307)</u>	<u>108,757</u>	<u>(35,775)</u>	<u>191</u>	<u>376,651</u>

TAM S.A. and subsidiaries
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(ii) Information on subsidiaries

	TLA	TAM Airlines	TP Participações	Multiplus	Pantanal	Corsair	2012 Total
Capital	897,122	46,183	30	79,565	49,508	191	
Number of shares – total common shares	2,064,602	87,653	30,100	161,964,306	117,778,942	1,000	
Held in common	2,064,602	83,253	30,100	118,026,958	117,778,942	1,000	
Ownership %							
In total capital	100,00	94,98	100,00	72,87	100,00	100,00	
In voting capital	100,00	94,98	100,00	72,87	100,00	100,00	
Equity (shareholder's deficit)	255,162	51,199	(307)	149,246	(35,775)		
Carrying value adjustment	255,162	48,623	(307)	108,757	(35,775)	191	376,651
Profit (loss) for the year	(1,315,496)	11,513	293	224,305	(3,870)		
Equity share in the results of investees	(1,315,496)	10,935	293	163,875	(3,870)		(1,144,263)

	TLA	TAM Airlines	TP Participações	Multiplus	Pantanal	2011 Total
Capital	897,122	46,183	30	70,400	49,508	
Number of shares – total common shares	2,064,602	87,653	30,100	161,371,285	117,778,942	
Held common	2,064,602	83,253	30,100	118,026,958	117,778,942	
Ownership %						
In total capital	100,00	94,98	100,00	73,14	100,00	
In voting capital	100,00	94,98	100,00	73,14	100,00	
Equity (shareholder's deficit)	1,465,678	32,642	(600)	259,140		
Carrying value adjustment	1,465,678	31,003	(600)	189,535	(31,905)	1,653,711
Profit (loss) for the year	(422,537)	(2,212)	143	274,246	(90,528)	
Equity share in the results of investees	(422,537)	(2,101)	143	200,653	(90,528)	314,370

TAM S.A. and subsidiaries
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(Amounts expressed in thousands of reais, unless otherwise indicated)

The main items of the consolidated financial statements of TAM Linhas Aéreas S.A. included in the consolidated financial statements of TAM S.A. are as follow:

	2012			
	TLA	Multiplus	TAM Airlines	Pantanal
Assets	13,692,075	1,302,109	111,540	23,734
Liabilities	13,436,913	1,152,863	60,341	184,466
Equity	255,162	149,246	51,199	(160,732)
Revenue	13,297,667	1,476,014	266,706	150,566
Profit (loss) for the year	(1,315,496)	224,305	11,513	(3,042)
				2011
	TLA	Multiplus	TAM Airlines	Pantanal
Assets	14,253,845	1,308,434	74,482	28,634
Liabilities	12,788,167	1,049,297	41,835	186,133
Equity	1,465,678	259,137	32,647	(157,499)
Revenue	12,640,422	1,246,812	189,339	222,539
Profit (loss) for the year	(422,537)	274,246	(2,101)	(90,528)

(b) Consolidated – joint venture

Prismah Fidelidade S.A. is a jointly controlled subsidiary of the subsidiary Multiplus and Aimia Newco UK LLP (“Aimia”), where the equity interest in the investee does not allow Multiplus to make unilateral decisions that affect the returns on the investment. Multiplus owns 50% of the shares of the investee and participation in this investment is accounted for under the equity method. The profit of this company is recognized in the income statement and the participation in changes in reserves is recognized in the reserves of the investors. This Company was incorporated on April 2, 2012, and became effective on June 29, 2012, and had its name changed to Prismah Fidelidade S.A. (“Prismah”). Its activities include the rendering of auxiliary services and development programs of loyalty/customer relationship programs and sales chain incentives for companies through customer relationship management, technical consulting and technology consulting and through other programs or points currency exchange, subject to conversion into loyalty program points.

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(i) Movement of investments

	<u>Number of shares</u>	<u>Capital amount</u>
As at December 31, 2011		
Fully paid capital – GM (*) Constituent	500	1
Capital increase approved by EGM (**) on September 18, 2012	6,571,500	6,571
Equity share in the results of joint ventures		(2,203)
As at December 31, 2012	<u>6,572,000</u>	<u>4,369</u>

(*) General Meeting - Multiplus

(**) EGM – Extraordinary General Meeting - Multiplus

(ii) Information on joint ventures

	<u>2012</u>
Share capital	13,144
Number of shares – total common	13,144,000
Held in common	6,572,000
Ownership %	50,00
Equity	13,144
Carrying value adjustments	4,369
Loss for the period	(4,406)
Equity share in the results of joint ventures	(2,203)
Items of investees	
Current assets	8,902
Non-current assets	4,649
Current liabilities	4,814
Financial income	336
Loss for the period	(4,742)

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18. Property, plant and equipment

	Consolidated							
	<u>Flight equipment (i)</u>	<u>Land and buildings</u>	<u>Computer equipment</u>	<u>Machinery and equipment</u>	<u>Construction in progress</u>	<u>Pre-delivery payments (ii)</u>	<u>Other (iii)</u>	<u>Total</u>
Cost	11,552,726	260,768	175,787	141,501	33,661	832,350	217,151	13,213,944
Accumulated depreciation	<u>(3,505,101)</u>	<u>(51,059)</u>	<u>(137,553)</u>	<u>(80,983)</u>			<u>(121,297)</u>	<u>(3,895,993)</u>
Net book amount as at December 31, 2011	<u>8,047,625</u>	<u>209,709</u>	<u>38,234</u>	<u>60,518</u>	<u>33,661</u>	<u>832,350</u>	<u>95,854</u>	<u>9,317,951</u>
Reimbursement of pre-delivery payments (iv)						(450,987)		(450,987)
Additions	810,003	755	5,961	14,653	13,152	541,077	22,363	1,407,964
Transfers(v)	20,911	15,739	(150)	1,307	(29,253)	(21,002)	14,911	2,463
Disposals/write-offs	(498,128)	(5,946)	(994)	(764)			(1,339)	(507,171)
Assets held for sale								
Sale leaseback transactions - loss								
Capitalized interest/other						28,958		28,958
Other							10	10
Depreciation	<u>(614,294)</u>	<u>(7,282)</u>	<u>(16,388)</u>	<u>(10,560)</u>			<u>(18,380)</u>	<u>(666,904)</u>
Net book amount as at December 31, 2012	<u>7,766,117</u>	<u>212,975</u>	<u>26,663</u>	<u>65,154</u>	<u>17,560</u>	<u>930,396</u>	<u>113,419</u>	<u>9,132,284</u>
Costs	11,885,512	271,316	180,603	156,698	17,560	930,396	253,096	13,695,181
Accumulated depreciation	<u>(4,119,395)</u>	<u>(58,341)</u>	<u>(153,940)</u>	<u>(91,544)</u>			<u>(139,677)</u>	<u>(4,562,897)</u>
Net book amount as at December 31, 2012	<u>7,766,117</u>	<u>212,975</u>	<u>26,663</u>	<u>65,154</u>	<u>17,560</u>	<u>930,396</u>	<u>113,419</u>	<u>9,132,284</u>

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	Consolidated							
	<u>Flight equipment (i)</u>	<u>Land and buildings</u>	<u>Computer equipment</u>	<u>Machinery and equipment</u>	<u>Construction in progress</u>	<u>Pre-delivery payments (ii)</u>	<u>Other (iii)</u>	<u>Total</u>
Cost	10,722,269	254,572	152,665	135,873	16,121	476,514	214,138	11,972,152
Accumulated depreciation	<u>(2,921,821)</u>	<u>(44,901)</u>	<u>(120,934)</u>	<u>(69,617)</u>			<u>(103,029)</u>	<u>(3,260,302)</u>
Net book amount as at December 31, 2010	<u>7,800,448</u>	<u>209,671</u>	<u>31,731</u>	<u>66,256</u>	<u>16,121</u>	<u>476,514</u>	<u>111,109</u>	<u>8,711,850</u>
Reimbursement of pre-delivery payments (iv)						(123,681)		(123,681)
Additions	829,477	3,379	24,790	6,265	5,497	509,952	12,898	1,392,258
Transfers(v)	59,916	2,889	(1,593)	(89)	12,089	(47,044)	(8,554)	17,614
Disposals/write-offs	(17,332)	(26)	(36)	(523)	(46)		(1,304)	(19,267)
Assets held for sale	(21,474)							(21,474)
Sale leaseback transactions - loss	(20,130)							(20,130)
Capitalized interest/other						16,609		16,609
Other		(46)	(39)	(25)			(27)	(137)
Depreciation	<u>(583,280)</u>	<u>(6,158)</u>	<u>(16,619)</u>	<u>(11,366)</u>			<u>(18,268)</u>	<u>(635,691)</u>
Net book amount as at December 31, 2011	<u>8,047,625</u>	<u>209,709</u>	<u>38,234</u>	<u>60,518</u>	<u>33,661</u>	<u>832,350</u>	<u>95,854</u>	<u>9,317,951</u>
Costs	11,552,726	260,768	175,787	141,501	33,661	832,350	217,151	13,213,944
Accumulated depreciation	<u>(3,505,101)</u>	<u>(51,059)</u>	<u>(137,553)</u>	<u>(80,983)</u>			<u>(121,297)</u>	<u>(3,895,993)</u>
Net book amount as at December 31, 2011	<u>8,047,625</u>	<u>209,709</u>	<u>38,234</u>	<u>60,518</u>	<u>33,661</u>	<u>832,350</u>	<u>95,854</u>	<u>9,317,951</u>

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The estimated useful lives used for the calculation of depreciation are as follow:

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

(i) Includes aircraft, engines and spare parts. Aircraft include aircraft leased under finance leases, in accordance with CPC 6/IAS 17. As at December 31, 2012 TAM has 83 aircraft under finance leases (December 31, 2011 – 84 aircraft).

During the year ended December 31, 2012, the subsidiary TLA received three aircraft under finance leases.

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

(iii) Basically represents furniture and vehicles.

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

(v) Transfers in total correspond to items classified as intangible assets transferred to property, plant and equipment.

The Property and improvements of TLA are pledged as collateral for loans, with a total amount of R\$ 110,499 in 2012 (2011 – R\$ 110,499).

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

The depreciation expenses are recorded in the consolidated statements of operations within operating expenses as follow:

	<u>2012</u>	<u>2011</u>
Cost of services rendered	628,126	519,335
Selling expenses	1,844	4,025
General and administrative expenses	36,934	112,331
As at December 31	<u>666,904</u>	<u>635,691</u>

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19. Intangible assets

							Consolidated
	IT Projects (i)	Software	Other intangibles	Licenses - Slots	Trademarks and patents (iv)	Goodwill (ii)	Total
Cost	370,247	93,340	30,982	124,927	168,312	38,262	826,070
Accumulated amortization	(148,549)	(67,527)					(216,076)
As at December 31, 2011	221,698	25,813	30,982	124,927	168,312	38,262	609,994
Additions	93,284	13,943					107,227
Write-offs	(17,581)	(5,227)					(22,808)
Transfer (iii)	(1,186)	(1,277)					(2,463)
Amortization	(75,521)	(17,303)					(92,824)
As at December 31, 2012	220,694	15,949	30,982	124,927	168,312	38,262	599,126
Cost	444,764	100,779	30,982	124,927	168,312	38,262	908,026
Accumulated amortization	(224,070)	(84,830)					(308,900)
As at December 31, 2012	220,694	15,949	30,982	124,927	168,312	38,262	599,126

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	Consolidated						
	<u>IT Projects (i)</u>	<u>Software</u>	<u>Other intangibles</u>	<u>Licenses - Slots</u>	<u>Trademarks and patents (iv)</u>	<u>Goodwill (ii)</u>	<u>Total</u>
Cost	325,803	58,690	47,684	124,927	168,312		725,416
Accumulated amortization	<u>(68,716)</u>	<u>(52,676)</u>					<u>(121,392)</u>
As at December 31, 2010	<u>257,087</u>	<u>6,014</u>	<u>47,684</u>	<u>124,927</u>	<u>168,312</u>		<u>604,024</u>
Additions	55,512	23,507	987			38,262	118,268
Transfer (iii)	(11,068)	11,143	(17,689)				(17,614)
Amortization	<u>(79,833)</u>	<u>(14,851)</u>					<u>(94,684)</u>
As at December 31, 2011	<u>221,698</u>	<u>25,813</u>	<u>30,982</u>	<u>124,927</u>	<u>168,312</u>	<u>38,262</u>	<u>609,994</u>
Cost	370,247	93,340	30,982	124,927	168,312	38,262	826,070
Accumulated amortization	<u>(148,549)</u>	<u>(67,527)</u>					<u>(216,076)</u>
As at December 31, 2011	<u>221,698</u>	<u>25,813</u>	<u>30,982</u>	<u>124,927</u>	<u>168,312</u>	<u>38,262</u>	<u>609,994</u>

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- (i) IT projects in progress and computer software are recorded at cost less accumulated amortization and impairment. Expenditure for the development of projects and software, including the costs of materials, hours worked by third parties and other direct costs, are recognized when it is probable that the projects will be successful, taking into account their commercial and technological feasibility, and their costs can be reliably measured. These expenses are amortized on a straight line method over the period of the expected benefits. The anticipated amortization period is five years, depending on the useful life of each project.
- (ii) When Pantanal was acquired in March 2010, the management identified separable intangible assets relating to airport operational rights. The fair value of these rights was estimated to be R\$ 124,927, with an indefinite useful life. For details of the transition, see Note 1.2 to the annual financial statements for the year ended December 31, 2010. In the quarter ended March 31, 2011 the company concluded the valuation of the business combination from the acquisition of Pantanal, which began on March 15, 2010. The Company concluded during the first quarter of 2011 to evaluate the combination of business from the acquisition of Pantanal Linhas Aereas SA, which began on March 15, 2010. As a result of this valuation, an amount of R\$ 38,262 was recorded in relation to income tax and social contribution liabilities, originating from the difference between the value of intangible fiscal and fair value recorded for the business combination. The resulting deferred tax liability was recorded in contrast to the goodwill derived from the expected future profitability (goodwill).
- (iii) Transfers in total correspond to items classified as intangible assets to transferred to property, plant and equipment.

The amortization expenses are recorded in the consolidated statement of operations within operating expenses as follow:

	<u>2012</u>	<u>2011</u>
Cost of services rendered	600	77,353
Selling expenses	6,645	600
General and administrative expenses	<u>85,579</u>	<u>16,731</u>
As at December 31	<u><u>92,824</u></u>	<u><u>94,684</u></u>

- (iv) Impairment testing

Upon the acquisition of Pantanal, the Company recognized intangible assets with indefinite useful lives (airport slots) and goodwill. Slots were allocated to the Pantanal CGU upon acquisition, and goodwill was allocated to the Aviation operating segment, which at the time included two CGUs, i.e. TLA and Pantanal. The TAM brand was also recognized upon acquisition as an intangible asset with an indefinite useful life that was allocated to the TLA CGU. During the year 2011, the integration of the activities of Pantanal and TAM continued, ultimately resulting in the legal entity Pantanal being merged into TLA. As a result, the Aviation operating segment from 2011 represented a single cash generating unit.

The operating segment and Aviation CGU has allocated as of December 31, 2012 goodwill amounting to R\$ 38,262, slots with indefinite lives with carrying amounts of R\$ 124,927 and the TAM brand, with a indefinite life with a carrying amount of R\$ 168,312.

The recoverable amount of the Aviation CGU was estimated based on its fair value less selling costs. The fair value less selling costs has been estimated based on a methodology that considered the fair value less selling costs of TAM as at

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December 31, 2012, less the market capitalization of Multiplus as at this date, to the extent of the interest of TAM in Multiplus. No impairment was identified.

20. Financial liabilities

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

	Fair value		Consolidated Carrying value	
	2012	2011	2012	2011
As at December 31				
Current				
Finance lease obligations (Note 20.2)	742,628	707,696	742,628	707,696
Senior notes (Note 20.2)	38,089	33,355	34,865	32,004
Borrowing (Note 20.3)	955,615	912,668	957,489	947,110
Debentures (Note 20.4)	538,939	319,009	515,950	311,190
	<u>2,275,271</u>	<u>1,972,728</u>	<u>2,250,932</u>	<u>1,998,000</u>
Non-current				
Finance lease obligations (Note 20.2)			4,430,996	4,622,143
Senior notes (Note 20.2)	2,442,037	2,100,761	2,224,583	2,038,214
Borrowing (Note 20.3)	10,144	9,643	10,182	10,046
Debentures (Note 20.4)		527,319		496,253
	<u>6,883,177</u>	<u>7,259,865</u>	<u>6,665,761</u>	<u>7,166,656</u>

20.1 Finance lease obligations

	Monthly payments expiring		
		2012	2011
Local currency			
IT equipment	2014	15,616	33,168
Foreign currency - US\$			
Aircraft	2024	4,949,361	5,070,135
Engines	2021	204,168	222,363
Machinery and equipment	2014	4,479	4,173
As at December 31		<u>5,173,624</u>	<u>5,329,839</u>
Current		<u>(742,628)</u>	<u>(707,696)</u>
Non-current		<u>4,430,996</u>	<u>4,622,143</u>

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

The minimum payments under finance leases are classified as follow:

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Year	2012	2011
Less than one year	864,509	816,750
After one year but within five years	3,218,395	3,178,009
After five years	1,659,013	1,865,986
Effects of discounting	(561,120)	(530,906)
As at December 31	5,180,797	5,329,839

As at December 31, 2012, the Company, through its subsidiaries TLA and TAM Airlines, had 83 aircraft (2011 – 84 aircraft) under finance leases.

20.2 Senior notes

	2012	2011
TAM Capital, Inc. (i)	615,225	563,468
TAM Capital 2 Inc. (ii)	627,823	575,045
TAM Capital 3 Inc. (iii)	1,016,400	931,705
	2,259,448	2,070,218
Current	(34,865)	(32,004)
Non-current	2,224,583	2,038,214

(i) On April 25, 2007, TAM Capital Inc. concluded the offering of 3,000 senior notes, with a nominal value of US\$ 100 thousand each, and a total amount of US\$ 300 million (equivalent to R\$ 710.4 million using the exchange rate on the date of the transaction), incurring debt issue costs of R\$ 13.7 million, and carrying interest at 7.375% p.a. (resulting in an effective interest rate of 7.70%). Interest is payable semiannually and with the principal payable in a bullet payment in 2017. The notes were issued outside of Brazil under an exemption from registration with the Brazilian CVM. The Company registered the notes with the United States Securities and Exchange Commission (“SEC”) on October 30, 2007.

(ii) On October 22, 2009, TAM Capital 2 Inc. concluded the offering of 3,000 senior notes, with a nominal value of US\$ 100 thousand each and a total amount of US\$ 300 million (equivalent to R\$ 523.2 million using the exchange rate on the date of the transaction), carrying interest at 9.5% p.a. (resulting in an effective interest rate of 9.75%). The notes were issued outside of Brazil under an exemption from registration with the Brazilian CVM and with the SEC. TAM Capital 2 has an option for the early redemption of the Senior Notes at any time prior to January 29, 2015. In the event of early prepayment, a redemption price must be paid. Management has concluded that the redemption price compensates the lender for the loss of interest, and as such the redemption option is considered to be clearly and closely related to the Senior Notes.

(iii) On June 3, 2011, TAM Capital 3 Inc. concluded the offering of 5,000 senior notes, with a nominal value of US\$ 100 thousand each, and a total amount of US\$ 500 million (equivalent to R\$ 787.2 million using the exchange rate on the date of the transaction), incurring debt issue costs of R\$ 10.1 million, carrying interest at 8.375% p.a. (resulting in an effective interest rate of 8.570% p.a.) payable semiannually from December 2011, with the principal payable in full on June 2021. The notes were issued outside of Brazil under an exemption from registration with the Brazilian CVM and the SEC. TAM , the senior notes at any time prior to June 3, 2016. In the event of early prepayment, a redemption price must be paid. Management has concluded that the redemption price compensates the lender for the loss of interest and, as such the redemption option is considered clearly and closely related to the Senior Notes.

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20.3. Borrowing

(a) Balance composition

	<u>Guarantees</u>	<u>Interest rate (effective rates for 2011 and 2010)</u>	<u>Payment term and the year of last</u>	<u>2012</u>	<u>2011</u>
Local currency					
FINEM -Sub-credit B	Mortgage of assets and accounts receivable	Basket of currencies BNDES + 3.0% p.a.	Monthly until 2012		174
Others (i)			Monthly until 2015	3,617	2,699
Foreign currency					
FINIMP (ii)	Promissory notes of US\$ 199 mil and 33.605	LIBOR +2.30% p.a. to 5.57% p.a. (2.5% p.a. and	Annually until December, 2013	850.530	712,803
<i>International Finance Corporation - IFC (Working capital) (iii)</i>	Guarantee deposits of US\$ 2,500 thousand	6 month LIBOR + 3% p.a.	Half-yearly until 2012		2,688
Leasing renegotiation (iv)	Letter of guarantee	Fixed installments of US\$ 55 thousand	Monthly until 2022	9,463	9,386
Financing – Pre-delivery payment (v)	Unconditional guarantee	Quarterly LIBOR + 2.5% p.a. (Monthly LIBOR + 0.6% p.a.)	Quarterly until 2013	103,335	227,164
Other (vi)				726	2,242
				<u>954,283</u>	<u>954,283</u>
			As at December 31	<u>967,489</u>	<u>957,156</u>
			Current	<u>(957,489)</u>	<u>(947,110)</u>
			Non-current	<u>10,182</u>	<u>10,046</u>

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

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Non-current maturities are as follow:

Year	2012	2011
Between 1 and 3 years	4,326	3,783
After 3 years	5,856	6,263
As at December 31	10,182	14,046

(b) Description of the loans and financing:

- (i) TAM has signed financing agreements for the acquisition of machinery and equipment. The transactions that are active mature in 2015, with the banks Itaú Unibanco and Safra.
- (ii) The Company obtained loans of FINIMP to finance imports of aircraft parts. Among the currently active transactions, loans from the banks Safra, Banco do Brazil, Bradesco, Itaú and Citibank have maturities through December 2013
- (iii) On December 16, 2005, TLA entered into a loan agreement with the International Finance Corporation ("IFC") to finance up to US\$ 33 million in pre-delivery payment ("PDP") for Airbus aircraft.
- (iv) Debt resulting from the renegotiation of a contract for airplanes and parts entered into between TAM and Fokker Aircraft BV on June 25, 1982.
- (v) In 2011 TLA and TAM Financial 3 entered into a loan agreement with the bank Crédit Agricole, to finance up to US\$ 150 million of PDP in relation to Boeing aircraft.
- (vi) Contract for the acquisition of IT equipment software and related services.

20.4 Debentures

	Parent company		Consolidate	
	2012	2011	2012	2011
TAM S.A.		174,650		174,650
TAM Linhas Aéreas S.A. (i)			515,950	632,793
As at December 31		174,650	515,950	807,443
Current		(174,650)	(515,950)	(311,190)
Non-current				496,253

Non-current maturities are as follow:

	2012	2011
Between 1 and 3 years		297,546
After 3 years		198,707
As at December 31		496,253
(i) TAM Linhas Aéreas S.A.		

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

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

The payment of interest has been modified from monthly payments to semiannual payments, at a rate equivalent to 124% of the CDI (the interest rate on the date of issue of 13.25%), calculated and published by CETIP (the custodian and liquidation agent). The effective interest rate was 10.42% p.a. as at December 31, 2012 (December 31, 2011 - 14.38%).

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

The book of debenture issue of TLA, and other contractual obligations, require compliance with financial covenants, including the Net Debt/EBITDA ratio which cannot be greater than 5.7, occurred quarterly. The increase in operating costs, arising mainly from increased airport charges, increased jet fuel, depreciation of the Real versus the US Dollar, among others, the coverage ratio of debt reflected in this issue has risen above 5.7 in the last two quarters of 2012. In this sense the debentures would be subject to early termination by the General Meeting of Debenture.

On February 14, 2013, General Meeting was held Debenture, which approved without any reservation or restriction, the renunciation of the right of the issuer to maintain a Net Debt/EBITDA ratio of less than 5.7 in the period concerning the two last quarters of 2012 and the first two quarters of 2013. Thus the noncompliance of the obligation not configure acceleration hypothesis.

In compliance with the accounting standards, the Company reclassified the long-term portion with a maturity schedule for 2017 to short-term in the amount of R\$ 397,070.

21. Deferred income

	<u>2012</u>	<u>Consolidated</u> <u>2011</u>
Advance ticket sales	872,624	624,923
TAM loyalty program	1,025,920	794,297
TAM Viagens - Deferred income	9,769	10,126
Sale and leaseback – deferred gains/losses (i)	35,814	70,528
Sale and leaseback – deferred losses (ii)	(42,770)	(19,906)
Deferred revenue – service contracts (iii)	224,209	199,890
As at December 31	<u>2,125,566</u>	<u>1,679,858</u>
Current	<u>(1,937,144)</u>	<u>(1,472,055)</u>
Non-current	<u>188,422</u>	<u>207,803</u>

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(i) The deferred gains on sale and leaseback transactions relate to sales of aircraft in 2001 and 2003. The gains are recognized in the statement of operations on a straight line basis through 2014. On March 4, 2011, the Company entered into a sale and leaseback in relation to one engine. The gain on this transaction was R\$ 4,832 and is being amortized on a straight-line basis through to 2015.

(ii) On December 16, 2011, the subsidiary TLA entered into four sale and leaseback transactions related to aircraft finance leases. These operations generated a loss of R\$ 20,130 which was deferred after the impairment testing of these aircraft, as required by paragraph 64 of IAS 17. The loss will be amortized on a straight line basis until 2015.

On August 23, 2012, TLA entered into sale and leaseback transactions relating to aircraft leases. These operations generated a loss of R\$ 30,156 that was deferred after performing the impairment testing of these aircraft. The amortization period for the injury ends in 2016 and is carried out on a straight line basis.

(iii) Refers basically to:

a. On December 29, 2011, the subsidiary TLA entered into a commercial partnership with Bank Itaucard S.A. ("Itaucard") in order to offer, distribute and, through distribution channels or by any other means, to market the Itaucard credit card to TAM customers nationwide for a period of 15 years from the agreement date. Itaucard advanced to TLA the total amount of the contract (R\$ 200 thousand), which was deferred and recognized in the statement of operations in a straight line basis. In 2011 the total amount of R\$ 230 was recognized as income.

b. On August 2, the companies TLA and TAM Viagens amended the partnership terms to provide financial services on an exclusive basis. signed on June 28, 2007 with Bank Santander S.A., for the same operate up to October 31, 2017. Santander paid an additional premium of R\$ 34 million for preferred bank status, which was deferred and recognized in the income statement on a straight line basis.

22. Refinanced taxes payable under the Fiscal Recovery Program ("REFIS")

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

- Payment will be made in 180 monthly installments depending on the nature of the debt
- Reduction in penalties and interest
- Obligation to make the monthly payments and not become overdue by more than three months
- Withdraw any lawsuits which the participant has initiated in relation to the taxes included under REFIS.

If these commitments are not honored, the Company will be excluded from the REFIS and a new tax debt will be determined based on the amounts originally due.

During the year ended December 31, 2011 the tax authorities finished processing the Company's REFIS application, and determined that the total amounts of the debt under REFIS were as follow:

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	<u>Original amount</u>	<u>Penalties</u>	<u>Interest</u>	<u>Fees</u>	<u>Total</u>
COFINS (i)	193,771	7,345	133,900		335,016
PIS (i)	37,301	2,724	40,561		80,586
Refinanced taxes payable under Fiscal Recovery Program from Pantanal (ii)	20,215	1,911	24,880	3,096	50,102
Other	15,475	799	6,112		22,386
	<u>266,762</u>	<u>12,779</u>	<u>205,453</u>	<u>3,096</u>	<u>488,090</u>

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

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

As a result of the final processing of the debt by the tax authorities on June 30, 2011, the total amount of the debt corresponds to a single tax debt, irrespective of the tax or contributions that originally generated the tax liability. The status of the total amount due is as follows:

	<u>2012</u>	<u>Consolidated 2011</u>
Consolidated debt	439,827	439,827
Consolidated debt adjustment Index	11,710	11,710
Payments made	60,661	62,429
	<u>(49,806)</u>	<u>(30,648)</u>
As at December 31	<u>462,392</u>	<u>483,318</u>
Current	<u>(39,206)</u>	<u>(46,924)</u>
Non-current	<u>423,186</u>	<u>436,394</u>

The total consolidated debt under REFIS classified as non-current liabilities has the following maturity profile:

	<u>2012</u>	<u>2011</u>
Less than 1 year	39,206	46,924
Between 1 and 3 years	196,496	186,432
After 3 years	226,690	249,962
	<u>462,392</u>	<u>483,318</u>

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23. Other accounts payable

	<u>2012</u>	<u>Consolidated 2011</u>
Reorganization of Fokker 100 Fleet		39
Maintenance provision – “Power by the hour” (i)	779,644	535,088
Other liabilities	179,682	102,378
As at December 31	<u>959,326</u>	<u>637,505</u>
Current	<u>(349,914)</u>	<u>(197,444)</u>
Non-current	<u>609,412</u>	<u>440,061</u>

(i) During the year ended December 31, 2012, the Company included 196 engines (2011 – 168) under power-by-the-hour maintenance contracts.

24. Provisions

(a) Changes in the reserve for contingencies

Management recorded provisions for contingencies in all cases where a loss is deemed probable based on advice provided by the Company’s internal and external legal counsel. As at December 31, 2012 and 2011 the amounts of provisions and the corresponding judicial deposits recognized were as follow:

	<u>2011</u>	<u>Provisions (Deposits)</u>	<u>Payments</u>	<u>Financial charges</u>	<u>Consolidated 2012</u>
Airline staff fund (i)	225,463	31,341		14,763	271,567
Labor contingencies	21,444	165,879			187,323
Civil litigation	107,637	22	(207)		107,452
Other tax contingencies	64,496	27,378		(8,646)	83,228
Total	<u>419,040</u>	<u>224,620</u>	<u>(207)</u>	<u>6,117</u>	<u>649,570</u>
(-)Judicial deposits	<u>(147,921)</u>	<u>(219,045)</u>	<u>15</u>	<u>(9,564)</u>	<u>(376,515)</u>
Total	<u>271,119</u>	<u>5,575</u>	<u>(192)</u>	<u>(3,447)</u>	<u>273,055</u>

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	2010	Provisions (Deposits)	Payments	Financial charges	Consolidated 2011
Airline staff fund (i)		35,258		15,979	225,463
Labor contingencies		793	(279)		21,444
Civil litigation		21,366			107,637
Other tax contingencies		15,033		1,332	64,496
Total	329,558	72,450	(279)	17,311	419,040
(-)Judicial deposits	(125,287)	(22,672)	38		(147,921)
Total		49,778	(241)	17,311	271,119

(i) Corresponds to the imposition of 2.5% on the monthly payroll for private social welfare and professional training entities. TLA's management, based on the opinion of its external legal counsel, is contesting the constitutionality of this imposition. The non-payment of this tax was supported by a judicial order reversing this measure in October 2012, then shall be conducted gathering normally thereafter. After the reversal of the temporary injunction, TLA appealed to retrieve it, making it necessary to carry out a judicial deposit of R\$ 238,370.

(ii) In the year ended in 2012 there was an increase of provision of R\$ 165,879 which refers mostly to the inclusion of new processes regarding the dangerousness of R\$ 163,912 filed by the unions for aviators against Company. In the beginning of 2013, were approved agreements with the unions from São Paulo and Guarulhos.

(b) Possible contingencies

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

	2012	2011
Tax contingencies		
ICMS (State Value Added Tax)	410,580	436,081
IRPJ and CSLL (Income taxes)	171,998	151,802
Special customs regime for temporary		102,644
Other	328,544	339,067
	911,122	1,029,594
Civil litigation	145,430	65,876
Labor contingencies	525,795	426,639
As at December 31	1,582,347	1,522,109

25. Deferred income tax and social contribution

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

The movements in deferred income tax and social contribution assets and liabilities during the year ended December 31, 2012, not taking into consideration the offsetting of balances within the same tax jurisdiction, were as follow:

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Deferred income tax and social contributions	Parent company		
	2011	Charged/(credited) to the statements of operations	2012
Income tax losses carried forward	19,192	32,107	51,299
Social contributions carried forward	8,138	11,558	19,696
Temporary differences:			
Provision for contingencies	1,812	889	2,701
Other	833	345	1,178
Total deferred income tax and social contribution assets	29,975	44,899	74,874

Deferred income tax and social contributions	Parent company		
	2010	Charged/(credited) to the statements of operations	2011
Income tax losses carried forwards	8,812	10,380	19,192
Social contributions carried forwards	4,401	3,737	8,138
Temporary differences:			
Provision for contingencies	1,642	170	1,812
Other	676	157	833
Total deferred income tax and social contribution assets	15,531	14,444	29,975

	2012	2011
Deferred income tax and social contributions expected to be recovered within 12 months - Netted	13,671	13,696
Deferred income tax and social contributions expected to be recovered after 12 months - Netted	61,203	16,279
As at December 31	74,874	29,975

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		Charged/(credited) to the statement of operations	Charged/ (credited) to equity	Consolidated
Deferred income tax and social contributions	2011			2012
Income tax losses carried forward	46,158	236,226		282,384
Social contributions carried forward	18,142	87,778		105,920
Temporary differences:				
Provision for derivatives losses/gains	14,176	6,359	102	20,637
Provision for derivatives not realized in income	(571)		1,664	1,093
Provision for contingencies	123,205	65,370		188,575
Allowance for losses on inventory and receivables accounts	44,333	1,301		45,634
Deferred income from sale and leaseback transactions	12,031	(8,233)		3,798
TAM loyalty program	(13)			(13)
Finance leases	(210,288)	150,134		(60,154)
Other	39,060	(3,510)		35,550
Property, plant and equipment	(44,660)	2,124		(42,536)
Deferred income tax and social contribution liabilities – intangible assets on acquisition of Pantanal	(38,262)			(38,262)
Total	<u>3,311</u>	<u>537,549</u>	<u>1,766</u>	<u>542,626</u>
Deferred income tax and social contribution assets	48,517	629,517	1,766	679,800
Deferred income tax and social contribution liabilities	<u>(45,206)</u>	<u>(91,968)</u>		<u>(137,174)</u>

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				Consolidated
		Charged/ (credited) to the statements of operations	Charged - Goodwill for Pantanal Acquisition (Note 19)	Charged/ (credited) to the equity
Deferred income tax and social contributions	2010			2011
Income tax losses carried forward	62,288	(16,130)		46,158
Social contribution carried forward	22,548	(4,406)		18,142
Temporary differences:				
Provision for derivatives losses/gains	6,096	(10,115)		18,195
Provisions for derivatives not realized in income				(571)
Provision for contingencies	94,008	29,197		123,205
Allowance for losses on inventory and receivables accounts	39,165	5,168		44,333
Deferred income from and sale leaseback transactions	28,312	(16,281)		12,031
TAM loyalty program	66,008	(66,021)		(13)
Finance leases	(432,885)	222,597		(210,288)
Other	48,796	(9,736)		39,060
Property, plant and equipment	(45,514)	854		(44,660)
Deferred income tax and social contribution liabilities – intangible assets on acquisition of Pantanal			(38,262)	(38,262)
Total	(111,178)	135,127	(38,262)	17,624
Deferred income tax and social contribution assets	16,748	14,145		17,624
Deferred income tax and social contribution liabilities	(127,926)	120,982	(38,262)	(45,206)

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	<u>2012</u>	<u>2011</u>
Deferred income tax and social contributions expected to be recovered within 12 months – Netted	82,945	69,718
Deferred income tax and social contributions expected to be recovered within more than 12 months – Netted	<u>459,681</u>	<u>(66,407)</u>
As at December 31	<u>542,626</u>	<u>3,311</u>

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

As at December 31, 2012, there were unrecognized deferred tax assets arising from the tax losses of foreign subsidiaries, which amounted to R\$ 236,850 (2011 – R\$ 161,065).

(a) Income tax and social contribution expenses

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current tax			(113,272)	(213,743)
Deferred tax		14,444	(537,549)	135,127
		<u>14,444</u>	<u>424,277</u>	<u>(78,616)</u>

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

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	Parent company		Consolidated	
	2012	2011	2012	2011
Loss before income tax and social contributions	(1,290,040)	(349,508)	(1,608,409)	(182,897)
Tax calculated at Brazilian tax rates applicable to profits	34%	34%	34%	34%
Taxes calculated at statutory rates	438,613	118,833	546,859	62,185
Tax effects of permanent differences:				
Equity in the results of investees	(389,049)	(98,479)	(749)	
Non deductible expenses	(96)	(5)	(47,688)	(46,244)
Tax credit on interest paid on own capital paid			786	7,512
Tax due on interest received on own capital from Multiplus	(2,112)	(5,494)		(5,494)
Unrecognized tax credits on the tax losses of Pantanal			(1,316)	(22,307)
Unrecognized (deferred tax assets on losses of subsidiaries outside Brazil)/deferred tax liabilities on profits of subsidiaries outside Brazil			(67,096)	(69,992)
Non-deductible share-based compensation				(3,097)
Other	(2,457)	(411)	(6,519)	(1,179)
Income tax and social contribution tax charges (credits)	44,899	14,444	424,277	(78,616)
Effective rate %	3.5	4.1	26,4	42.9

The years from 2008 to 2012 are open to review by Brazilian tax authorities.

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26. Share Capital

(a) Authorized capital

As at December 31, 2012 the authorized capital was R\$ 1,200,000 (2011 – R\$ 1,200,000) and may be increased by means of the issue of common and preferred shares as resolved by the Board of Directors.

(b) Subscribed share capital

As at December 31, 2012 the subscribed share capital is made up of 156,672,079 shares (2011 – 156,206,781)

	<u>Number of shares</u>	<u>R\$ thousand</u>
As at December 31, 2011	156,206,781	819,892
Capital increase by BDM on April 13, 2012	235,298	5,198
Capital increase by BDM on May 14, 2012	230,000	5,349
Acquisition of Shares – May 6, 2012		329
As at December 31, 2012	<u>156,672,079</u>	<u>830,768</u>

(c) Payment of dividends and dividends declared

No dividends have been provided for the year ended December 31, 2012 and 2011, since the results for these year were losses.

27. Capital reserve

(a) Share premium

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

(b) Treasury shares

The movements of treasury shares during the nine months ended December 31, 2012 and 2011 are presented below.

	<u>Quantity of shares</u>	<u>Thousand of R\$</u>	<u>Average price per share - Reais</u>
As at December 31, 2010	212,580	(6,008)	28.26
Acquisition of treasury shares (i)	54,137	(1,879)	34.71
Resale of treasury shares	(186,462)	5,328	28.81
As at December 31, 2011	80,255	(2,559)	31.89
Disposal of shares (iii)	(80,255)	2,559	(31,89)
As at December 31, 2012			

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- (i) A meeting of the Board of Directors held on September 30, 2011 authorized the purchase of up to 54,137 preferred shares to be held in treasury for future use in order to meet the exercise of options under the Stock Option Plan.
- (i) During the year ended December 31, 2011, 186,462 shares held in treasury were sold to beneficiaries of the stock option plan. The shares sold relate to the executive compensation plan approved at the Extraordinary General Meeting ("EGM") of May 16, 2005.
- (iii) On July 12, 2012, the Extraordinary General Meeting decided unanimously to cancel the shares that were intended for the settlement of the equity instruments of the Share-based payment (Note 30).

28. Retained profits

(a) Legal reserve

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

29. Carrying value adjustments

(a) Cumulative translation adjustments

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

(b) Deemed costs reserve

Following the transition to IFRS, the Company adopted the revalued amounts as the deemed costs of certain assets that were revalued under BR GAAP in the years prior to the transition to IFRS. The deemed costs reserve corresponds to the revaluation of those assets maintained at initial transition to IFRS, and the reserve is realized in proportion to the depreciation, write-off or sale of the revalued asset, with a counter-entry to the retained earnings (accumulated deficit) account. In the year ended December 31, 2012 the reserve realization totaled R\$ 1,497, net of tax effects (2011 - R\$ 1,481). Of the total amount of the reserve, R\$ 22,827 (2011 - R\$ 28,733) corresponds to the revaluation of land and buildings, which will only be realized upon the eventual write-off of these assets.

(c) Hedge accounting

Refers to the effective portion of the cumulative net change in fair value of hedging instruments of cash flow related to operating object of protection that have not yet been incurred. The amounts recorded in this account are reclassified to the income statement wholly or partly after completion.

30. Share-based payment

(a) TAM Linhas Aéreas

The Extraordinary Stockholders' Meeting held on May 16, 2005 authorized the Board of Directors to grant stock options to employees covering up to 2% of the outstanding shares.

These transactions can be summarized as follow:

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	<u>Number of stock options outstanding</u>	<u>Weighted average exercise price - R\$</u>
As at December 31, 2010	2,209,115	34.18
Exercised	(186,464)	19.57
Cancelled	(188,152)	37.68
As at December 31, 2011	1,834,499	38.89
Exercised	(534,297)	22.57
Cancelled	(327,498)	45.68
As at December 31, 2012	<u>972,704</u>	<u>46.97</u>

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

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

On September 30, 2012, the Company transferred the amount of R\$ 6,299 of reservation plan of share-based compensation, recorded in equity under liabilities due to changes in the way the plan of liquidation occurred at the Extraordinary General Meeting held on July 12, 2012. It was decided unanimously by the shareholders present to close the share-based payment system to new beneficiaries, maintaining the purchasing options until the completion of their vesting occurring cash payment in cash rather than in equity instruments. At the respective vesting dates, the beneficiaries of the options must receive payment in cash equal to the product of (i) the total number of stock options exercised, and (ii) the difference, if any, between (ii.1) the price exercise of the purchase option, and (ii.2) the result of the multiplication of 0.90 (zero point nine) by the closing share price of LATAM Airlines Group SA on the Santiago Stock Exchange on the business day immediately prior to the exercise of the option. There was no change in the exercise price agreed.

In accordance with IFRS 2 – "Share-based payments", the fair value of outstanding options shall be recalculated at the end of each reporting period. The Company recalculated the fair values of outstanding options using the Black-Scholes Model. On December 31, 2012, the fair value of outstanding options recognized in the Company's liabilities was R\$ 4,163. The assumptions used in the pricing model were updated on December 31, 2012 based on information from LATAM and are as follow:

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	<u>1st grant</u>	<u>2st grant</u>	<u>3st grant</u>	<u>3st special grant</u>	<u>4st grant</u>	<u>1st special grant</u>	<u>Total</u>
Date	12/28/200	11/30/200	12/14/200	12/14/200	05/28/201	09/27/200	
Date of the last modification	07/12/201	07/12/201	07/12/201	07/12/201	07/12/201	07/12/201	
Number of shares	715.255	239.750	655.311	125.000	591.467	230.000	2.556.783
Exercise price – R\$	14,40	43,48	39,67	40,27	25,11	38,36	
Risk free interest rate - %	17,93	13,13	10,95	10,95	9,38	10,82	
Risk free interest rate - %- last modification	7,85	7,85	7,85	7,85	7,85	7,85	
Average term	5,5	5,5	5,5	5,5	5,5	4,5	
Expected dividend yield - %	0,00	0,32%	0,58	0,58	0,55	0,58	
Expected dividend yield - %- last modification	0,30	0,30	0,30	0,30	0,30	0,30	
Share price volatility - %	34,24	41,29	42,30	42,30	51,47	40,48	
Share price volatility - %- last modification	28,55	28,15	20,98	20,98	24,54	28,55	
Market share price on grant date - R\$	45,00	61,00	44,03	44,03	24,30	50,10	
Market share price on the date of the modification – R\$	46,48	46,48	46,48	46,48	46,48	46,48	
Market share price on grant date - R\$	39,64	41,11	25,09	24,90	13,57	28,28	
Market share price on grant date - last	25,21		0,76	0,62	22,67		
Exercise price adjustment – R\$ (i)	21,93	64,46	54,95	30,58	30,38	54,77	
Number of options outstanding (i)		119.401	259.857		363.446	230.000	972.704
Number of options exercisable (i)		119.401	245.082		125.674	230.000	720.157
Amount payable upon exercise of exercisable options as at December 31, 2012		7.696.588	13.467.255		3.817.976	12.597.100	
Remaining average term (i)			0,08		2,36		

(i) As at December 31, 2012.

Share price volatility is determined based on the historical share price volatility of LATAM's shares. The average remaining contractual life is based on the expected performance.

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(b) Multiplus S.A.

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

These transactions are summarized as follow:

	<u>Number of stock options outstanding</u>	<u>Weighted average exercise price - R\$</u>
As at December 31, 2010	1,660,759	18.07
Exercised	(77,285)	24.80
Cancelled	(6,196)	29.80
As at December 31, 2011	1,577,278	14.64
Granted	440,563	31.41
Exercised	(593,021)	15.48
Cancelled	(533,559)	15.82
As at December 31, 2012	891,261	23.35

Under the plan, options are granted in three equal tranches, and employees can exercise one third of their options after two, three and four years, respectively if they are still employed by the Company at that time. The contractual life of the options is seven years from the grant date. The first extraordinary grant is divided into two equal tranches that can be exercised as follow: half of the options after three years, and the other half after four years. The second extraordinary grant is also divided into two equal tranches which can be exercised after one year and two years, respectively.

The options contain a "service condition" which depends only on the rendering of services by the employee for a defined period. Employees who leave the Company have the obligation to satisfy certain conditions in order to maintain their option rights.

As at June 30, 2011, the Company determined the exercise price of R\$ 20.00 per share, for the Special Grant related to the hiring of the Company's current Chief Executive Officer, and the reduction in the exercise price by R\$ 3.72 per share, due to the reduction in the Company's capital, for the other grants. The re-measurement of options based on the new exercise price resulted in an additional expense of R\$ 3,114 which will be recognized prospectively during the remaining term of the grants.

On October 3, 2011, the Company fixed the exercise price of R\$ 16.28 per share, relating to the special grant, due to the reduction in the Company's capital. The re-measurement of the options based on the new exercise price resulted in an additional expense of R\$ 312, which will be recognized prospectively during the remaining term of the grants.

The options are valued using the Black-Scholes option pricing model. The following table shows details of changes in option prices, together with the variables used to value the options granted. The exercise price is adjusted by the IGP-M, from the grant date up to the exercise date.

As at December 31, 2012, the assumptions used to calculate the fair value of the options granted were as follow:

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	<u>1st grant</u>	<u>2nd grant</u>	<u>3th grant</u>	<u>1st extraordinary grant</u>	<u>2nd extraordinary grant</u>	<u>3rd extraordinary grant</u>	<u>Total or weighted average</u>
Date	10/04/2010	11/08/2010	04/16/2012	04/10/2010	10/04/2010	04/16/2012	
Date of the last modification	06/30/2011	06/30/2011	N/A	30/06/2011	06/30/2011	N/A	
Number of shares	98,391	36,799	378,517	1,370,999	154,570	62,046	2,101,322
Exercise price at grant date of the last modification - R\$	23.61	27.83	31.41	12.28	16.28	31.41	
Risk free interest rate - %	12.15	12.15	10.30	12.15	11.88	8.86	
Average term (years)	4.63	4.67	4.75	4.88	3.25	4.75	
Expected dividend yield - %	2.60	2.60	4.17	2.60	2.59	4.17	
Share price volatility - %	33.79	33.79	32.78	33.79	34.24	32.78	
Market share price at grant date - R\$	26.90	31.55	38.36	26.90	26.90	38.36	
Market share price on the date of the last modification - R\$	27.20	27.20	N/A	27.20	27.10	N/A	
Fair value on grant date - R\$	11.58	14.06	14.68	16.91	10.53	13.86	
Fair value on Grant date of the date of modification - R\$	12.17	10.71	N/A	17.35	14.29	N/A	
Average exercise price adjustment	27.33	32.31	33.65	14.36		33.65	
Remaining average term	3.92	3.06	4.69	4.13		4.67	
Number of options outstanding	61,463	2,245	362,272	403,235		62,046	891,261
Number of options exercisable							

The expected volatility is determined based on the historical price volatility of Multiplus' exchange-traded shares. The remaining average term is based on the expected exercise of the options

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31. Revenue

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

(a) By type of services rendered

	<u>2012</u>	<u>%</u>	<u>2011</u>	<u>%</u>	<u>Consolida Period - Variation (%)</u>
Domestic					
Passenger	7,348,216	51.5	6,185,319	45.6	18.8
Cargo	550,315	3.9	552,861	4.1	(0.5)
	<u>7,898,531</u>	<u>55.4</u>	<u>6,738,180</u>	<u>49.7</u>	<u>17.2</u>
International					
Passenger	4,465,801	31.3	3,823,488	28.2	16.8
Cargo	299,622	2.1	623,815	4.6	(52.0)
	<u>4,765,423</u>	<u>33.4</u>	<u>4,447,303</u>	<u>32.8</u>	<u>7.2</u>
Other					
Loyalty Program (TAM)			212,036	1.6	(100.0)
Loyalty Program (Multiplus)	438,075	3.1	1,151,737	8.5	(62.0)
Travel and tourism agencies	93,667	0.7	78,617	0.6	19.1
Others (including expired tickets)	1,070,111	7.4	927,939	6.8	15.3
	<u>1,601,853</u>	<u>11.2</u>	<u>2,370,329</u>	<u>17.5</u>	<u>(32.4)</u>
Total gross	<u>14,265,80</u>	<u>100.</u>	<u>13,555,812</u>	<u>100.0</u>	<u>5.2</u>
Sales taxes and other deductions	<u>(570,218)</u>		<u>(561,326)</u>		1.6
Revenue	<u><u>13,695,58</u></u>		<u><u>12,994,486</u></u>		5.4

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32. Costs and operating expenses by nature - consolidated

	Consolidated				
	2012				
	Cost of services rendered	Sales	General and administrative	Total	%
Personnel	2,378,058	292,862	264,475	2,935,395	20.5
Board of Executive Officers fees			1,464	1,464	0.1
Fuel	5,513,339			5,513,339	38.5
Depreciation and amortization	628,726	8,490	122,512	759,728	5.3
Maintenance and repairs (excluding personnel)	762,968			762,968	5.3
Aircraft insurance	33,462			33,462	0.2
Take-off, landing and navigation aid charges	847,734			847,734	5.9
Leasing of aircraft, engines and equipment under operating leases	567,326	12,508	25,884	605,718	4.2
Third party services	230,711	387,160	488,201	1,106,072	7.7
Marketing and related expenses		663,318		663,318	4.6
Provisions - labor, civil, tax and air transportation fund			253,339	253,339	1.8
Other	417,373	176,825	257,244	851,442	5.9
As at December 31	11,379,697	1,541,163	1,413,119	14,333,97	100.0

	Consolidated				
	2011				
	Cost of services rendered	Sales	General and administrative	Total	%
Personnel	2,236,268	239,575	217,902	2,693,745	22.4
Board of Executive Officers fees			1,761	1,761	0.0
Fuel	4,186,892			4,186,892	34.8
Depreciation and amortization	596,688	4,625	129,062	730,375	6.1
Maintenance and repairs (excluding personnel)	619,357			619,357	5.2
Aircraft insurance	46,533			46,533	0.4
Take-off, landing and navigation aid charges	682,258			682,258	5.7
Leasing of aircraft, engines and equipment under operating leases	417,964	10,069	22,017	450,050	3.7
Third party services	208,785	308,555	322,627	839,967	7.0
Marketing and related expenses		962,925		962,925	8.0
Other	394,328	205,058	204,180	803,566	6.7
As at December 31	9,389,073	1,730,807	897,549	12,017,42	100.0

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33. Employee benefits

Personnel costs (presented under Personnel and Directors' fees in Note 32) are made up of the following amounts:

	<u>2012</u>	<u>2011</u>
Salaries and bonuses	2,306,648	2,132,234
Defined contribution pension plan	32,403	12,772
Share based payments	11,206	19,022
Taxes and social contributions	<u>586,602</u>	<u>531,478</u>
As at December 31	<u><u>2,936,859</u></u>	<u><u>2,695,506</u></u>

33.1 Profit-sharing and bonuses

The Company's management will pay a share of profits following the achievement of certain performance indicators established according to the annual budget. Consequently, during the year management recorded expenses relating to this benefit within "Salaries and social charges" totaling R\$ 40,905 as at December 31, 2012 (2011 - R\$ 74,516).

34. Net finance results

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Finance income				
Interest income from financial investments	20,704	27,597	135,548	174,194
Exchange gains	15	640	2,115,855	2,709,450
Receita Financeira - Depósitos Judiciais			9,499	
Other	<u>1,949</u>	<u>3,117</u>	<u>20,463</u>	<u>57,928</u>
As at December 31	<u>22,668</u>	<u>31,354</u>	<u>2,281,365</u>	<u>2,941,572</u>
Finance costs				
Exchange losses		(91)	(2,670,031)	(3,610,383)
Interest expense (i)	(5,812)	(39,828)	(415,390)	(481,872)
Other	<u>(2,539)</u>	<u>(6,105)</u>	<u>(150,457)</u>	<u>(43,515)</u>
As at December 31	<u>(8,351)</u>	<u>(46,024)</u>	<u>(3,235,878)</u>	<u>(4,135,770)</u>
Derivatives designated as cash flow hedges				
Gains			18,506	
Losses			<u>(791)</u>	<u>(6,584)</u>
As at December 31			<u>17,715</u>	<u>(6,584)</u>
Net finance results as at December 31	<u><u>14,317</u></u>	<u><u>(14,670)</u></u>	<u><u>(936,798)</u></u>	<u><u>(1,200,782)</u></u>

(i) The average monthly rate for capitalized interest for the year ended December 31, 2012 was 0.06 % (2011 - 0.36 %).

The exchange rate changes on finance leases recognized in income in the year ended December 31, 2012 amounted to a net expense of R\$ 443,261 (2011 - net expense of R\$ 579,795) and interest expenses related to this lease recognized in the results for the same year amounted of R\$ 112,358 (2011 - R\$ 100,616).

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35. Other disclosures on cash flow

In the cash flow statement, proceeds from sale of property, plant and equipment and intangibles were as follow:

	<u>2012</u>	<u>2011</u>
Net book amount – property, plant and equipment	501,264	19,267
Loss on disposal of property, plant and equipment	<u>(501,848)</u>	<u>(10,108)</u>
Proceeds from the disposal of property, plant and equipment	<u>(584)</u>	<u>9,159</u>

Non-monetary transactions

Significant transactions not affecting cash and cash equivalents were as follow:

	<u>2012</u>	<u>2011</u>
Acquisition of aircraft under finance leases	124,430	705,586
Financing obtained for direct payment to suppliers	57,493	128,808
Acquisitions of other property, plant and equipment under financial leases	44,460	33,726
Acquisitions of other property, plant and equipment	2,463	
Financed pre-delivery payment	161,084	94,379

36. Commitments and contingencies

(a) Operating lease commitments

TLA has obligations arising under operating lease contracts. The amounts of these commitments are not recorded in the financial statements. TLA has obligations arising from 68 aircraft under operating leases (2011 – 72 aircraft). These agreements have an average term of 108 months and are denominated in US Dollars, with interest rates based on LIBOR. The lease expenses recognized in the consolidated statement of operations in "Cost of services rendered", for the year ended December 31, 2012 amounted to R\$ 567,326 (2011 – R\$ 417,964), equivalent to approximately US\$ 277,625 thousand (2011 –US\$ 222,819 thousand), respectively.

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

In addition, to meet the payment conditions established under contracts, promissory notes guaranteed by the Company were issued, totaling R\$ 2,023 as at December 31, 2012 (2011 – R\$ 3,243).

In foreign currency – US\$ (*)	Monthly payments maturing in	<u>2012</u>	<u>2011</u>
Aircraft	2023	1,365,811	1,294,943
Engines	2021	<u>17,337</u>	<u>25,435</u>
As at December 31		<u>1,383,148</u>	<u>1,320,378</u>

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

Operating lease obligations fall due as follow:

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	<u>2012</u>	<u>2011</u>
Less than 1 year	399,337	390,514
Between 1 and 5 years	806,373	728,403
After 5 years	<u>177,438</u>	<u>201,461</u>
	<u>1,383,148</u>	<u>1,320,378</u>

(b) Commitments for future aircraft leases

(i) Airbus

In 2005, the Company executed an amendment to an existing contract with Airbus for the firm order of 20 Airbus A320, already received, with an option for an additional 20 of the same aircraft family (including the A319, A320 and A321). In 2006, the Company finalized a contract to acquire a further 37 Airbus aircraft (31 A320 narrow body family aircraft and six A330 aircraft), with the option for an additional 20, whereby ten were delivered in 2012 and the remaining 16 will be delivered in 2013.

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

TLA also confirmed the exercise of four options for the Airbus A330, four of which were already delivered in 2010 and 2011, under the agreement signed at the end of 2006. TAM also confirmed the twenty options that had been postponed from 2005 to 2006 anticipated delivery before the end of 2014.

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

(ii) Boeing

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

(iii) Fleet renewal and expansion

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

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

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(c) Insurance

TAM maintains adequate insurance for risks, which is expected to cover any liabilities generated by the accident on July 17, 2007, involving an Airbus A320 aircraft, considering the agreements already made with and paid to the victims' families by the insurance company. As at December 31, 2012, 193 (2011 - 193) compensation payments have been paid to the families of the victims and others are under negotiation with the Company's insurance firm. Management understands that the insurance coverage of these liabilities is adequate to cover all of the related costs. The Company believes that it will not incur additional or unexpected expenses outside of the scope of the insurance agreement which would be TAM's direct responsibility.

(d) Contingent liabilities

Contingencies for which it is probable that TAM will be required to make payments are provided for and discussed in Note 24.

(e) Contingent assets

(i) ICMS

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

However, based on this ruling, ICMS taxation on domestic air cargo transportation revenue is still due. As at December 31, 2012, the provision maintained by the Company totaled R\$ 2,497 (2011 - R\$ 2,915) and was recorded in "Taxes, charges and contributions".

The Company consider the payments of ICMS made between 1989 and 1994 to be amounts paid in error because we believe it was unconstitutional to charge ICMS on air navigation services. TAM Linhas Aéreas has filed claims against various states in Brazil to reclaim these amounts paid in error, and rulings on these claims are pending. Our policy has been to only adjust the value of these claims for inflation at the time when the payment is recorded in our financial statements.

(ii) Indemnification for losses on regulated fares

We are plaintiffs in an action filed against the Brazilian Government in 1993 seeking damages for the breaking up of the economic-financial equilibrium of an air transport concession agreement as a result of having to freeze our prices from 1988 to September 1993 in order to maintain our operations at the prices set by the Brazilian Government during that period. The process is currently being heard before the Federal Regional Court and we are awaiting judgment on the appeals we have lodged requesting clarification of the initial decision (which we challenged). The estimated value of the action is based on a calculation made by an expert witness of the court. This sum is subject to interest accruing from September 1993 and inflation since November 1994. Based on the opinion of our legal advisors and recent rulings handed down by the Supreme Court of Justice in favor of airlines in similar cases (specifically, actions filed by Transbrasil and Varig) we believe that our chance of success is probable.

We have not recognized these amounts as receivable in these financial statements and will only do so when the decision is made final.

(iii) Additional airport tariffs ("ATAERO")

In 2001 TLA filed a legal action requesting preliminary measures challenging the legality of the additional rate of 50% on airport tariffs established by Law 7920/89. From January 2012 this figure had dropped to 35.9%. The Company has been paying these amounts monthly at December 31, 2012, totaling R\$ 1,146,398 (2011 - R\$ 1,089,571) and no asset has been recognized in relation to this matter.

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37. Restatement of financial statements as at December 31, 2011 - elimination of the effects of incorporation of the net assets of Pantanal Linhas Aéreas S.A.

The Company is restating the financial statements as at December 31, 2011 to remove the effects of the incorporation of the negative net assets of Pantanal Linhas Aéreas S.A. in 2011. This merger had not been approved by the shareholders of the companies or approved by the National Civil Aviation Agency ("ANAC"), the regulator of the airline industry. The effects of the reversal are as follow:

	Originally balance submitted	Parent Company	
		Reversing the effects of incorporation	Balance adjusted
Effects on the balance sheet			
Assets			
Dividends receivable	172,727	15,199	187,926
Investments	1,685,616	(31,905)	1,653,711
Related parties	4,425	193	4,618
Total current assets	547,256	15,199	562,455
Total non-current assets	1,720,659	(31,712)	1,688,947
Total assets	2,267,915	(16,513)	2,251,402
Liabilities			
Related parties	20,528	(16,513)	4,015
Total non-current liabilities	20,648	(16,513)	4,135
Total liabilities	215,098	(16,513)	198,585
Total liabilities and equity	2,267,915	(16,513)	2,251,402

38. Subsequent events

Offer of shares held by subsidiary Multiplus S.A.

On March 8, 2013, the subsidiary Multiplus presented to Brazilian Association of Financial and Capital Markets ("ANBIMA") request for prior analysis of the registration of public offering of common shares, nominative, without par value issued of Multiplus.

The amount of the offering, not including the additional shares and the additional shares is estimated at approximately R\$ 800 million. This estimate may undergo change depending on the actual demand that will be demonstrated by actions in the course of the Offer. The selling price will be determined after the completion of the procedure for collection of investment intentions (bookbuilding), having as parameter (i) the share price at BM&FBovespa; and (ii) the indications of interest, depending on the quality of demand (volume and price), collected during the bookbuilding procedure.

On March 7, 2013, the Board of Directors approved the exit of TAM's global alliance Star Alliance to be held in the second quarter of 2014, on a date to be confirmed during the year 2013 and the official entry in Oneworld, that might occur in the second quarter of 2014, as soon as the Company leave the Star Alliance.

Ricardo Yuji Watanabe – Accountant – 1SP251964/O-9

TAM S.A. and subsidiaries

Independent auditors' report on the financial statements and consolidated

(A free translation of the original in Portuguese)

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

We have audited the accompanying financial statements of TAM S.A. (the "Parent Company"), which comprise the balance sheet as at December 31, 2012 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

We have also audited the accompanying consolidated financial statements of TAM S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2012 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion on the parent company financial statements

In our opinion, the parent company financial statements referred to above present fairly, in all material respects, the financial position of TAM S.A. as at December 31, 2012, and its financial performance and cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TAM S.A. and its subsidiaries as at December 31, 2012, and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil.

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Emphasis of matter

As discussed in Note 2.1 to these financial statements, the parent company financial statements have been prepared in accordance with accounting practices adopted in Brazil. In the case of TAM S.A., these practices differ from IFRS applicable to separate financial statements only in relation to the measurement of investments in subsidiaries based on equity accounting, while IFRS requires measurement based on cost or fair value.

São Paulo, March 28, 2013

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Luciano Jorge Moreira Sampaio Júnior
Contador CRC 1BA018245/o-1”S” SP