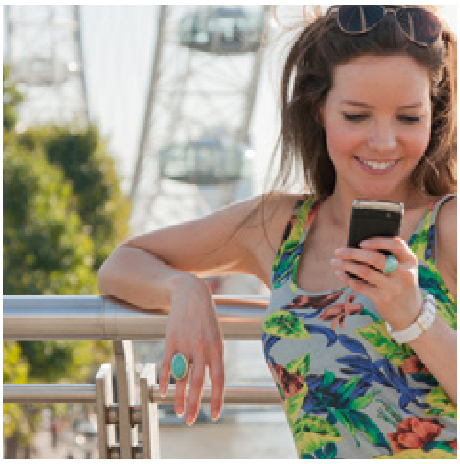



TAP GROUP

# Annual Report **2012**




STAR ALLIANCE
GAGO COUTINHO
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In another year of significant challenges, TAP continued to grow its operation and implement changes to improve efficiency, within a context of sustained high fuel prices.

In addition, in spite of the dual challenge posed by the privatisation process, TAP managed to demonstrate outstanding performance, relative to other worldwide companies, under more difficult market and competitive conditions.

In the future, the Company shall remain committed to maintaining its leadership in growth and efficiency in Europe, with its core mission being fundamental for the Country, being positioned as one of the largest national exporters, the strongest feeder of Tourism, the link between the Portuguese and international business world, as well as a major generator of employment.

# TAP Group

# Message from the Chairman of the General and Supervisory Board

Some of the more recent trends in international air transport continued to manifest themselves in 2012.

Uncertainty, which has progressively become the new norm in this Industry, has led to the adoption of more defensive management policies and greater priority in reducing risks. Among these, exogenous risks still prevail: permanent threat of rising oil prices; ongoing economic weakness; unpredictable events with significant global repercussions.

In contrast, whilst the axis of global aviation shifted to the Middle East and Asia-Pacific, important steps were taken to consolidate the Industry. This process, led by the major western airline companies, had a major impact on the largest European aviation groups, involving widespread restructurings of medium-haul operations.

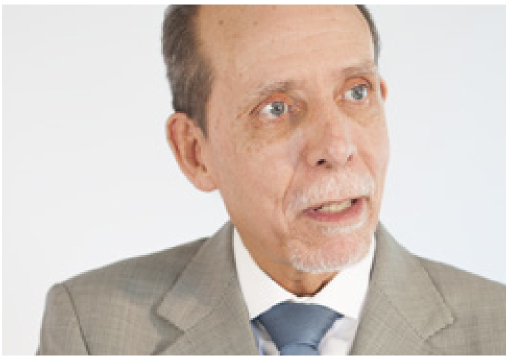
The tendency towards decline of traditional airline companies also continued in 2012, which was more pronounced in those that were unable to promote innovation and adapt to changing conditions. Many of these companies failed to avoid enormous financial losses, in stark contrast to the sharp increase in profits of LCCs.

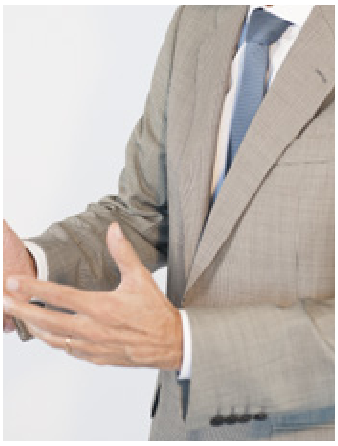
Within the European context, the base of operations of TAP, in addition to the effects of global economic developments, there was also the recessive impact of the austerity policies and the general weakness of economic activity, which had inevitable negative repercussions on air traffic growth. As a result, the profitability of European air transport was adversely affected: there was a decline in the aggregate EBIT of member companies of the AEA (Association of European Airlines) and, in spite of the considerable growth in profits of the major LCCs, the aggregate financial result of the group of European aviation companies in that year hardly reached break-even point.

In this context, the performance of TAP, S.A., the core business of the Group, is noteworthy.

TAP's air transport operation, boosted by vigorous marketing efforts and based on the continuous adaptation of the network to market developments and on the solid support of back-office, registered considerable growth in 2012: 5% in terms of RPK (against 4.1% in AEA), 5% in the number of passengers (2% in AEA), 3% in the number of flights (-2.4% in Europe). The growth in revenues (7.2%) was also accompanied by efficiency gains and savings arising from the implementation of the cost-cutting plan, which enabled TAP, S.A. to achieve, for the fourth consecutive year, a positive net income of EUR 21 million in 2012.

The other subsidiaries of the Group also registered in 2012 an improvement in performance and of results relative to the previous year. Nevertheless, it was still not possible to reach – in spite of the efforts and progress made with a view to accelerating the turnaround – the financial equilibrium of the two loss-making associated companies.





## TAP's air transport operation, boosted by vigorous marketing efforts and based on the continuous adaptation of the network to market developments and on the solid support of back-office, registered considerable growth in 2012

SPdH, 50% of which was sold in July 2012, has already reached operating equilibrium. In the case of Maintenance and Engineering Brazil, the demanding 5-year restructuring programme initiated in 2010 continues. Most of the operating targets of this programme have been met, but the financial results of this participated company continue to represent a financial burden on the consolidated accounts of the Group.

Over the course of the financial year, the privatisation process of 95% of the share capital of TAP SGPS was launched, with the Shareholder having subsequently concluded that the conditions necessary for its completion had not been met.

This process involved a hearing in which TAP issued, through its governing bodies, opinions on the suitability of the tenderer's offer to the strategic interests of the Company.

The privatisation process mobilised a considerable amount of internal resources, which responded with due diligence and professionalism to the requirements of the organisation and provided all the necessary information requested by the Shareholder, consultants and tenderer.

TAP – under a special management regime – also had its normal management capacity significantly conditioned by administrative and financial limitations arising from said regime.

Following the collapse of the process, it is important to highlight the urgency in recapitalising TAP SGPS, which I have referred to in previous messages. In fact, the establishment, in the short term, of a solid capital base is an essential condition for the sustainability and future development of the Company, and we are confident that that will be the way forward for TAP.

In the name of the General and Supervisory Board, I would like to express our gratitude to the Board of Directors, Workers and Employees of TAP, whose outstanding contribution to the performance of the Company enabled it, in spite of the adverse economic context, to continue to prosper, in 2012, in the troubled skies of global aviation.

**Manuel Pinto Barbosa**
Chairman of the General and Supervisory Board

# Interview with Fernando Pinto

Chairman of the Executive Board of Directors

**2012 was marked by the decision not to proceed with the reprivatisation of TAP. What is your opinion regarding this fact?**

First of all, 2012 was another year of significant challenges and I would add that the organisation is already used to that. We took ahead the growth path of the operation, continued to face high fuel prices and make adjustments in order to improve the Company's efficiency. But it is true that in 2012 we had a double challenge, particularly during the second half of the year, which involved the entire privatisation process underway and the large quantity of information that the Company had to systematise and provide.

In terms of the process, I would say that we were successful. The fact that privatisation did not go through in the end was merely a negotiation issue, but TAP is to be commended for its performance and the capacity to demonstrate what it is worth, not only in terms of organisation but also in terms of all the indicators and results. It is a company that, in spite of having faced the most difficult market conditions and competition, has managed to maintain consistently positive results and had the capacity to demonstrate that to all concerned. That is what became evident, and it is interesting to see the presentations made to banks involved in this process and concerned parties, who were surprised when we presented comparisons of TAP to other European companies or even in a global scenario.

TAP's restructuring efforts to improve service quality are quite remarkable. In all indicators, punctuality, baggage delivery times and lost luggage, Customer satisfaction, quality of Customer service, in all those we improved.

It is also important to mention another major difficulty, associated to the privatisation process, which involved losing access to new financing from mid-year onwards, having brought us great difficulties in terms of cash management until the end of the year.

**That improvement in all indicators occurred in the year in which TAP carried more than 10 million passengers for the first time. Was that achieved at the cost of lower prices? How does TAP manage to be increasingly competitive and attract increasing numbers of passengers with such strong competition?**

We have very strong competition from the low cost carriers and have learnt to participate in another type of market, which provides a large volume of traffic. We generated a large volume of traffic in our Lisbon hub, we have a lot of multi-daily flights to various main destinations in Europe, which allows for more flexibility in terms of air fares, and we have used that pragmatically and have managed to increase the passenger load factor on all those flights through a better understanding and use of our revenue management, without eroding our yield. Our air fares mix continues to be quite reasonable, but we have managed to enter other markets. Today, the traditional low-cost customers know that they can search for TAP prices and that they will find very competitive offers, but with a superior service.

**Berlin, Turin and Bucharest were the new routes in 2012. Is it possible to take initial stock of those ventures?**

The launch of new routes demonstrates, above all, the planning capacity of TAP Group, we have been extremely careful and prudent, and at the same time bold, in terms of maintaining growth and believing in new destinations. In addition to the new routes, we have consolidated various destinations launched in 2011.

**In terms of fleet, the renewal of the cabin interiors of the A340 are noteworthy…**

We are always measuring Customer satisfaction and benchmarking, especially within STAR Alliance, and we found that our product was inconsistent, especially with reference to in-flight entertainment. The renewal of the cabin interiors of the A340 was a necessity, we had four A340 aircraft that covered very important routes and were not up-to-date. Our Maintenance & Engineering and the contracts area did an excellent job, within our budget constraints, which is a constant issue, with the placement of new chairs and the installation of a state-of-the-art in-flight entertainment system. The final result was excellent, at a reasonable cost and it has won high praise. The A340 now have the latest technology.

Still relative to the fleet, with the privatisation process in 2012, investments in new aircraft were suspended. We need new long-haul aircraft; there are new opportunities that we should already be exploiting. That required an even greater use of the existing fleet, which led to a significant growth of the load factor.

**But are the possibilities of growth becoming marginal?**

A little growth is still possible in 2013, but new aircraft will be needed to resume the significant growth of the last few years.

> The launch of new routes demonstrates, above all, the planning capacity of TAP Group, we have been extremely careful and prudent, and at the same time bold.

**Moving on to other business areas and associated companies, and beginning with Maintenance & Engineering…**

We had a significant recovery in work for third parties, in spite of, particularly in the provision of engine-related services, the market having become increasingly competitive and difficult, with the entry of the actual manufacturers as important players, but we managed to once again grow and achieve our objectives, with Maintenance & Engineering maintaining its fundamental contribution towards the good results of TAP and the excellent flight safety standards of our operation.

**And TAP M&E Brazil?**

In terms of productivity it has grown significantly and in terms of cost reduction there have also been excellent results. In technical terms it has significantly expanded its competences; today, we are able to cater to the needs of Boeing, Airbus and Embraer fleets, the three major manufacturers, which provides extremely important flexibility not only for us but also for our customers. TAP M&E Brazil has been audited and certified by major international operators and, in terms of revenue, in Reais, it achieved a growth of 20.5% last year. But, most importantly, it managed to increase customer satisfaction significantly with the fulfilment of Turn Around Time (TAT), showcasing the company's credibility. The average occupancy of the hangars increased, surpassing 70 per cent and constant work is needed in terms of growth. Regarding net income, there were also some extraordinary negative effects due to changes in accounting criteria. The company improved, revenues increased sharply, but we were still unable to reach operating equilibrium.

**And Portugália (PGA)?**

PGA has been a successful company for us. Clarifying the business model of PGA, it is not a low cost (LC), its aircraft do not permit a low cost operation, the number of seats is less per plane and that increases the cost per seat, such that it cannot compete directly with the low cost operators, but the huge success is feeding our flights. PGA brings a lot of passengers from various points with a lower population density, particularly from routes of Spain, France and Italy, and we are able to feed the long-haul routes and multiply the value of those passengers. As a result, the contribution of PGA towards the result of the Group is very significant. As I've already mentioned, the payback of PGA has already been reached, and much earlier than expected.

**In 2012, the sale of the majority of the share capital of Groundforce was also formalised. Is that a success for TAP?**

Without a doubt, we launched a major international tender and were very pleased when, in the end, a Portuguese Group was awarded that stake. TAP maintains 49.9% of the capital and I would say that the process that was undertaken preserves to a large extent the continuity of the company and the quality of the service offered, which is fundamental and strategic for the Company. A fundamental part of this sale process was the restructuring and the possibility of leading Groundforce towards

financial equilibrium. The company was sold in a situation already very close to break-even point, and that is also a success.

**The austerity, wage cuts in the Country and in TAP, also led to the loss of qualified employees, resulting in significant losses for TAP and operational problems. How did that affect TAP and how did you overcome the situation?**

In operational terms, TAP is managing to weather the recession, selling more outside of Portugal. But the loss of staff is a major problem. Only considering specialised mechanics, for instance, we lost more than 50 in 2012. On the one hand, it is proof of the international recognition of our mechanics and the training they receive here.

With regards to pilots and even in the management area, we suffered significant losses. It is a major problem, we try to negotiate, because we need to continue growing and developing the Company, without losing sight of the fact that we also have to be increasingly efficient.

**What are your prospects for 2013?**

A year marked once again by the challenge of privatisation. We maintain our intention to initiate a new process before the end of 2013, which involves a repeat of challenges. Growth is expected to be less than in the previous year, in particular due to the difficulty of increasing the fleet, in spite of already being in the stage of scouting for more aircraft. Our forecast for the next three years is to increase the fleet with at least 3 wide body and 2 narrow body aircraft, which is indicative of the path we intend to pursue. We have identified market opportunities, a course and a lot of work ahead. We intend to continue the challenge of maintaining TAP's leadership in Europe in terms of both growth and efficiency.

The mission of TAP for Portugal is fundamental, the fact that it is one of the largest exporters says much, the fact that it is a key lever of Tourism in Portugal, the fact that it is what links the Portuguese to the world of international business and foreign investors to Portugal, that it is one of the major employers and continues to generate employment.

**2012 was still not the year in which you fulfilled the mission that you feel bound to, which is to conclude the privatisation process…**

Yes, I believe that is the best path, TAP is a balanced company, it has managed to grow and stands out in the European and even global panorama, but it needs to be capitalised, and that will be the major contribution of a privatisation, in addition to possible synergies and economies of scale that might ensue.

The mission of TAP for Portugal is fundamental, the fact that it is one of the largest exporters says much, the fact that it is a key lever of Tourism in Portugal, the fact that it is what links the Portuguese to the world of international business and foreign investors to Portugal, that it is one of the major employers and continues to generate employment, all this demonstrates the significant value of this company for the Country, which has to be – and has been – taken into consideration by the various agents that have participated in this process.

The major reason why TAP has not been privatised yet is not because of TAP. The strategic position, the efficiency indicators, the entire structure of TAP in the operational and maintenance areas, all that is very admired and even, I would say, desired by other companies. The fact that it is the key operator of Europe to Brazil and vice-versa, and also to Africa, TAP's operation in Europe...

The fact that not all of the potential buyers presented themselves at the previous reprivatisation process had more to do with their own difficulties, absorption of previous investments or even because of the difficult moment that air transport has been going through in Europe in the last three years. It is more a problem of others rather than of TAP, which has managed to perform, overcome and face all of this. There is a tendency to overcome this, TAP has already been restructured, it is winning, it obtains results, its acquisition does not imply the effort involved in the management of other investments. Strategic and business value TAP certainly has.

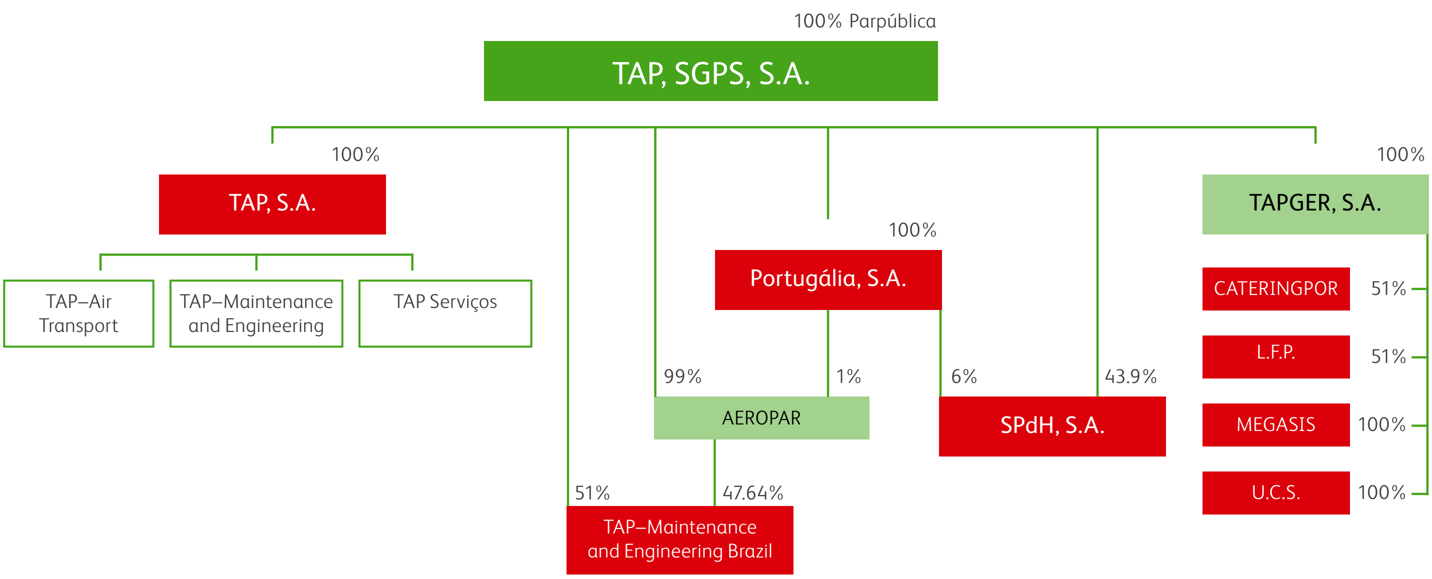
Fernando Pinto
Chairman of the Executive Board of Directors


# Shareholder Structure of TAP Group

**December 31, 2012**

At the end of 2012, the Group of companies that were part of the consolidation perimeter of the TAP holding was made up of TAP–Transportes Aéreos Portugueses, SGPS, S.A. and its subsidiaries, according to the organisational diagram.


PORTUGAL
www.flytap.com
TAP PORTUGAL


100% Parpública
TAP, SGPS, S.A.
100%
TAP, S.A.
TAP–Air Transport
TAP–Maintenance and Engineering
TAP Serviços
100%
Portugália, S.A.
99%
1%
AEROPAR
6%
43.9%
SPdH, S.A.
51%
47.64%
TAP–Maintenance and Engineering Brazil
100%
TAPGER, S.A.
CATERINGPOR 51%
L.F.P. 51%
MEGASIS 100%
U.C.S. 100%

# Corporate Governance

## Corporate Governance Model

The most notable corporate governance activities during 2012 include the effort in treasury management, arising from the economic and financial scenario in Portugal and the rest of the euro zone, heightened by the uncertainty that the reprivatisation process underway during the second semester of 2012 represented to the Company in terms of access to bank credit.

The adverse context in which TAP's activity took place during 2012 was further exacerbated by the increase in the price of fuel and by the need to maintain social peace, following the amendments introduced to the Labour Code and imposition of deteriorated wage conditions on the employees and respective higher tax burden. The Corporate Governance ensured, with careful consideration and prudence, the necessary stability, which kept the Company on its path of sustained growth.

The Executive Board of Directors was also called upon to intervene in the process of due diligence and prior hearing of TAP under the process of reprivatisation of TAP (see Article 13 of the Technical Specifications which regulated the terms and conditions of direct sale of the shares representing 95% of the share capital of TAP, SGPS), a process which reached its term without the necessary conditions for the taking of effect of the sale having been observed, pursuant to Council of Ministers Resolution number 111-b/2012 of 28 December. The General and Supervisory Board also took a position in coordination with the Executive Board of Directors in the preparation of the Opinion conveyed to the Shareholder Parpública, which, based on the documentation received from Parpública, was exclusively incident on the strategic aspect of the Binding Technical Proposal of the Synergy Group.

Under the reprivatisation process, the Corporate Governance recognised the quality and quantity of the work developed by the employees of the companies of the TAP Group, in the compilation and processing of the information required for the consultation process by interested parties, which, once again, demonstrated the capacity of the Company and its employees to respond with high professionalism and dedication to the challenges faced.

The information on the Company's regulations, Articles of Association and activities of the Governing Bodies is available for consultation at the TAP Group's website www.flytap.com.

## Executive Board of Directors

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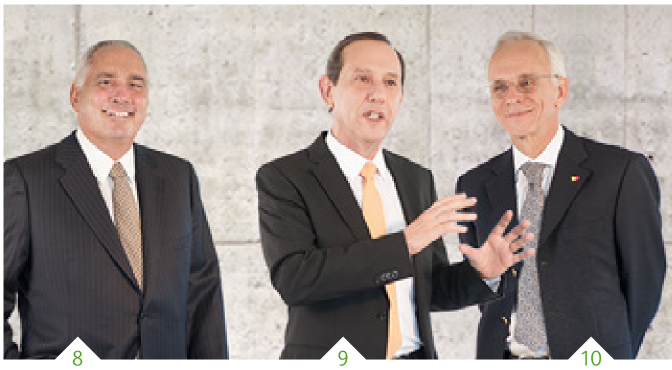

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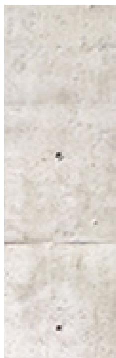


## General and Supervisory Board




# Governing Bodies

## TAP–Transportes Aéreos Portugueses, SGPS, S.A.
## TAP, S.A.

*Through deliberation at the General Meeting Committee of 2nd June, 2009, for the three-year period 2009-2011.*

### General Meeting Committee

| | |
|---|---|
| Chairman | Paulo Manuel Marques Fernandes |
| Vice-Chairman | António Lorena de Sèves |
| Secretary | Orlanda do Céu S. Sampaio Pimenta d' Aguiar |

## Structure of the Executive Board of Directors, the General and Supervisory Board and the Specialised Commissions

## Executive Board of Directors

| | |
|---|---|
| 3 Chairman | Fernando Abs da Cruz Souza Pinto |
| 4 Member | Fernando Jorge Alves Sobral |
| 2 Member | Luís Manuel da Silva Rodrigues |
| 9 Member | Luiz da Gama Mór |
| 8 Member | Manoel José Fontes Torres |
| 10 Member | Michael Anthony Conolly |

## General and Supervisory Board

| | |
|---|---|
| 1 Chairman | Manuel Soares Pinto Barbosa |
| 6 Member | Carlos Alberto Veiga Anjos |
| 5 Member | João Luís Traça Borges de Assunção |
| 7 Member | Luís Manuel dos Santos Silva Patrão |
| 12 Member | Maria do Rosário Miranda Andrade Ribeiro Vítor |
| 13 Member | Rui Manuel Azevedo Pereira da Silva |
| 11 Member | Vítor José Cabrita Neto |

*Through deliberation of the General and Supervisory Board, in a meeting on 26th June, 2009.*

### Specialised Auditing Commission

Manuel Soares Pinto Barbosa
João Luís Traça Borges de Assunção
Rui Manuel Azevedo Pereira da Silva

### Specialised Sustainability and Corporate Governance Commission

Manuel Soares Pinto Barbosa
Carlos Alberto Veiga Anjos
João Luís Traça Borges de Assunção
Luís Manuel dos Santos Silva Patrão
Maria do Rosário Miranda Andrade Ribeiro Vítor
Rui Manuel Azevedo Pereira da Silva
Vítor José Cabrita Neto

### Company Secretary

*Through deliberation of the Executive Board of Directors, in a meeting on 23rd June, 2009.*

Company Secretary
Orlanda do Céu S. Sampaio Pimenta d' Aguiar

Alternate Company Secretary
Alda Maria dos Santos Pato

### Meetings of the Board of Directors

During 2012, 16 meetings were held by the Executive Board of Directors of TAP, SGPS, S.A. and 20 meetings were held by the Executive Board of Directors of TAP, S.A..

### Main Deliberations of the Boards of Directors in 2012

| | |
|---|---|
| TAP, SGPS, S.A. | Sale to URBANOS of the majority stake (50.1%) of TAP's capital in SPdH |
| | Approval of the 2012-2016 Strategic Plan of the TAP Group |
| | TAP Reprivatisation Process: Prior hearing of TAP, in compliance with Article 13 of the Technical Specifications approved by Council of Ministers Resolution number 88-A/2012, of 19 October |
| TAP, S.A. | European Union Emission Trading Scheme (ETSC)/Opening of account in the Portuguese Record of Emission Licenses (RPLE) |
| | Implementation of the Safety Management System (SMS) |
| | Customer Service: acquisition of the new tool INFORM, which enables the processing of data in real time and detection of deviations with potential impact on the operation's punctuality |

### Supervision of the Company

Official Accountant

*By Decision in General Meeting Committee on June 2, 2009, for the 2009-2011 period.*

Permanent Oliveira, Reis & Associados represented by José Vieira dos Reis

Alternate Fernando Marques Oliveira

## Remuneration Status of the Governing Bodies

- The remunerations of the Governing Bodies of TAP are set by General Meeting (see Article 11 of the Statutes of TAP, SGPS).
- The members of the Executive Board of Directors and the General and Supervisory Board are remunerated, exclusively, for the functions exercised at TAP, S.A., not earning any remuneration for functions exercised at TAP, SGPS or any other company of TAP Group.

### Remunerations set for the 2006-2008 period (in Minute no. 1/2007 of the Remunerations Commission of TAP, S.A.)

*By Unanimous Board Decision in Writing on 29 July, 2009, "(…) for the three-year period 2009-2011 there will be no alteration of the remuneration status (…)".*

Executive Board of Directors

Chairman

*Fixed Compensation*

Fixed remuneration: Gross monthly remuneration of EUR 30,000, paid 14 months a year.

Meal Subsidy: Application of the Labour Agreement for active permanent staff.

*Variable Compensation*

Variable Short Term Compensation: Attribution of the variable remuneration component in accordance with the fulfilment of annually measurable objectives, with a maximum annual limit of 75% of the total Annual Fixed Compensation.

Variable Long Term Compensation: Attribution of the variable remuneration component in accordance with the fulfilment of pluriannual (mandate) measurable objectives, with a maximum limit of 75% of the total accumulated Fixed Compensation of the mandate.

*Benefits*

Life insurance, health insurance and personal accident insurance: in force at the Company, according to the model applicable to all employees.

Vehicle policy: Attribution of a service vehicle up to a maximum rental of EUR 1,260, which includes motor insurance and maintenance costs, for a three-year period, and covers the use of *via verde*, parking and fuel, being the annual maximum limit for fuel expenses set at EUR 4,000.

Telephone expenses: Use of the service mobile phone, being the annual maximum limit for expenses related with mobile phone use set at EUR 9,000.

Company credit card: Exclusively to cover documented expenses associated with the exercise of functions at the Company's service.

Members

*Fixed Compensation*

Fixed remuneration: Gross monthly remuneration of EUR 20,000, paid 14 months a year.

Meal Subsidy: Application of the Labour Agreement for active permanent staff.

*Variable Compensation*

Variable Short Term Compensation: Attribution of the variable remuneration component in accordance with the fulfilment of annually measurable objectives, with a maximum limit of 75% of the total Annual Fixed Compensation.

Variable Long Term Compensation: Attribution of the variable remuneration component in accordance with the fulfilment of pluriannual (mandate) measurable objectives, with a maximum limit of 75% of the total accumulated Fixed Compensation of the mandate.

*Benefits*

Life insurance, health insurance and personal accident insurance: in force at the Company, according to the model applicable to all employees.

Vehicle policy: Attribution of a service vehicle up to a maximum rental of EUR 865, which includes motor insurance and maintenance costs, for a three-year period, and covers the use of *via verde*, parking and fuel, being the annual maximum limit for fuel expenses set at EUR 4,000.

Telephone expenses: Use of the service mobile phone, being the annual maximum limit for expenses related with mobile phone use set at EUR 9,000.

Company credit card: Exclusively to cover documented expenses associated with the exercise of functions at the Company's service.

*Through Unanimous Corporate Deliberations in Writing of 14th May 2009 and 29th July 2009, the directors whose residence was not originally in Portugal benefit from the right to receive accommodation allowances matching to what is defined in the Status of Expatriate Staff conferred to workers of TAP, S.A..*

### General and Supervisory Board

Chairman

Gross monthly remuneration of EUR 6,000, paid 14 months a year.

Members

Gross monthly remuneration of EUR 4,000, paid 14 months a year.

A supplementary monthly remuneration of EUR 3,000 is attributed to the members of the General and Supervisory Board that participate in the Specialised Auditing and Sustainability and Corporate Governance Commissions.

*Note: The remuneration status described above, suffered changes resulting from the application of the laws in force.*

## Remunerations set for the 2006-2008 period (in Minute no. 1/2007 of the Remunerations Commission of TAP, S.A.)

*By Unanimous Board Decision in Writing on 29 July, 2009, "(…) for the three-year period 2009-2011 there will be no alteration of the remuneration status (…)".*

### General Meeting Committee

Chairman

Attendance money, in the gross amount of EUR 640.

Vice-Chairman

Attendance money, in the gross amount of EUR 400.

Secretary

Attendance money, in the gross amount of EUR 330.

### Official Accountant

Remuneration is regulated by the values of the indicative benchmark recommended by the Portuguese Institute of Statutory Auditors (Article 60 of DL no. 487/99 of 16 November): annual amount of EUR 13,800, plus VAT under the legal terms.

## Remunerations earned in 2012

| General and Supervisory Board | Pinto Barbosa | João Borges de Assunção | Carlos Veiga Anjos | Luís Patrão | Mª Rosário Vítor | Rui Azevedo Silva | Vítor Cabrita Neto |
|---|---|---|---|---|---|---|---|
| Adapted to the EGP (Yes/No) | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Total Remuneration (1.+2.+3.+4.) | 92,340.00 € | 71,820.00 € | 71,820.00 € | 71,820.00 € | 71,820.00 € | 71,820.00 € | 71,820.00 € |
| 1.1. Annual remuneration | 126,000.00 € | 98,000.00 € | 98,000.00 € | 98,000.00 € | 98,000.00 € | 98,000.00 € | 98,000.00 € |
| 1.2. Representation Expenses (Annual) | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € |
| 1.3. Attendance money (Annual Value) | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € |
| 1.4. Reduction imposed under Law 12-A/2010 | 5,400.00 € | 4,200.00 € | 4,200.00 € | 4,200.00 € | 4,200.00 € | 4,200.00 € | 4,200.00 € |
| 1.5. Reduction imposed under Law 55-A/2010 | 10,260.00 € | 7,980.00 € | 7,980.00 € | 7,980.00 € | 7,980.00 € | 7,980.00 € | 7,980.00 € |
| 1.6. Suspension of the payment of holiday and Christmas allowances | 18,000.00 € | 14,000.00 € | 14,000.00 € | 14,000.00 € | 14,000.00 € | 14,000.00 € | 14,000.00 € |
| 1.7. Reductions of previous years | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € |
| 1. Gross Effective Annual Remuneration (1.1+1.2.+1.3-1.4-1.5-1.6-1.7) | 92,340.00 € | 71,820.00 € | 71,820.00 € | 71,820.00 € | 71,820.00 € | 71,820.00 € | 71,820.00 € |
| 2. Variable remuneration | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € |
| 3. Exemption from fixed working hours | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € |
| 4. Other (identify) | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € |
| Travel allowance | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € |
| Meal subsidy | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € |
| **Company Benefit Costs** | | | | | | | |
| Social Protection Scheme (Social Security) | 12,254.64 € | 12,254.64 € | 12,254.64 € | 12,254.64 € | Lawyers and Solicitors Pension Fund | 12,254.64 € | 12,254.64 € |
| Health insurance | – | – | – | – | – | – | – |
| Life insurance | – | – | – | – | – | – | – |
| Personal Accident Insurance | – | – | – | – | – | – | – |
| Other (identify) | – | – | – | – | – | – | – |
| **Accumulation of Management Positions in the TAP Group (Y/N)** | No | No | No | No | No | No | No |
| Entity (identify) | – | – | – | – | – | – | – |
| Annual remuneration | – | – | – | – | – | – | – |
| **Vehicle Fleet** | | | | | | | |
| Type of Use | – | – | – | – | – | – | – |
| Reference value of the new vehicle | – | – | – | – | – | – | – |
| Year Start | – | – | – | – | – | – | – |
| Year End | – | – | – | – | – | – | – |
| Nr. Instalments (if applicable) | – | – | – | – | – | – | – |
| Residual Value | – | – | – | – | – | – | – |
| Rental value/annual instalment of service vehicle | – | – | – | – | – | – | – |
| Fuel spent on vehicle | – | – | – | – | – | – | – |
| Annual fuel limit attributed | – | – | – | – | – | – | – |
| Other (Tolls / Repairs / Insurance) | – | – | – | – | – | – | – |
| **Other benefits and compensation** | | | | | | | |
| Limit defined pursuant to Article 33 of the EGP (Yes/No) | – | – | – | – | – | – | – |
| Annual limit on mobile communications | – | – | – | – | – | – | – |
| Annual expenses with mobile communications | – | – | – | – | – | – | – |
| Other (identify) | – | – | – | – | – | – | – |
| Limit defined pursuant to Article 32 of the EGP (Yes/No) | – | – | – | – | – | – | – |
| **Travel costs** | | | | | | | |
| Annual total cost related to travel | – | – | – | – | – | – | – |
| Annual accommodation costs | – | – | – | – | – | – | – |
| Daily allowances | – | – | – | – | – | – | – |
| Other (identify) | – | – | – | – | – | – | – |

| Executiv Board of Directors | Fernando Pinto | Michael Conolly | Manoel Torres | Luiz Mór | Jorge Sobral | Luís Rodrigues |
|---|---|---|---|---|---|---|
| Adapted to the EGP (Yes/No) | Yes | Yes | Yes | Yes | Yes | Yes |
| **Total Remuneration (1.+2.+3.+4.)** | **393,005.76 €** | **290,405.76 €** | **290,405.76 €** | **290,405.76 €** | **205,200.00 €** | **205,200.00 €** |
| 1.1. Annual remuneration | 420,000.00 € | 280,000.00 € | 280,000.00 € | 280,000.00 € | 280,000.00 € | 280,000.00 € |
| 1.2. Representation Expenses (Annual) | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € |
| 1.3. Attendance money (Annual Value) | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € |
| 1.4. Reduction imposed under Law 12-A/2010 | 18,000.00 € | 12,000.00 € | 12,000.00 € | 12,000.00 € | 12,000.00 € | 12,000.00 € |
| 1.5. Reduction imposed under Law 55-A/2010 | 34,200.00 € | 22,800.00 € | 22,800.00 € | 22,800.00 € | 22,800.00 € | 22,800.00 € |
| 1.6. Suspension of the payment of holiday and Christmas allowances | 60,000.00 € | 40,000.00 € | 40,000.00 € | 40,000.00 € | 40,000.00 € | 40,000.00 € |
| 1.7. Reductions of previous years | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € |
| 1. Gross Effective Annual Remuneration (1.1+1.2.+1.3-1.4-1.5-1.6-1.7) | 307,800.00 € | 205,200.00 € | 205,200.00 € | 205,200.00 € | 205,200.00 € | 205,200.00 € |
| 2. Variable remuneration | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € |
| 3. Exemption from fixed working hours | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € |
| 4. Other (Payment of accommodation expenses in Portugal-gross value) | 85,205.76 € | 85,205.76 € | 85,205.76 € | 85,205.76 € | 0.00 € | 0.00 € |
| Travel allowance | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € | 0.00 € |
| Meal subsidy | 1,085.76 € | 1,067.04 € | 1,020.24 € | 1,057.68 € | 1,048.33 € | 1,095.12 € |
| **Company Benefit Costs** | | | | | | |
| Social Protection Scheme (Social Security) | 12,254.64 € | 68,971.37 € | 68,971.37 € | 68,971.37 € | 48,735.00 € | 12,254.64 € |
| Health insurance | 992.00 € | 992.00 € | 992.00 € | 992.00 € | 992.00 € | 992.00 € |
| Life insurance | 15,750.00 € | 28,667.00 € | 23,786.00 € | 11,879.00 € | 15,750.00 € | 3,600.00 € |
| Personal Accident Insurance | 1,011.00 € | 1,011.00 € | 1,011.00 € | 1,011.00 € | 1,011.00 € | 1,011.00 € |
| Other (identify) | – | – | – | – | – | – |
| **Accumulation of Management Positions in the TAP Group (Y/N)** | No | No | No | No | No | No |
| Entity (identify) | – | – | – | – | – | – |
| Annual remuneration | – | – | – | – | – | – |
| **Vehicle Fleet** | | | | | | |
| Type of Use | | | | | | |
| Reference value of the new vehicle | | | | | | |
| Year Start | | | | SEE NOTE 1 | | |
| Year End | | | | | | |
| Nr. Instalments (if applicable) | | | | | | |
| Residual Value | | | | | | |
| Rental value/annual instalment of service vehicle | | | | | | |
| Fuel spent on vehicle | | | | | | |
| Annual fuel limit attributed | 4,000.00 € | 4,000.00 € | 4,000.00 € | 4,000.00 € | 4,000.00 € | 4,000.00 € |
| Other (Tolls) [Total vehicle fleet] | 5 426,30 € | | | | | |
| Limit defined pursuant to Article 33 of the EGP (Fuel) | Yes | Yes | Yes | Yes | Yes | Yes |
| **Other benefits and compensation** | | | | | | |
| Annual limit on mobile communications | 9,000.00 € | 9,000.00 € | 9,000.00 € | 9,000.00 € | 9,000.00 € | 9,000.00 € |
| Annual expenses with mobile communications | 7,762.18 € | 1,034.69 € | 2,297.57 € | 3,395.65 € | 763.55 € | 2,791.72 € |
| Other (identify) | – | – | – | – | – | – |
| Limit defined pursuant to Article 32 of the EGP (Yes/No) | Yes | Yes | Yes | Yes | Yes | Yes |
| **Travel costs** | | | | | | |
| Annual total cost related to travel | 13,686.54 € | 3,167.57 € | 0.00 € | 11,196.23 € | 1,016.45 € | 5,779.59 € |
| Annual accommodation costs | 7,994.93 € | 1,795.52 € | 0.00 € | 6,748.91 € | 410.00 € | 2,514.62 € |
| Daily allowances | 5,197.25 € | 941.13 € | 0.00 € | 4,231.76 € | 606.45 € | 2,459.43 € |
| Other (travel) | 494.36 € | 430.92 € | 0.00 € | 215.56 € | 0.00 € | 805.54 € |

Note 1.

TAP has a fleet of 7 vehicles that can be used by any of the members of the Executive Board of Directors and by the general support services of the Governing Bodies. Information on this vehicle fleet is indicated below:

- Five Audi A6 vehicles, TAP property, and two Mercedes E-250 vehicles, under a renting scheme, during 48 months, starting in Aug/2012.
- Reference value of vehicles: Audi – 51,027.65€; Mercedes – 53,900 €.
- Value of annual rental in 2012 (from Aug to Dec) of vehicles Mercedes: 5,263.00 €/each.
- Residual value of Mercedes vehicles, at the end of the contract (2016): 23,495.10 €/each.
- Annual value spent on fuel for 7 vehicles: 22.850 €; Annual fuel limit attributed to six members of the administration: 4,000 € x 6 = 24,000 €.

| General Meeting Committee | Chairman | Vice - Chairman | Secretary |
|---|---|---|---|
| Attendance Money TAP, SGPS, S.A. | 640.00 € | 400.00 € | 330.00 € |
| Attendance Money TAP, S.A. | 640.00 € | 400.00 € | 330.00 € |

| Official Accountant (*) | 2011 | 2012 |
|---|---|---|
| Annual remuneration TAP, SGPS, S.A. | 13,800.00 € | 13,800.00 € |
| Annual remuneration TAP, S.A. | 32,100.00 € | 32,100.00 € |

| External Auditors (*) | 2011 | 2012 |
|---|---|---|
| PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda. | | |
| Annual remuneration TAP, SGPS, S.A. | 11,000.00 € | 14,500.00 € |
| Annual remuneration TAP, S.A. | 69,050.00 € | 69,050.00 € |

(*) All amounts are subject to VAT at the legal rate in force

# Mission, Objectives and Policies

## Mission

TAP's mission involves the service of Air Transport and similar activities, aspiring always to be the best choice for those who use its services and one of the best companies to work with, acting in full consistency with its commitment to society and to the environment.

## Vision

TAP's objective is to provide returns for its investors and promote the satisfaction of its Customers' expectations, maintaining a positive attitude of contribution towards economic and social development, at a global and local level:

- Being recognised as the airline company that, through the geographic positioning of its operational hub, Lisbon, which represents a privileged access platform, currently links Europe to Africa and to North, Central and South America;
- Pursuing, in the development of its network, a segmentation strategy, connecting Europe to a growing number of destinations located in Africa and in the South Atlantic, where it is distinguished as the leading European carrier to Brazil;
- Seeking continuously to provide Customers with a quality product, through the best and easiest solutions for their journeys and increasingly adding more value to the product offered to them;
- Being perceived by the shareholder as a company generating value, achieving results in a sustained manner;
- Being identified with principles of transparency and commitment to society and the environment;
- Providing professional development, remuneration levels and work conditions compatible with labour expectations and market requirements.

# Company Internal Regulations

The Company developed a risk control and management process based on the following three lines of defence: in the first line of defence, as a pillar of the corporate culture of the TAP Group, are all the management processes assumed as a constant concern of all managers and employees of the Group, based on the identification, management and control of the uncertainties and threats which might affect the different businesses. This action is undertaken on a going concern and based on making the most of business opportunities; in the second line of defence is the verification of the analysis of compliance and monitoring relative to risk control; and in the third line of defence is the risk assurance process, where it is important to note that certification in this area by the IIA was achieved in 2012, assured by the systematic action of the Internal Audit unit. The Audit area strengthened its activity, using the Continuous Audit process which is characterised by the continuous and automated assessment of risks and controls, mitigating inherent and residual risk, through the use of the information of the universe under analysis, 100% of the operations, verification and monitoring in real time. The analytical instrument of the Continuous Audit arises as a fundamental basis for risk management, enabling more effective knowledge and monitoring of the business.

In the meantime, over the years the Company has emphasised the implementation and adjustment of the Internal Regulations, composed of Codes of Conduct and Good Practices, of which the following are of particular importance:

- *The Code of Ethics* – As a statement of the principles, ideals and charter of intentions, the Code of Ethics is a document where the Company establishes objectives of an ethical and behavioural character for business with its stakeholders, that is, with its suppliers, workers and/or customers, financial institutions, the local community and national economy, amongst others. This Code contains a statement of objectives – the mission of the Company –, the fundamental ethical principles and the implementation of this mission and these objectives in specific areas of particular interest, seeking to safeguard the principles of transparency and independence in the businesses on the part of the different participants in these businesses;
- *The Procurement and Sales Directives and Duties* – The procurement areas, as the services responsible for the provisioning process, must endeavour to ensure compliance with the applicable legislation and directives in force at TAP, in their respective areas of intervention. The regulation establishes the delegation of duties, so as to ensure the implementation of the different responsibilities in the procurement areas within the Company;
- *The Financial Directives (Head Office and Representations)* – The Company has produced internal regulations for the purpose of guaranteeing effective internal control in the context of the action of the financial function, as well as regarding the action and delegation of duties in this area;
- *The Contractualisation Regulation* – Through the establishment of Exchange Agreements, the Company has constituted a Regulation for the establishment of contracts by which the parties undertake to exchange services between one another. All services which are tradable may be exchanged, with situations of goods of different utility and/or value being assessed through criteria.
- *The Plan on Anti-Corruption and Related Offences* – Especially highlighting the Regulation of incompatibilities and conflicts of interest.

Internal Auditing, as an activity subject to international rules which manage the profession, complies with the standards of the (Institute of Internal Auditors), regarding recommended Attribution Standards:

- Standard 1000 – Purpose, Authority and Responsibility
- Standard 1100 – Independence and Objectivity
- Standard 1200 – Proficiency and Professional Dedication
- Standard 1300 – Quality Guarantee and Improvement Programmes

Likewise, in coordination with IPAI (Portuguese Institute of Internal Auditors), Internal Auditing promotes the benchmarking of the best practices of the profession, and stimulates the training of its professionals.


## Code of Ethics

The Company has defined, as one of its critical success factors, compliance with its Code of Ethics and commitment to a culture of values upheld by this code. Since this is a dynamic process, the text of the Code of Ethics of TAP Group was adjusted in 2011 to a very significant reality, in terms of internal and external relations, represented by the use of the *Internet and social networks by the Group's employees*. A new Chapter (Chapter IV) was thus included in the Code of Ethics, which defines the general principles for the correct use of these resources, ensuring accountability and, simultaneously, stimulating their potential growth, in a responsible and rigorous fashion. Furthermore, in compliance with the principles laid down in the Code of Ethics, note should be made of the Company's encouragement, amongst its employees and the Community in general, of socio-environmental values, the reconciliation of family and work, transparency and respect for the rules governing good commercial practices, as well as relations with shareholders and stakeholders.

The Code of Ethics is available for consultation on TAP's official website (www.flytap.com).

## External Regulations

From the viewpoint of external regulations, the Company's activity is developed within a framework defined by regulatory entities empowered to ensure compliance with the rules, sanction anti-competitive practices and offenses and correct certain behaviour. Its functions are performed by entities that are independent of Governments or, at least, with some degree of freedom in relation to the administration on which it directly or indirectly depends.

### Entities regulating Markets and Commercial Relations in the Commercial Civil Aviation Sector

- Competition Authority – Its main mission is to ensure compliance with the competition defence legislation, encourage the adoption of practices promoting competition and contribute to the dissemination of a competition culture and policy (Ministry of Economics and Innovation);
- European Commission – The European Commission, the primary executive institution of the EU, is empowered to propose legislation and ensures that EU policies are applied correctly;
- EASA – European Aviation Safety Agency – Its mission consists in promoting the highest common rules on safety and environmental protection in the civil aviation sector;
- ECAC – European Civil Aviation Conference – An intergovernmental organisation the objective of which is to promote the sustained, safe and efficient development of the European air transport system. This entity functions in close coordination with ICAO and in active cooperation with other institutions of the European Union;
- ICAO – International Civil Aviation Organization – This is a specialised institution of the United Nations, with the objective of promoting international cooperation in civil aviation;
- INAC – *Instituto Nacional de Aviação Civil*, I. P. – Its mission involves the regulation and supervision of the civil aviation sector and of the activities developed in this sector (Ministry of Public Works, Transport and Telecommunications);
- Other National Civil Aviation Authorities (of the EU and of non-EU countries) – Its mission, as is the case of the Portuguese aeronautical authority, consists in regulating and supervising the civil aviation sector.

## Principles of Good Governance

Evaluation of the degree of compliance with the principles of Good Governance, which TAP is committed to in accordance with the resolution of the Council of Ministers No. 49/2007.

| Principles of Good Governance | Recommendations | Degree of Compliance | Mention in the Report |
|---|---|---|---|
| Mission, Objectives and General Principles of Action | **Obligation of compliance, respect and dissemination, of the mission, objectives and policies,** for TAP and the associated companies it controls, set in an economic, financial, social and environmentally efficient manner; | Fulfilled | Corporate Governance and Sustainability Report |
| | **Elaboration of budgets** in accordance with the resources and sources of funding available, taking into account their mission and the objectives set; | Fulfilled | Annual Report |
| | **Adoption of equality plans**, so as to attain a definitive equality of treatment and opportunities between men and women, eliminating discrimination based on gender and enabling a balance between professional, family and personal life; | Fulfilled | Corporate Governance and Sustainability Report; Code of Ethics |
| | **Annual information report** issued to regulatory bodies and the general public on how the mission was conducted, degree of compliance with objectives, means of fulfilment of social responsibility and sustainable development policy and means of ensuring its competitiveness; | Fulfilled | Corporate Governance and Sustainability Report |
| | **Compliance with legislation and regulations**, applicable to the three axes of economic, environmental and social sustainability; | Fulfilled | Corporate Governance and Sustainability Report |
| | **Obligation of treating all employees with respect and integrity** and contribute towards their personal development; | Fulfilled | Corporate Governance and Sustainability Report; Code of Ethics |
| | **Obligation of treating customers, suppliers and others with legitimate rights with equity.** | Fulfilled | Corporate Governance and Sustainability Report; Code of Ethics |
| Management and Supervision Structures | **The governance model must ensure the effective segregation of management and supervisory functions;** | Fulfilled | Annual Report; Corporate Governance and Sustainability Report (existence of a Dualist Management Model) |
| | **Companies of a large-scale and complexity must have their accounts audited by independent entities** with identical standards to those practiced by companies with shares quoted on regulated markets; the members of the supervisory body are responsible for selecting, confirming and hiring auditors, for the approval of any other services outside the scope of the auditing function and to act as interlocutors between the company and auditors. | Fulfilled | According to the report on activities of the General and Supervisory Board |
| Remuneration and Other Rights | **Annual divulgation of the total remunerations** (fixed and variable) earned **by each member of the management body;** | Fulfilled | TAP website; Annual Report |
| | Annual divulgation of the remunerations earned **by each member of the supervisory body**; | Fulfilled | TAP website; Annual Report |
| | **Annual divulgation of any other benefits** (health insurance, use of a vehicle and other benefits granted by the Company). | Fulfilled | TAP website; Annual Report |
| Prevention of conflicts of interest | **Obligation of members of corporate bodies to abstain from intervening in decisions involving their own interests;** | Fulfilled | Code of Ethics; Statutes |
| | **Obligation of members of corporate bodies** to declare any important shareholdings they hold in the Company; | Fulfilled | Communication to the Court of Auditors, the Constitutional Court and others, in compliance with legal obligations |
| | **Obligation of members of governing bodies** to declare any relevant relationships maintained with suppliers, customers, ICs or others, which may generate conflicts of interest. | Fulfilled | Code of Ethics; Statutes |
| Divulgation of relevant information | **Communicate immediately all information** that they have knowledge of **which may have a significant effect on the economic, financial and asset situation of the Company;** | Fulfilled | Code of Ethics |
| | **Make available for divulgation on the site of State-owned companies**, in a clear, relevant and updated manner, all the abovementioned information, the historical and updated financial information of the Company and the identity and curricular elements of all the members of its governing bodies; | Fulfilled | Connection of the TAP website to the Parpública website |
| | **Include in the Management Report a point on corporate governance** (internal and external regulations which TAP is subject to, information on relevant transactions with related entities, remuneration of members of governing bodies, sustainability analysis and evaluation of the degree of compliance with the principles of good governance). | Fulfilled | Annual Report |

The Code of Ethics and Statutes are available on the TAP website [www.flytap.com]

## List of the suppliers of TAP, S.A. which represent more than 5% of the total supplies and services provided by third parties to the Company

| Supplier | EUR million | % |
|---|---|---|
| PETROGAL – Petróleos de Portugal | 327.3 | 18 |
| PETROBRAS DISTRIBUIDORA S.A. | 109.3 | 6 |
| ANA–Aeroportos de Portugal | 95.3 | 5 |
| EUROCONTROL – UE | 88.5 | 5 |

## Functions exercised by the Members of the Management Body in other Companies

### Fernando Abs da Cruz Souza Pinto

Chairman of the Board of Directors of TAP, S.A.
Chairman of the Board of Directors of Portugália–Companhia Portuguesa de Transportes Aéreos, S.A. (PGA)
Chairman of the Board of Directors of TAPGER–Sociedade de Gestão e Serviços, S.A.

### Fernando Jorge Alves Sobral

Executive Director of TAP, S.A.
Non-executive Director of Portugália–Companhia Portuguesa de Transportes Aéreos, S.A. (PGA)

### Luís Manuel da Silva Rodrigues

Executive Director of TAP, S.A.
Chairman of the Board of Directors of TAP–Maintenance and Engineering Brazil, S.A. (ex-VEM)
Non-executive Director of SPdH–Serviços Portugueses de Handling, S.A.

### Luiz da Gama Mór

Executive Director of TAP, S.A.
Chairman of the Board of Directors of CATERINGPOR–Catering de Portugal, S.A.
Chairman of the Board of Directors of L.F.P.–Lojas Francas de Portugal, S.A.

### Manoel José Fontes Torres

Executive Director of TAP, S.A.
Non-executive Director of Portugália–Companhia Portuguesa de Transportes Aéreos, S.A. (PGA)

### Michael Anthony Conolly

Executive Director of TAP, S.A.
Non-executive Director of Portugália–Companhia Portuguesa de Transportes Aéreos, S.A. (PGA)
Non-executive Director of TAPGER–Sociedade de Gestão e Serviços, S.A.
Chairman of the Board of Directors of U.C.S.–Cuidados Integrados de Saúde, S.A.
Chairman of the Board of Directors of MEGASIS–Sociedade de Serviços e Engenharia Informática, S.A.

# Main curricular elements and professional activities undertaken by the Members of the General and Supervisory Board

## Manuel Pinto Barbosa

**Nationality: Portuguese | Date of birth: May 1944**

Appointed Chairman of the Board of Directors of TAP, S.A. and TAP, SGPS, S.A. (between September 2004 and December 2006) and Chairman of the General and Supervisory Board of TAP, S.A. and TAP, SGPS, S.A., Chairman of the Specialised Auditing and Sustainability and Corporate Governance Commissions (since December 2006).

Professional Activity: Chairman of the Board of Directors, Nova Forum (2005) | Non-executive Director, PTII (2002-06) | Member of the Advisors Committee, Barclays Bank (1996-99) | Non-executive Director, Portucel Industrial (1995-98) | Member, Executive Council of the Luso-American Foundation (1994-2006) | Vice-Chairman, Economic and Social Board (1992-93) | Member, Expert Commission of the ACE programme (ECE) (1990) | Member, Expert Commission of the Tinker Foundation (1989) | Member, Expert Commission of the SPES programme (ECE) (1989) | Member, Commission in charge of the negotiation of the Portugal--USA Defence Agreement (1981-84) | Founding shareholder, Association for the Study of International Relations (1978-83) | Consultant, Portuguese Industrial Association (1970-72) | Officer of the Naval Reserve, Portuguese Armada (1967-69).

University Positions: Member of the Installing Commission, Faculdade de Economia of the Universidade Nova de Lisboa (FEUNL) | Acting-Director, FEUNL | Full Professor, FEUNL | Deputy Head, Universidade Nova de Lisboa (UNL) | Vice-Chancellor, UNL | Vice-Chairman, UNICA, network of universities from European capitals | Member, Installing Commission of the Faculty of Law of the UNL | Provost of International Issues, Universidade Gama Filho (Brazil).

Other Activities: Teaching and scientific research – Director of graduation and post-graduation courses and seminars (in the areas of Macroeconomics, Monetary Theory and Policy, Commerce and International Finance) at UNL and other universities | Coordinator of applied research projects, in the areas of External Relations of Portugal, Asset Market and Financial Systems, Macroeconomic Stabilisation.

- Holds a degree from the Instituto Superior de Ciências Económicas e Financeiras (ISCEF), Universidade Técnica de Lisboa | Masters, Yale University | PhD, Yale University | Recognition, UNL.

## Carlos Alberto Veiga Anjos

**Nationality: Portuguese | Date of birth: September 1942**

Appointed Member of the General and Supervisory Board of TAP, S.A. and TAP, SGPS, S.A., Member of the Specialised Sustainability and Corporate Governance Commission (since December 2006), Member of the Specialised Auditing Commission (December 2006-June 09).

Professional Activity: Chairman of the Board of Directors, Hidroeléctrica de Cahora Bassa, S.A. (1999-2003) | Chairman of the Board of Directors and Director, Siderurgia Nacional, SGPS and Group Companies (1994-99) | Due to being inherent to the functions, representative of Portugal in the Consulting Committee of the ECSC–European Coal and Steel Community and at the IISI–International Iron and Steel Institute | Chief Executive Officer, SOPONATA–Sociedade Portuguesa de Navios Tanques, S.A.; Director, CIVE–Companhia Industrial de Vidros de Embalagem, S.A., in representation of IPE (1992-93) | Chief Executive Officer, Companhia de Celulose do Caima, S.A. | Due to being inherent to the functions, Chairman, ACEL–Associação Portuguesa dos Produtores de Celulose; representative of Portugal on the board of CEPI–Confederation of European Paper Industry (1988-91) | Director, EDM–Empresa de Desenvolvimento Mineiro, S.A. (1985-88) | Director, Ferrominas, E.P. (1977-85) | Director, Financial Director and Head of Services, Lusalite–Sociedade Produtora de Fibrocimento, S.A. (1968-77)

- Holds a degree in Finance from ISCEF, Universidade Técnica de Lisboa.

## João Borges de Assunção

**Nationality: Portuguese | Data of birth: July 1962**

Appointed Member of the Board of Directors of TAP, S.A. and TAP, SGPS, S.A. (between September 2004 and December 2006) and Member of the General and Supervisory Board of TAP, S.A. and TAP, SGPS, S.A., Member of the Specialised Auditing and Sustainability and Corporate Governance Commissions (since December 2006).

Professional Activity: Professor, CLSBE, UCP (since 1993) | Economic Consultant of the President of the Republic, Staff Office of the President of the Republic (since 2006) | Economic Adviser of the Prime Minister of Portugal, Office of the Prime Minister of Portugal (2002-04) | CEO, Telecel Vodafone Foundation (2001--02) | Director, CLSBE (at the time FCEE, 1996-2001) | Assistant Professor, Columbia University (1990-94) | Chairman, Supervisory Board of Eurocash Sp. z.o.o., Poland (since October 2004) | Coordinator, Portuguese Economic Research Centre, CLSBE of UCP (since 2005).

Other Activities: Member, Strategic Steering Board of the CLSBE, UCP (since 2005) | Member, Board of Governors of the UCP (1996-2001) | Member, Scientific Council of the Bank Training Institute (1993-2004) | Advisor, Group on Societal Policy Analysis (GSPA), BEPA, Presidency of the European Commission (2005--09) | Research Assistant and doctoral student, UCLA (1986-90) | Member, Economic and Social Council (2003-04) | Jornal de Negócios Columnist (since 2005) | Research, lecturing and professional interests – Strategy, Marketing, Forecasting Models, Pricing, Promotions, Segmentation, Internationalisation, Dynamic Optimisation Models, Individual Decision-Taking, Game Theory, Political Economy, Development and Economic Growth.

- Holds a degree in Business Administration and Management from the Universidade Católica Portuguesa of Lisbon | MBA in Management from UNL | Ph.D. in Management from the Anderson Graduate School of Management, UCLA.

## Vítor José Cabrita Neto

**Nationality: Portuguese | Data of birth: July 1943**

Appointed Member of the General and Supervisory Board of TAP, S.A. and TAP, SGPS, S.A., Member of the Specialised Sustainability and Corporate Governance Commission (since December 2006).

Professional Activity: Chairman, Board of Directors of the Group TEÓFILO FONTAINHAS NETO (Algarve) – agro-industrial, distribution, real estate and tourism sectors | Chairman, Corporate Association of the Algarve (NERA) | Vice-Chairman, Portuguese Industrial Association | Member, of the Direction of CIP-CEP (Confederação Empresarial de Portugal) | Held the position of State Secretary for Tourism in the XIII and XIV constitutional governments (1997 and 2002) | Deputy to the Assembly of the Republic.

Other Activities: Honorary Consul of Italy in the Algarve | Chairman, Organising Commission of the International Fair of Tourism of Lisbon (BTL) | Columnist and lecturer in the Tourism area.

- Holds academic background in Management.

## Luís Manuel dos Santos Silva Patrão

Nationality: Portuguese | Data of birth: December 1954

Appointed Member of the General and Supervisory Board of TAP, S.A. and TAP, SGPS, S.A., Member of the Specialised Sustainability and Corporate Governance Commission (since December 2006).

Professional Activity: Lawyer Consumer Directorate-General (since 2011) | Chairman, Executive Council of Turismo Portugal, I.P. (2006-11) | Chairman, Board of Directors of Turismo Fundos, SGFII (2009-11) | Member, Board of Directors of ENATUR–Empresa Nacional de Turismo, S.A. (2006-11) | Chief of the Office of the Prime-Minister of the XVII Government (2005-06) | Main Advisor, Head of Division, Director of Services, Coordinator of the POSI/IC Project Team and Manager of the Telematic Network of Information to the Consumer and Consumers' Portal Projects, Institute of the Consumer (1986/89 – 2001/04) | Chairman and Non--executive Director, Board of Directors of SÍTIOS, Serviços de Informação Turística (2001-04) | State Secretary for the Interior of the XIV Government (1999--2000) | Chief of the Office of the Prime-Minister of the XIII Government (1995-99) | Vice-Chairman and Chairman of the Executive Commission of DECO–Portuguese Consumer Rights Association (1989-95) | Chairman of the Executive Commission of Youth Hostels (1984-87) | Director of Services of the Support Fund for Youth Organisations (1978/1980 – 1983/1986).

Other Activities: Invited Trainer of the Universidade Católica (Braga and Lisbon) on Tourism themes (2012-13) | Arbitration Judge, Arbitration Centre of the Automotive Sector (2004) | Chief of the Office and Advisor, Parliamentary Group of the Socialist Party (1989/95 – 2004/05) | Deputy to the Assembly of the Republic by the Voting District of Faro (1999-2001) and Lisbon (1981- 83) | Member, Parliamentary Commissions of National Defence, of Education and Science, of Youth and Labour.

- Holds a degree in Law from the University of Coimbra.

## Rui Manuel Azevedo Pereira da Silva

Nationality: Portuguese | Data of birth: June 1956

Appointed Member of the General and Supervisory Board of TAP, S.A. and TAP, SGPS, S.A., Member of the Specialised Sustainability and Corporate Governance Commission (since December 2006), Member of the Specialised Auditing Commission (since June 2009).

Professional Activity: Coordinator, Oceano XXI, Cluster of Knowledge and Economics of the SEA; Consultant, Conference on the Maritime Peripheral Regions of Europe; Consultant, Coordination Commission of the North Region (2007-12) | Coordinator, State Secretariat and of Local Administration (2001-08) | Director, Prospective Cell of the Conference on the Maritime Peripheral Regions of Europe (1999-2007) | Founding shareholder (1990), General Director (1991-93); Chief Executive Officer (1994- 95); Chairman of the Board of Directors (1996-99), Quaternaire Portugal, S.A. | Vice-Chairman, Commission of Coordination and Development of the North Region (1989-91) | Advance Technician, Commission of Coordination and Development of the North Region (1981-89).

Other Activities: Academic experience – Invited Auxiliary Professor at the Faculty of Engineering of the University of Porto (since 1996).

- Holds a degree in Economics from the Faculty of Economics of the University of Porto | Course of Technician in Cooperative Development of the United Nations Programme for the Development of the Instituto António Sérgio do Sector Cooperativo | General Management Course from the Instituto Superior de Estudos Empresariais of the University of Porto (completion) | Languages: English, French and Spanish.

## Maria do Rosário Mattos

Nationality: Portuguese | Data of birth: October 1960

Appointed Member of the General and Supervisory Board of TAP, S.A. and TAP, SGPS, S.A., Member of the Specialised Sustainability and Corporate Governance Commission (since December 2006), Member of the Specialised Auditing Commission (December 2006-June 09).

Professional Activity: Law practice (1985-2009) | Member, Boards of Directors of several companies, namely from the tourism sector (2002- 09) | Directress, RTP–Radiotelevisão Portuguesa, S.A.; Chairman, Board of Directors, EBS 2004; Member, Executive Council of the Emmy Awards; Member, Executive Council of OTI–Organización de las Televisiones Ibero-Americanas, RTP–Radiotelevisão Portuguesa, S.A. (1998-2002) | Vice-Chairman, General Meeting Committee of Auto-Leasing (1994-99) | Directress, SMP–Semicondutores de Portugal, S.A.; Directress, Tronitec–Componentes Eléctricos, S.A., Companhia Portuguesa Rádio Marconi (1992-95) | Chief Executive Officer and, subsequently, Chairman of the Board of Directors, IRENA, Investimentos e Participações em Recursos Naturais, SGPS, S.A.; Directress, Argitécnica, S.A.; Manageress, Empresa Águas de S. Lourenço, Lda.; Manageress, Empresa Fonte das Avencas, Lda.; Manageress, Ortes–Ornamental Resources, Lda., Amorim Group (1991-97) | Legal Consultant of a large company in the civil construction and public works sector, in the areas of Commercial and Corporate Law (1991-94) | Legal Advisor to the Governor of Macau; Member, Audit Board, CAM–Companhia do Aeroporto Internacional de Macau, S.A.R.L.; Legal Consultant, TDM–Televisão de Macau, E.P., Macau (1987-91) | Member, Board of Directors of several companies, namely, Expandindústria, S.A., Comismar Norte, Lda. and Ecassos, Lda. (1985-87) | Law internship, focusing essentially on Commercial Law, Labour Law, Civil Law and Administrative Law.

- Holds a degree in Law (Legal Sciences area) from the Universidade Católica Portuguesa (UCP) | Post-Graduation in Management from the UCP | Post-Graduation in Turnaround Management and Bankruptcy, from the UCP | Post-Graduation in Commercial Law from the UCP | Course on Law Making | Course on Competencies Delegation | Languages: English, French and Spanish.

## Main curricular elements and professional activities undertaken by the Members of the Management Body Executive Board of Directors

### Fernando Abs da Cruz Souza Pinto

Nationality: Portuguese and Brazilian | Data of birth: June 1949

Appointed Executive Chairman/CEO, at TAP (October 2000-December 2006); President of the Executive Board of Directors of TAP, S.A. and TAP, SGPS, S.A. (December 2006).

Professional Activity: Chairman of the Council of IATA (June 2007-June 2008) | Chairman of AEA–Association of European Airlines (2005) | President of VARIG, S.A. (Viação Aérea Rio-Grandense) (1996-2000) | President (1992-96) and Technical Manager (1988-92) of RIO-SUL, Serviços Aéreos Regionais | Head of the Workshops and Maintenance Sub-department (1982-88); In-house engineer at Airbus Industries (Toulouse-France) (1981-82); Head of Motors Division (1976--81); Coordinating engineer of the Motors Test-Bench, responsible for coordinating the various phases of the project and the construction of a turbine test system in the industrial area of the International Airport of Rio de Janeiro (1973-76); Engineering trainee (Wheels and Brakes Workshop) (1972-73) at VARIG S.A. (Viação Aérea Rio-Grandense).

Other Activities: Private Pilot | Glider Pilot | Sports Pilot of Ultra-light Aircraft.

- Holds a degree in Mechanical Engineering from the Universidade Federal do Rio de Janeiro. As his final year graduation project he presented a prototype of the first hovercraft manufactured in Brazil, with technology introduced from England, following several internships in British manufacturing plants (Isle of Wight) | Machines and Motors Technical Course (Escola Técnica Federal do Rio de Janeiro) | Post-graduation Course in Management (Fundação Getúlio Vargas – Rio de Janeiro) | Several Technical Courses in the Aeronautics area | Languages: English and French.

### Fernando Jorge Alves Sobral

Nationality: Portuguese | Data of birth: April 1949

Appointed Member of the Executive Board of Directors of TAP, S.A. and TAP, SGPS, S.A. (December 2006)

Management Duties in the following areas: TAP–Maintenance and Engineering Business Unit; PGA.

Professional Activity: Chairman of the Board of Directors of VEM (VARIG Engenharia e Manutenção) (2006) | Member of the Board of Directors, together with the functions of Vice-Executive Chairman of Maintenance and Engineering at TAP–Air Portugal at TAP, S.A. (2003) | Vice- Executive Chairman of Maintenance and Engineering at TAP–Air Portugal (2001) | General Director of Maintenance and Engineering (1996- 2001); Assistant General Director of Maintenance and Engineering (1996); Head of the Maintenance-Processes team, having taken part in a project involving the global restructuring of the Company – TAP 2000 (1995-96); Head of the Components Service of the General Maintenance and Engineering Department (1990-96); Head of the Production Engineering Division of the Instruments, Electricity and Radio Service, of the General Maintenance and Engineering Department (1987-90); Electrical Engineer holding functions at the Engineering Service of the General Maintenance and Engineering Department (1979-87) at TAP | Electrical Engineer in the General Civil Aeronautics Department (Direcção Geral de Aeronáutica Civil) (1973-79).

Other Activities: Chairman of the European Aircraft Engineering & Maintenance Conference (2005) | Chairman of the 4th Managing Aircraft Maintenance Costs Conference (2003) | Vice-Chairman of the Airlines International Electronics Meeting (1995) | Technical representative of TAP for Airbus, in Toulouse, for the reception of TAP's A340 fleet (1995) | TAP representative at the Airline International Electronics Meetings and at the Avionics Maintenance Conferences (1987-95) | Academic experience: Auxiliary Professor at the Instituto Superior de Engenharia de Lisboa (1989-97) | Assistant Professor at the Instituto Superior de Engenharia de Lisboa (1976-89) | Assistant Professor at the Instituto Superior Técnico (1972-75) | Monitor at the Instituto Superior Técnico (1970-72).

- Holds a degree in Electrical Engineering (1972), Electronics and Telecommunications Branch from the Instituto Superior Técnico).

### Luís Manuel da Silva Rodrigues

Nationality: Portuguese | Data of birth: January 1965

Appointed Member of the Executive Board of Directors of TAP, S.A. and TAP, SGPS, S.A. (June 2009).

Management Duties in the following areas: Air Transport Business Unit: Customer Service, Abroad Stopovers, Talk to Us; Restructuring and Costs Reduction; SPdH; TAP–Maintenance and Engineering Brazil, S.A..

Professional Activity: Chairman, Fischer Portugal (July 2008-May 2009) | Consultant, Confronto d'Ideias, Sociedade Unipessoal (January 2008-May 2009) | Fixed Network Marketing Director (2006-07); Director of Marketing, Corporate Business (2003-07), PT Comunicações | Executive Director of Marketing, Sales and Contents, Media Capital Multimédia; Executive Director, Unidivisa, Sociedade Gestora de Cartões de Crédito, Grupo Media Capital (2000-03) | Coordinating Director of Marketing, Public Relations, New Technologies, TVI, Televisão Independente, Grupo Media Capital (1999-2000) | European Marketing Manager New Initiatives, Procter & Gamble Europe (1996-97) | Marketing Manager (1994-96); Brand Manager (1993-94), P&G Austria; Assistant Brand Manager (1990-93), P&G Portugal.

Other Activities: Permanent member of the Committee for the Analysis and Research of Means of the Portuguese Advertisers Association (1999-2000) | Elected member of the Board of the Portuguese Association of Advertising Agencies | Elected Marketing Personality of the Year for 2007 by the Portuguese Association of Marketing Professionals | Secretary-General of Harvard Business School (AMP 164) | Total Quality Trainer (1995-96) Procter & Gamble Portugal.

- Holds a licentiate degree in Economics from UNL | MBA from UNL | Advanced Management Program (AMP 164, 2003) from Harvard Business School, USA | Air Transport Management Seminar (2011) by Cranfield University, England.

### Luiz da Gama Mór

Nationality: Portuguese and Brazilian | Data of birth: April 1952

Appointed Vice-Executive Chairman of Air Transport of TAP Portugal, of TAP, S.A. (October 2000-December 2006); Member of the Executive Board of Directors of TAP, S.A and TAP, SGPS, S.A. (December 2006).

Management Duties in the following areas: TAP Air Transport Business Unit: Marketing, Communications and Public Relations, Sales, Cargo and Mail; Cateringpor; Lojas Francas de Portugal.

Professional Activity: Chairman of the Board of Directors of Cateringpor (aviation catering company) | Chairman of the Board of Directors of LFP (airport and onboard duty free company) | Member of the Board of Directors of Groundforce (passenger and cargo ground handling company) | Vice-Chairman of Sales and Marketing; Commercial Director; Operational Logistics Director; Commercial Manager of RGS; Manager of EVAER–Escola VARIG de Aeronáutica of VARIG, S.A. (March 1990-June 2000) | Marketing Director; Administrative and Commercial Manager; Maintenance Manager of AEROMOT, S.A. (September 1977-February 1990).

Other Activities: Professor of O Piloto e o Mercado at the Faculty of Aeronautical Sciences of PUC/RS (1995) | Professor of Estudo dos Problemas do Turismo no Brasil at the Faculty of Tourism of PUC/RS (1994) | Marketing Professor at the Management School of ULBRA/RS (1989) | Organization and Methods Professor at the Management School of ULBRA/RS (1984) | Member of the Commission that developed the Aeronautical Sciences Course of PUC/RS | Director (Adviser) of Pluna Linhas Aéreas Uruguaias S.A. | Member of the Executive Council of the Amadeus Brazil Company.

- Holds a degree in Mechanical Engineering from the UFRGS | Post-graduation in Management (PPGA/UFGRS) | Airline Business, (London Business School) | Advanced Management Programme (INSEAD–France).

Qualifications: Executive with 30 years of experience in Operations, Sales, Marketing and Top Management of medium-sized and large aviation and associated companies | Market diagnostic capability, construction of a vision of the future and elaboration of competition strategies in highly competitive environments | Experience in turnaround of companies operating in high pressure environments, including state-owned | Experience in managing large teams in international operations. Skilled in coordinating cultural changes, in motivational and recognition programmes seeking strategy alignment | Experience in rebranding, product development and building client loyalty | Coordination of corporate projects with consultancy companies with the aim of increasing efficiency, reducing costs and increasing revenues.

### Manoel José Fontes Torres

Nationality: Portuguese and Brazilian | Data of birth: June 1947

Appointed Vice-Executive Chairman of Air Transport of TAP Portugal, of TAP, S.A. (October 2000-December 2006); Member of the Executive Board of Directors of TAP, S.A. and TAP, SGPS, S.A. (December 2006).

Management Duties in the following areas: TAP Air Transport Business Unit: Flight Operations, Fleet Planning, Network and Planning, Operational Control, International Relations and Alliances, Information Technologies, Emergency Planning; PGA.

Professional Activity: Chairman of the Board of Directors of White Airways, S.A. | Vice-Executive Chairman–Corporate Planning and Route Network of VARIG, S.A. (Viação Aérea Rio-Grandense) | Member of the Board of Directors of PLUNA, S.A. (Uruguay) | General Director of ITAP– Indústria Técnica de Artefactos Plásticos (solid packages) | Manager of the Manufacturing Division of TOGA – Indústria de Papéis | Consultant for PLANASA (in the Planning and Systems areas).

Other Activities: Member of the Management Board of STAR Alliance | Member of the Industry Affairs Committee of IATA.

- Holds a degree in Mechanical Engineering from the University of Sao Paulo | Post-graduation in Management (Escola de Administração de Empresas de Sao Paulo of the Fundação Getúlio Vargas) | Completion of the following specialisation courses, among others: Management (INSEAD–France); Aircraft Fleet Planning–Cranfield College of Aeronautics (England); Aircraft System and Performance (The Boeing Commercial Airplane Company – USA).

### Michael Anthony Conolly

Nationality: Portuguese and Brazilian | Data of birth: December 1949

Appointed Vice-Executive Chairman of TAP, S.A. (October 2000-December 2006); Member of the Executive Board of Directors of TAP, S.A. and TAP, SGPS, S.A. (December 2006).

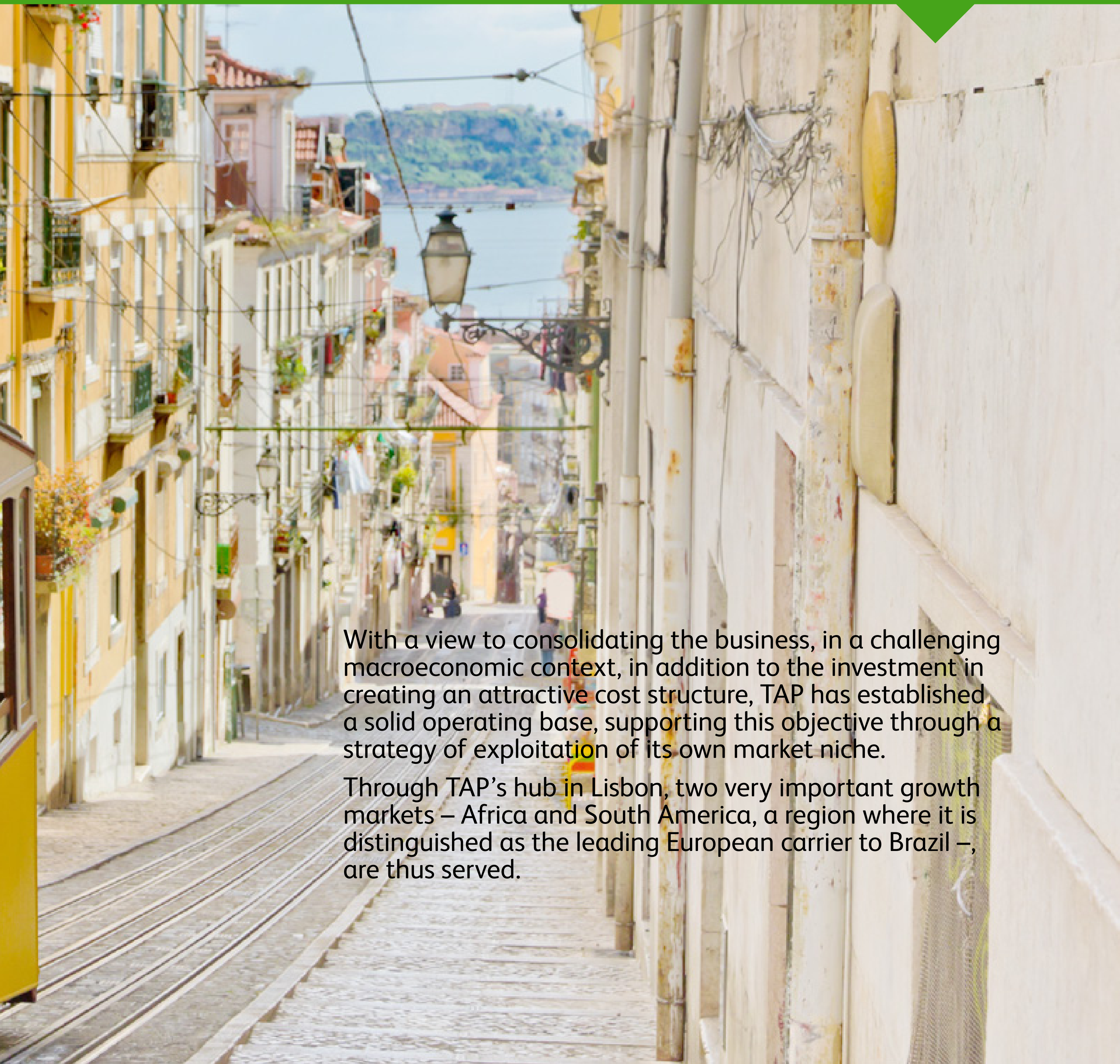
Management Duties in the following areas: TAP Serviços Business Unit; Responsibilities in the TAP Group: Finance, Human Resources, Logistics, Legal, Administration and Physical Resources Management, Planning/Business Portfolio and Performance, Information Technologies, Audit; Megasis; UCS; TAPGER; SPdH; PGA.

Professional Activity: Chief Financial Officer of VARIG, S.A. (Viação Aérea Rio-Grandense) | Worldwide Controller of Bunge Internacional (agroindustrial group with activities in South, Central and North America, Europe, Oceania and Asia) | President of MCS Trading (Brazilian import and export company that also has retail operations in the following main markets: Brazil, United States of America, Europe and Asia | Controller for Latin America of Alcoa (Aluminium Co. of America, largest manufacturer of aluminium in the world).

- Holds a degree in Management from the Escola de Administração de Empresas de Sao Paulo of the Fundação Getúlio Vargas | Accountancy (Escola Técnica de Comércio of the Fundação Getúlio Vargas) | Several specialisation courses in Brazil and overseas | Languages: Portuguese, English, Spanish and French.

Qualifications: 30 years of professional activity in the Finance, Strategic Planning and Production areas and Chairmanship in the Service, Industrial, Agro-Industrial, Trading and Commercial Aviation sectors.

# Management Report
# TAP, SGPS, S.A.



With a view to consolidating the business, in a challenging macroeconomic context, in addition to the investment in creating an attractive cost structure, TAP has established a solid operating base, supporting this objective through a strategy of exploitation of its own market niche.

Through TAP's hub in Lisbon, two very important growth markets – Africa and South America, a region where it is distinguished as the leading European carrier to Brazil –, are thus served.

**196** destinations
**77** with TAP aircraft
**108** Europe (**10** Portugal)
**62** Americas
**19** Africa
**7** Middle East and Asia

**55** Airbus aircraft
**16** long-haul operation
**16** regional operation
(Portugália)

**10.2** million
passengers

**83.7** thousand tons
cargo and mail

**53** Third Party
Customers
**35** airline companies

# TAP, SGPS, S.A.

## Profile

**TAP will focus on the Air Transport service and its complementary activities, consistently aiming at investor return and leadership of the niche market in which it operates. TAP will offer its Customers a quality product and will always be the best choice for those who want to use its services and one of the best companies to work for.**

The Company will act in accordance with its commitment to society and the environment.

TAP, SGPS, S.A. is a company whose aim is the management of shareholdings in other companies. The following contribute to the Group's results:

- TAP–Transportes Aéreos Portugueses, S.A. (TAP Portugal), whose main activity is air passenger and cargo transport, also provides services to third party costumers through its Maintenance business, in Portugal and Brazil;
- A group of companies which carry out their activities in areas linked to the Group's core businesses – Air Transport and Maintenance and Engineering –, with a view to controlling the service chain.

Following its strategic direction, TAP's priority is to fulfil its Customers' expectations, promoting their loyalty and maintaining strong ties with Portugal, a focus that corresponds to the market niche in which its competitive position is most established.

TAP Portugal is an international airline company which operates from its base in Lisbon, a city which, due to its geographic location, is a privileged access platform to markets located in other Continents, and also operates from Porto airport, its second operational hub.

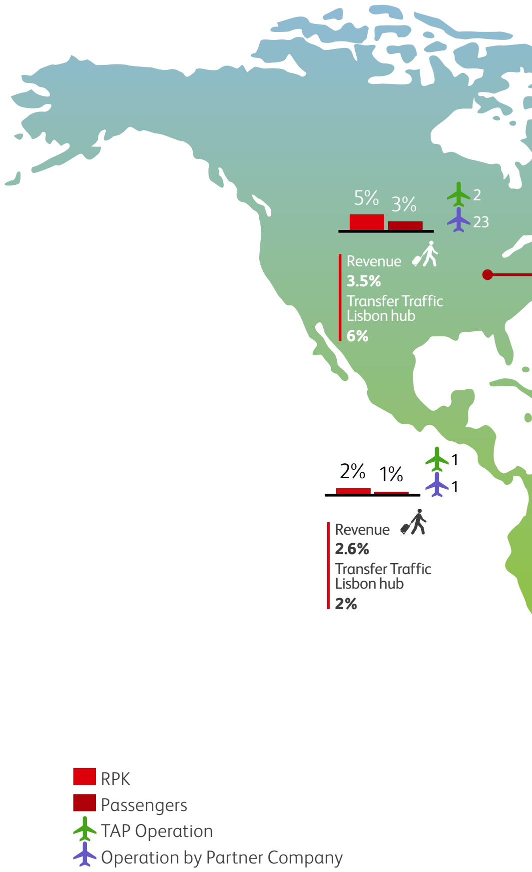
In the development of its network, the Company pursues a niche strategy, connecting Europe to a growing number of destinations located in Africa, in North, Central and South America, and in the latter is the leading European air carrier flying to Brazil.

TAP Group ended 2012 with a net income of EUR -30.8 million, improving EUR 46.0 million relative to the EUR -76.8 million registered in the previous year.

At the operating level, before interest and taxes, the Company recorded EUR 34.4 million, reflecting an improvement of EUR 52.5 million relative to 2011.

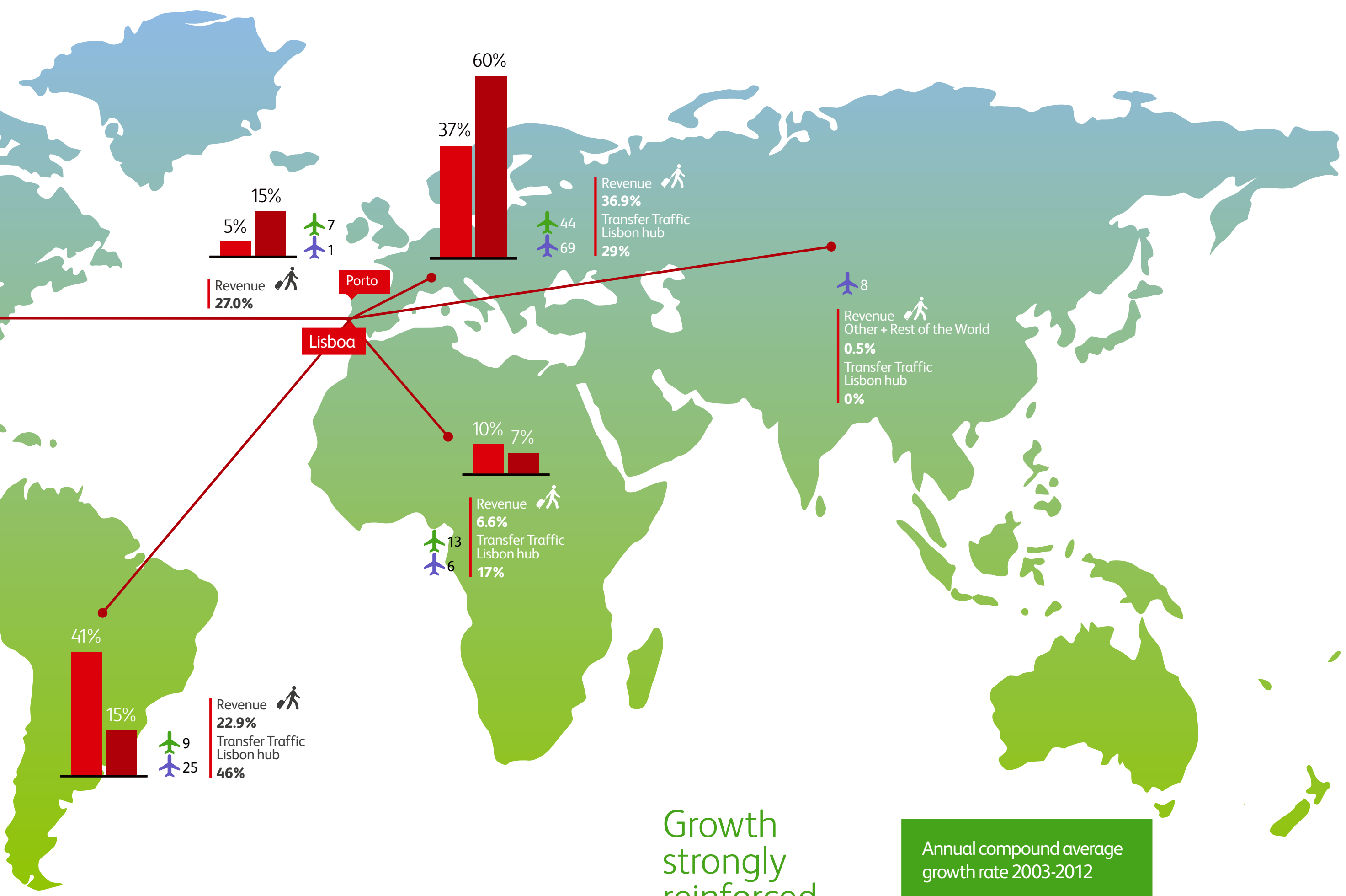
Particular note should be made of the fact that by the end of 2012, TAP had more than doubled its size in relation to 2000, with its offer having grown by approximately 160% over this period.

During the year, the TAP Group (TAP, S.A. and other participated companies) employed an average of 12,438 persons, ending the year with 12,506 workers.




### Turnover
EUR million

| | 2012 | 2011 | var. (%) |
|---|---|---|---|
| Air Transport | 2,255.9 | 2,124.5 | 6.2 |
| Maintenance-Third Parties Assistance – Portugal | 114.5 | 91.4 | 25.2 |
| Maintenance-Third Parties Assistance – Brazil | 70.8 | 63.4 | 11.6 |
| Duty Free | 154.4 | 142.8 | 8.2 |
| Catering | 6.0 | 5.6 | 6.8 |
| Other Activities of TAP. SGPS. S.A. | 19.1 | 13.8 | 38.5 |
| TOTAL | 2,620.7 | 2,441.5 | 7.3 |




## Growth strongly reinforced particularly in external market

Annual compound average growth rate 2003-2012

External Market

**+12.9%**

## Reinforcement of sales in markets abroad

In 2012, TAP Group strengthened the positioning of its contribution to the volume of national exports, with a total contribution of EUR 2,218.7 million of sales and services rendered in markets abroad, 7.5% more than in 2011.

### Sales and services rendered

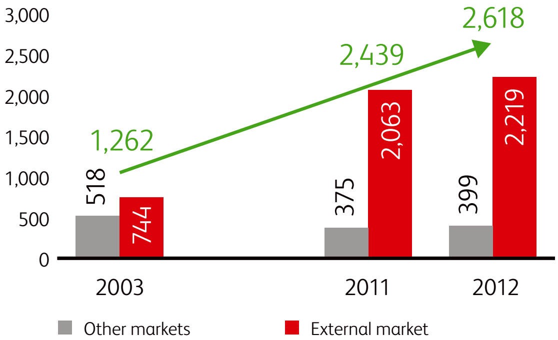
EUR million

| | 2012 | 2011 | var. (%) |
|---|---|---|---|
| External market (*) | 2,218.7 | 2,063.5 | 7.5 |
| Other markets | 399.4 | 375.4 | 6.4 |

(*) TAP companies reporting directly to the Bank of Portugal

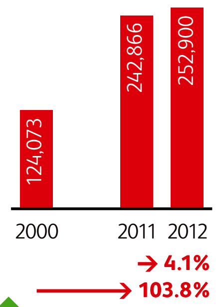
### Sales and Services Rendered

EUR million

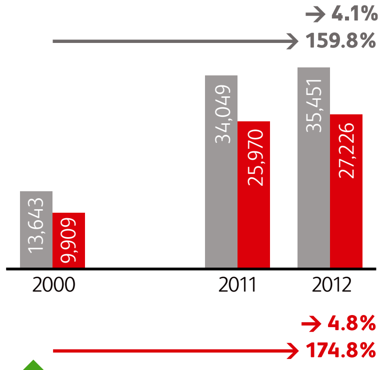


# Key Figures

## Flight Hours
Own aircraft




## Supply - ASK
## Demand - RPK
$10^6$




**252 900**
hours

The number of flight hours by the TAP fleet came to a total of approximately 253 thousand, 4.1% more than in 2011.

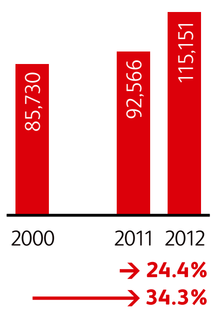
**35 451**
million ASK

**27 226**
million RPK

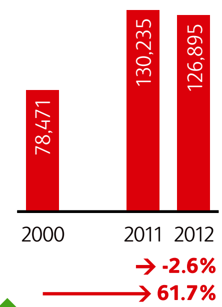
The capacity of the operation increased by 4.1%, with demand having increased by approximately 4.8%.

## Frequency evolution

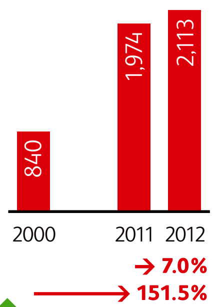

## Maintenance Revenues
$10^3$




## Cargo Revenues
$10^3$




## Passenger Revenues
$10^6$




**115 151**
EUR thousand

The total Sales and Services Rendered of TAP–Maintenance and Engineering Portugal registered an increase of 24.4%, reflecting signs of recovery.

Note: Values for 2011 and 2012 in accordance with the IFRS (International Financial Reporting Standards).

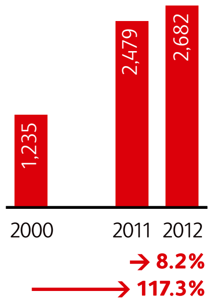
**126 895**
EUR thousand

In 2012, reflecting the climate of depression, income from carried air cargo registered a contraction of 2.6%.

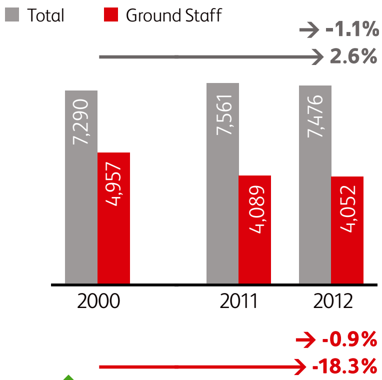
**2 113**
EUR million

Passenger revenue increased by 7.0%, reflecting the increase in demand, namely, to the routes of the South Atlantic and Africa regions.

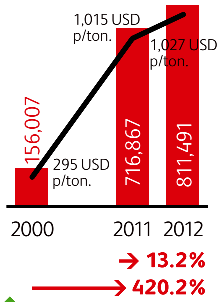
## Operating Revenues and Gains
$10^6$




## Human Resources TAP, S.A. + PGA, S.A.




## Fuel
$10^3$




**2 682**
EUR million

The operating revenues and gains of the Group companies as a whole reflect the effect of the increase in demand levels.

Note: Values for 2011 and 2012 in accordance with the IFRS (International Financial Reporting Standards).

**7 476**
Employees

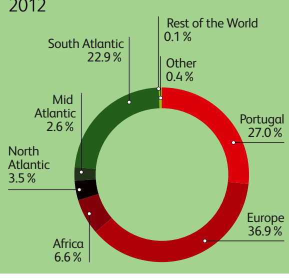
In view of the growth in the development of the business since 2000, the evolution of the Staff of TAP, S.A. + PGA, S.A. reflects the general increase in the Company's productivity levels.

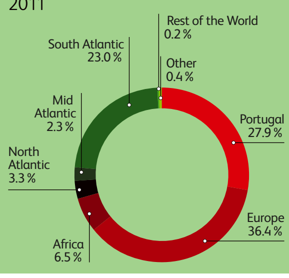
**811 491(*)**
EUR thousand

The behaviour of oil prices, on a continuously rising trajectory, was reflected in the fuel costs of TAP, S.A..

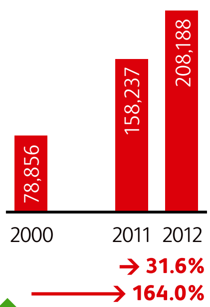
(*) Includes charges relative to the acquisition of $CO_2$ Emission Allowances

## Ticket Sales

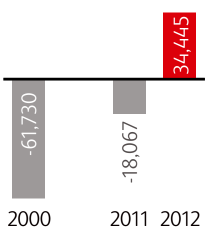


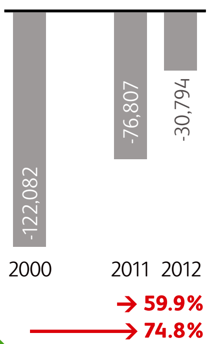

## EBITDAR
$10^3$



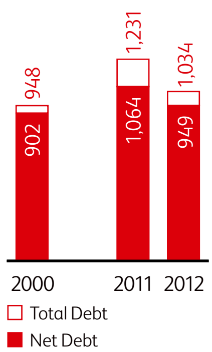

## Net Operating Income
$10^3$




## Net Income
$10^3$




## Debt
$10^6$




**208 188**
EUR thousand

The net operating cash flow to deal with financial and investment costs for the companies of TAP Group as a whole increased by EUR 50 million.

**34 445**
EUR thousand

The net operating income achieved, reflecting the Group's continued efficiency efforts, registered an improvement of EUR 52.5 million.

Note: Values for 2011 and 2012 in accordance with the IFRS (International Financial Reporting Standards).

**-30 794**
EUR thousand

The increase in the fuel invoice due to the price effect, by about EUR 65 million, was reflected in the results, mitigating the impact of the increased efficiency acquired over the last few years.

Note: Values for 2011 and 2012 in accordance with the IFRS (International Financial Reporting Standards).

**1 034**
EUR million

The total debt reflects the continuous effort placed in the reduction of the Company's indebtedness.

# Sustainable development of TAP Group

## Social responsibility

**In 2012, TAP was elected the *company with best balance between professional life and personal/family life* under the *The best companies* awards, promoted by the magazine *Human Resources* Portugal.**

This award, recognising the work developed by TAP in the *pillar of people*, as aspect included in its mission: the *best company to travel, invest and work*, is considered by the Company as being of significant importance. TAP seeks to enhance the impact of the action of its employees, through a participative management model fostering social recognition, and promoting sustainable development which reconciles the performance and competitiveness of the business with the well-being and harmony of the employee.

People play a determinant role in the construction of a Positive Organisation and in the affirmation of the Company's culture. A highly competitive market, such as that in which TAP operates, increasingly requires people with high levels of positive attitude and personal growth, fostered by the development of positive psychological skills, such as self-confidence, hope, optimism and resilience, since these skills potentially lead to development and effective management, with a view to enhancing team performance and yield.

The success that TAP has achieved in the market and amongst its Customers, associated to the national and international awards with which it has been distinguished arises, essentially, from the fact that its employees identify with the Company's values and attitudes.

Under its strategic vision, TAP seeks to boost the impact of the activity of all its employees and, in this way, base its sustainable development on a model of participative management and social recognition, through their improved performance and greater contribution to competitiveness and results.

With a view to the personal motivation, safety and well-being, and respect for balance between professional and personal/family life, TAP offers a considerable range of social benefits, such as the internal medical clinic, health and life insurance, nursery, canteen, and a social service providing support and counselling to current and former employees.

The alignment of the Human Resources policies with the organisation's strategy gives rise to competitive advantages which have enabled the achievement of overall objectives and contribute to the credibility of the brand TAP. The Company has strengthened its objective to create commitment, contribution and development of skills of its employees, investing in their talents, developing their technical, social and management skills, in order to sustain competitive advantage. Likewise, and considered a strategic factor, TAP fosters the creativity, adaptability, agility and resilience of employees.

With regards to external actions, over the years, TAP has supported the charitable and civic action of its employees within the community, generating a sense of belonging in those who share the Company's values. In this way, TAP intends, once again, to be a space of professional and personal fulfilment.

On the other hand, the TAP Group, along with other initiatives, has stimulated the corporate volunteer pool, the case of the Volunteers with Wings, the Assistance Team and Care Team. The first aims to mitigate the difficulties of those most in need, through an enormous number of actions in support of the community, while the second provides assistance at the airport, in peak operating and extremely irregular situations, and the Care Team focuses on situations of possible emergency.

This is, therefore, TAP's personality in the area of social responsibility.

**Reduce…** … food waste, through Donation of Leftover Meals of the Canteen campaigns and the donation of food products from vending machines to private social solidarity institutions.

**Recycle…** … by participating in the Paper for Food campaign of the *Banco Alimentar contra a Fome* (Food Bank Against Hunger), TAP increased by 19%, relative to 2011, the quantity of paper/cardboard waste sent for recycling.

**Reuse…** … with the Bank of School Books campaign, TAP encouraged employees to donate to colleagues school manuals that their sons no longer use.

## Environmental responsibility

In 2012, TAP was strongly committed to promoting an integrated culture of the environmental and social pillars in its activities. In this sense, with the objectives Reduce, Recycle and Reuse, various campaigns were developed, some of which in partnership with the volunteer group of TAP – *Voluntários com Asas* (Volunteers with Wings), as in the cases of the *Donation of Leftover Meals of the Canteen* and *School Books Bank campaigns*. During the course of the year, there was also investment aimed at raising environmental awareness, an initiative that was also directed at the service providers residing at the TAP Campus. In total, 29 training sessions were held, involving a total of 400 trainees, employees of TAP Group's different Business Units/Companies and service providers.

Distinguished with the 2010 Planet Earth Award, the Voluntary $CO_2$ Emissions Compensation Programme of TAP, developed in partnership with IATA, achieved outstanding results. In 2012, more than 20 thousand passengers voluntarily compensated the $CO_2$ emissions from their flights, reaching a total of 9,579 tons of compensated $CO_2$, which surpassed the objective established by 128%.

*For more information on TAP's environmental activities, please read the "Environmental Perspective" chapter in the Corporate Governance and Sustainability Report of the TAP Group.*

The cost-cutting incentive, although transversal to the entire TAP Group, took on a particularly important role in TAP–Maintenance and Engineering, with the undertaking of investments to improve the efficiency of the lighting in the Motor Workshop, as a result of the Energy Rationalization Plan in force enabling, in turn, the reduction of the associated ecological footprint. In addition, in this Workshop, chimneys were adapted so as to comply with legislation in force, in an intervention which called for the increase in height of 12 chimneys and the consequent installation of sample collection points on the chimneys. In the Electrolytic Treatment Workshop, following the study of the most ecological solutions relative to the degreasing of parts, trichloroethylene was substituted by Ensolv 5408, an equivalent product but with a lower environmental impact. Within the scope of Missions + Environment and Green Hangar, aimed at adopting the best available technologies, an investment was undertaken to acquire an effluent recycling system for the glass polishing process, in the Cabin Interior Workshop. In terms of hangars, a new product for the containment of spills, more ecological and reusable, is currently in the testing phase.

In the Waste Management component, the internal procedure involving industrial waste collection and forwarding was revised, and its dissemination is planned for the start of 2013. Forwarding to the exterior continues to be coordinated by TAP Serviços, which contracts the external waste management services for the entire TAP Campus. In addition to the waste resulting from the industrial activity, about 11 tons of scrap metal from obsolete material and, within the scope of the Missions outlined, were sent for recovery. The treatment of industrial effluents from the Electrolytic Treatment Workshop and the Engine Workshop, carried out at the ETAR of the Business Unit, reached 1,331 m3 of effluents, with the quality control of the final effluent assessed through quarterly monitoring, according to the Environmental License. Within this context, two campaigns (bi-annual) to monitor fixed-source emissions were also conducted. As a preventive measure, two additional campaigns were conducted, in addition to those foreseen by the Environmental License, on the fixed source associated to the degreasing process of parts of the Electrolytic Treatment Workshop. Also noteworthy are the employee awareness raising actions related to environmental themes, with the dissemination of the Environmental Newsletter and the affixation of posters, as well as the duplication of the offer of industrial waste management courses, enabling 300 more employees to receive training.

**In TAP–Maintenance and Engineering, environmental objectives were defined for the first time**

– Specific programmes and targets were identified; 4 missions were defined.

**Waste Mission** – Redefinition of the internal waste management procedures and establishment of the most efficient methodologies for packaging and transportation of large waste;

**Green Hangar Mission** – Search for the best products from an environmental viewpoint, having substituted some products for others that are more ecological;

**Savings Mission** – Launch of various campaigns, supported by posters and in the *ambiente me newsletter*, with the objective of promoting behaviour to reduce consumption at various levels;

**More Environment Mission** – Promotion of the environmental awareness of the employees of Maintenance and Engineering. Environmental themes took on a more central role in training and the *Environmental Newsletter* maintained its periodicity.

# Key Facts

## Structural events

During 2012, the Company continued its efforts to maintain a competitive positioning on the global market, with events of a structural nature having taken place.

### Chronology of the main events

*Disposal of the majority holding (50.1%) in SPdH–Serviços Portugueses de Handling, S.A.*

Following the initiatives taken, which culminated at the end of 2011, in the signing of a principle agreement with a national group, for the acquisition, by this group, of 50.1% of SPdH's capital, a purchase and sale agreement was signed on 18 June 2012, between, on one side, TAP S.A., TAP SGPS, PGA and SPdH and, on the other side, Urbanos Grupo, SGPS, S.A. for the latter's acquisition of 50.1% of the capital of SPdH, which takes effect as of 20 July 2012, date of the deliberation of the Competition Authority regarding its decision of non-opposition to this transaction. In the meantime, on 17 October 2012, Pasogal SGPS, S.A. succeeded Urbanos Grupo, SGPS, S.A. relative to all the rights and duties arising to the latter from the agreement referred to above and shareholders' agreement.

The main stages of the process are recalled below:

March 2008 – Acquisition of this portion of capital, by a consortium of three financial institutions (Banco de Investimento Global (BIG), Banco de Investimento, S.A. (BANIF) and Banco Invest, S.A.). The objective of this operation, fostered by TAP, was to create the conditions for the managers of SPdH to promote the necessary changes for solving its operating difficulties and, in this way, achieve a significant improvement in the standards of service offered, not only for TAP but also for the other customers of this handling company.

March 2009 – According to the conditions established with the above mentioned banks, the holding in SPdH was transferred to TAP, with the operation having been concluded for the same amount as the acquisition value.

April 2009 – Development, by the TAP Group of a tender for the selection of an investment banking institution with the mission of promoting the sale, in national and international markets.

November 2009 – The AdC issued its decision, prohibiting the concentration operation between TAP and SPdH, due to considering that it could create or reinforce a dominant position of the handling company in ground handling services at airports, and, therefore, that TAP must sell the majority of the share capital of the handling operator, as well as nominate a trustee to act in the interests of the Competition Authority, managing the company SPdH independently from TAP. Accordingly, the management of SPdH was assured by Europartners, an entity independent of TAP, and supervised by the Competition Authority, with TAP, in compliance with these provisions, having continued its efforts to sell the position that it was forced to reacquire, the majority of the share capital of SPdH.

January 2010 – Through deliberation of the General Meeting of Shareholders, three external members were appointed to SPdH's Board of Directors, one of whom being the chief executive officer, in the capacity of independent operating manager. In order to comply with the orders justified through legal imperatives which rule the ground handling activity sector and achieve conditions favourable to the sale of the majority of the respective share capital, SPdH began a thorough restructuring process in 2010, so as to restore equity and, in this way, to re-establish the solvency and financial autonomy ratios in accordance with normally acceptable standards and confer aptitude to apply for the International Public Tender for the handling operator license in national airports, promoted by INAC in late 2011.

*Process of reprivatisation of TAP SGPS, S.A.*

The 3rd and 4th stages of the indirect reprivatisation process of the share capital of TAP–Transportes Aéreos Portugueses, S.A. (TAP, S.A.), through reprivatisation of the share capital of TAP–Transportes Aéreos Portugueses, SGPS, S.A. (TAP SGPS, S.A.), was approved by the Council of Ministers (Decree-Law number 210/2012, of 21 September), with the 3rd stage involving one or more increases of share capital, as well as the sale of representative shares, to one or more investors, and the 4th stage comprising a public offering of the representative shares, reserved for acquisition by the Company's employees. The specific conditions of the operation were established in the technical specifications, approved in an annex attached to Council of Ministers Resolution number 88-A/2012, of 19 October, published in Diário da República. The 3rd stage of the reprivatisation process was organised into different phases, having included a preliminary process of collection of acquisition and subscription intentions amongst potential investors, followed by the next phase, the non-binding proposal submitted by Synergy Aerospace Corporation (Synergy). Synergy was, in this context, admitted to participate in the subsequent phase of the direct sale process (Council of Ministers Resolution number 88-B/2012, of 18 October), and invited to submit a binding proposal, which took place on 7 December 2012.

Pursuant to the provisions in the Technical Specifications, TAP, S.A. expressed its opinion on the adequacy of Synergy's strategic project and commitments to the company's interests, with the special supervisory board of the process having issued an opinion, concluding on their compliance with the applicable legal rules and procedures.

Through appraisal of the submitted binding proposal, the Government decided not to include therein, elements which would enable the formation of a conclusive judgement, having determined the conclusion of the process.

# Main events

## January

TAP–Maintenance and Engineering has become the first global aeronautical maintenance company to use RFID (Radio Frequency Identification) technology to track engine parts, with the implementation of the Mobile enabled engine repair Application (MeerA) project.

## February

At Lisbon Tourism Exchange (BTL), with a new stand: a *With Arms Wide Open* stand, through the in-flight magazine UP, TAP pays tribute to Africa, a continent to which Portugal is closely linked through profound historic, cultural, social and economic ties.

Workshop with parts manufacturers, promoted by TAP–Maintenance and Engineering, aimed at disseminating the PMA (Parts Manufacturer Approval) development, manufacturing and approval processes in the Company.

## March

TAP–Maintenance and Engineering featured as the television programme *Falar Global*, with this edition having addressed aeronautical safety and the work carried out by the different teams of TAP–Maintenance and Engineering.

Publicising of the offer of connectivity services in 2012, through the launch of the OnAir WiFi service, in-flight when travelling on TAP Portugal between Europe and North and South America.

Extension, to most European stopovers of the TAP network, of the check-in service through mobile telephone, thus eliminating the need to go to the check-in counters immediately prior to departure, with the boarding card being sent directly to the mobile telephone.

## April

Implementation of the Safety Management System –SMS, a system transversal to all the Company's operational areas, supported by a policy which defines Safety as a fundamental value of TAP, in which all the employees are requested to participate.

## May

Implementation of an additional functionality, a booking engine, in mobile equipment (smartphones and tablets), an innovation which enables booking air tickets, from the search and selection of flights to the payment of the purchase.


## June

Inauguration of flights to Turin, the fifth destination in Italy with direct operations. Capital of the Piedmont region, Turin is also the largest cultural and business centre of the north-west of this country.

Launch of operations to Berlin, in an effort to strengthen the presence in Germany, a market where the cities of Frankfurt, Hamburg, Munich and Dusseldorf are already served.

Strengthening of the European network, with the start-up of direct flights to Bucharest – capital of Romania and the sixth largest city of the European Union in terms of number of inhabitants.

TAP's magazine *ON AIR* became the first Zero Carbon® in-flight sales magazine of the world, enabling the compensation of greenhouse gas emissions arising from its production and printing.

## July

Cateringpor, a company of the TAP Group, received *Halal* certification, enabling a new meals option, destined for Islamic passengers, produced in accordance with the principles prescribed by Islamic Law.

## August

TAP's site www.flytap.com was positioned in the TOP 10 of the airline company sites most visited in Brazil, in a ranking prepared by Experian Hitwise.

## October

In a continuous effort to use new technologies, while simultaneously accompanying the changes in its Customer habits, TAP reinforced the provision of online check-in, which is now possible to carry out through the internet, mobile devices or at any of the kiosks and counters at the airports.

TAP Portugal organised the 9th Fraud Prevention Meeting of European Airlines, an event attended by experts and representatives of airline companies, as well as various partners of the Industry.

TAP–Maintenance and Engineering is the host of the 27th Industry Steering Committee (ISC) meeting of the A320 Family.

## November

TAP launched a new mobile site which covers the entire market of mobile devices. The Company thus continues, with a pioneering attitude, to use new technologies, with a view to offering Customers innovative functionalities and services in a more accessible form.

Commemoration of the fifth anniversary of TAP's in-flight magazine, UP, with the launch of the book *Portugal Vale a Pena* (Portugal is worth it).

Celebration by TAP– Maintenance and Engineering of 25 years promoting *Ab Initio* courses for Aircraft Maintenance Technicians.

## December

TAP's flight from Belo Horizonte transported passenger 10 million, on Christmas Eve, a number achieved, for the first time, in a single full year of activity.

# Commitment to contribute to economic development

TAP's growth as a reference airline continued, in Portugal and all other markets in which it operates, a reputation which, further strengthening the Company's prestige, contributed to enhance the publicising of Portugal and highlight its image.

## Publicising of national culture, values and products

### Company with most harmony between professional and personal life

Recognition, by the magazine Human Resources Portugal, of the value of the Company's policy in relation to the balance between professional and personal/family life.

### Portuguese Institute of Engineers – 75 years

Award granted to TAP-Maintenance and Engineering by the Materials Engineering College, for the significant integration of specialists in this area.

### Cellars in the Sky 2012

Awards attributed in Poland to three Portuguese wines served in-flight by TAP, an initiative promoted by the Business Traveller Poland.

## Impact on the economy, recognised in various regions of the world

### Europe

#### Best national company in the area of Tourism

Award of the magazine Marketeer, which distinguishes companies in the areas of marketing, advertising and communication, highlighting the significant contribution of TAP in the publicising of Portugal.

#### Best Customer Service on Facebook

Distinction attributed by socialbakers.com, most quoted worldwide source on global data on the use of Facebook, with TAP having been placed as a case-study of social network use, at an international level.

#### TAP runner-up in the 3rd edition of the Simplifying Awards for Excellence in Social Media

Highlight of the excellent work in the Customer support area, through the Social Media.

#### Best Aviation Company

Classification received under the Publituris Travel Awards, an important distinction of TAP as a reference company in Portugal and all other markets in which it operates.

#### TAP Cargo, Best Air Cargo Company in three categories (Best Air Cargo Company for Europe, for Africa and for the Americas)

Special mention, attributed by the periodical *Transportes & Negócios*, in three of the five categories in dispute in Air Transport.

#### Best Retail Trade Company

Recognition, for the 3rd time, of LFP–Lojas Francas de Portugal, by Revista Exame, under the 2011 Edition of the 500 Largest and Best Companies, aimed at quantifying the performance and energy of the company and its contribution to the national economy.

### Africa

#### World Leading Airline for Africa

Award attributed under the WTA, World Travel Awards, for the 2nd consecutive time, confirming TAP's leadership in this market of enormous importance to the Company.

#### Award for its contribution to the growth of Maputo International Airport

Distinction awarded at the inauguration of the new terminal of this airport, for the Company's work in this market.

### United States

#### Best Airline Company of Europe

Distinction arising from a Frequent Flyer and Executive Passenger survey, attributed during the gala of the North American Global Traveller Magazine. This distinction, together with the WTA (World Travel Awards), represents two of the most important awards of the Travel and Tourism industry, recognising the international prestige and reputation of TAP.

#### TAP's in-flight magazine nominated for the CSS Awards 2012, in the Lifestyle category

Site of UP, upmagazine-tap.com, nominated for the CSS (Cascading Style Sheets) award, in the United States, which highlights visual creativity and good functioning, at a worldwide scale.

### South America

#### World Leading Airline for South America

Distinction made during the grand finale of the WTA, World Travel Awards, confirming TAP's leadership in South America, as a result of an intense and extended effort on the Brazilian market.

Portugal

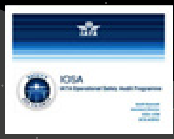
# Safety

Within the scope of its Safety Management System, TAP has included in its organisational structure a body that cuts across all of the operating areas – Safety Management.

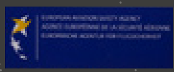
At the same time, TAP adjusted its Safety Policy, by promoting a Safety Culture that reflects the senior management's commitment to a set of enduring values related to Operational Safety, shared by all within a top-down organisational dynamic.


There have been concerns with guaranteeing safety since the early days of aviation

Approaching the end of WWII, the establishment of a safe air service was decided at the Chicago Convention




In order to enhance operational safety levels, IATA currently maintains a procedure of system and process audits



Since 2003, the European Aviation Safety Agency's mission has been to maintain air transport safe and sustainable, leaving operators free to choose the best organisation and management system to be implemented

# Innovation quality efficiency

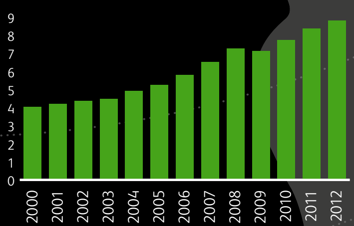
By monitoring technological trends that will change business models and identifying opportunities to set itself apart, the Company has continued to meet the efficiency goals continually pursued.

# Promotion of Portugal in the world

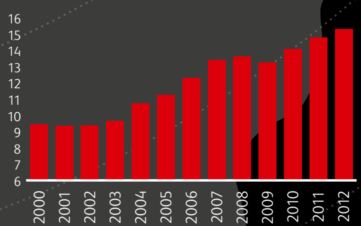
With increasing visibility, through TAP, in various areas:

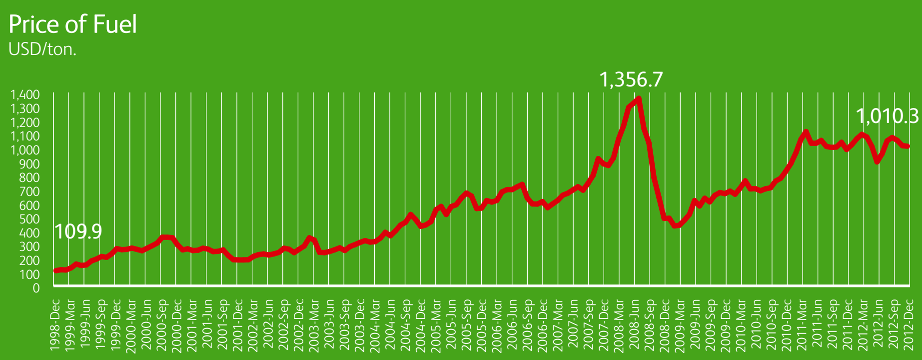
- Number of destinations served directly by TAP in the Lisbon hub
- Establishing itself as one of the main national instruments of the Portuguese language
- Contributing, in a very significant manner, to the dissemination of national products
- Through the prominent positioning of the contribution of its Sales Abroad, to the volume of national exports

Passengers transported by TAP – Lisbon hub




Overall volume of passengers – Lisbon hub






Note: Quotation of *Jet CIF NWE*; source: *PLATTS*

# Summary of performance

A context marked by the maintenance of a high level of uncertainty, as evidenced by the persistent volatility of financial markets and the erosion of economic agents' confidence, resulted in the continued postponement of the global economic recovery. In this context, the evolution of worldwide economic activity registered, once again, a slowdown in 2012, which came to 3.2% (0.7 p.p. less than in 2011), reflecting, however, rather different growth rates in different regions of the world. The high level of uncertainty had an heterogeneous impact across countries, and was particularly adverse in countries undergoing macroeconomic imbalance adjustment processes, particularly noticeable in Europe and the United States. Regarding international oil prices, their evolution diverged from the decelerating trend of most commodities, exhibiting some volatility over the course of the year, reaching a level above that observed at the end of 2011, reflecting to a large extent disturbances on the supply side, associated to the geopolitical tensions in the Middle East. In Portugal, economic activity registered yet another – more marked – slowdown in 2012, of about 3.2%, under the impact of a slump which intensified in the second half of the year. The budgetary execution, involving the implementation of additional austerity measures with a view to meeting the targets set out within the Economic and Financial Assistance Programme, in spite of only being applied in 2013, has already had an unfavourable impact on economic growth in 2012, due to a more marked contraction in consumption, arising from the significant decline in household disposable income.

For the Air Transport Industry, at an overall level, in spite of the negative economic context, which dominated a significant part of the year, passenger traffic demand increased markedly in 2012, a reality that clearly demonstrates that global air transport is now an integrated part of today's interconnected world.

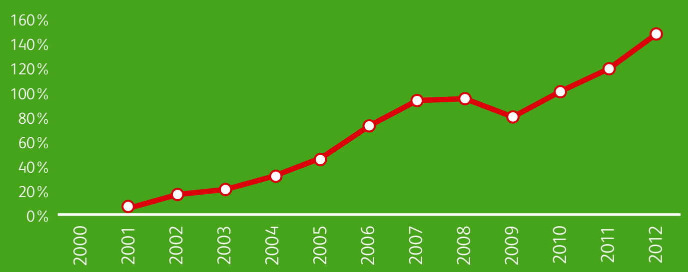
In turn, the demand for air cargo remained anaemic for most of 2012, having shown some signs of recovery at the end of the year. In Europe, however, the weak business confidence indices and unemployment rates, at maximum levels, prevented a climate of positive contagion as regards air transport, with European airline companies, hard hit by recession in their home markets, registering a weak performance, while at the same time some regional air carriers downsized and reduced the level of capacity offered. In the interim, oil prices, at constantly high levels over the course of the year, continued to condition the Industry's profitability, having represented for TAP an increase in the fuel item of 9.1%, equivalent to EUR 65 million, due to the price effect, essentially as a result of the exchange rate devaluation of the euro relative to the USD.

For TAP Group companies, in the face of the previously described economic situation where, in addition to the behaviour of oil prices at permanently high levels, it is also important to highlight their exposure to a less favourable macroeconomic environment – particularly in Europe –, the strategy aimed at increasing the profitability of the activities of their respective sphere of intervention was continued. In support of this objective, incisive action was continued on all costs possible, with the fulfilment of a suitable cost-cutting and revenue optimisation programme which included a diversified series of measures, to be enforced until 2012. Likewise, note should be made of the high capacity of the Company, in the development of its business, to respond with adjusted flexibility, within the scope of the offer of services and level of costs, to multiple market alterations, a fact confirmed by the level of performance that the Company has achieved, in comparison to its counterparts, reflected in the relative positioning of the EBITDAR margin.

As such, in its quest to exploit all business opportunities, TAP pursued its strategy of Network growth and consolidation of current markets, with emphasis on the connections with the South Atlantic and reinforcement of its growth in Africa, launching 3 new destinations in Europe – Turin, Berlin and Bucharest –, thus continuing its efforts focused on growth and the improvement of the Lisbon hub. In turn, the continued development of an innovation policy, with a view to responding to Customers' needs and improving the quality of the services offered, in addition to the sustained increase of productivity and efficiency, the adoption of best practices and simplification of processes, as well as the intensification of aggressive sales policies, were determinant factors in the Company's policy.

It is also worth noting the role played by the Company, in 2012, as a provider of information and clarifications required within the scope of the reprivatisation of the share capital of TAP–Transportes Aéreos Portugueses, SGPS, S.A., a process whose completion would be determined by the Government following the assessment of the binding proposal that was presented, considered as not including elements to allow a conclusive judgement.

Transfer traffic through the Lisbon hub
Growth since 2000




**Continued evolution of the operating hubs of TAP's route network**

Twelve years after the implementation of the strategy to create the Lisbon hub, the number of passengers transiting through Lisbon in 2012 registered an increase of 148% relative to the initial value, as well as significant growth relative to the previous year.

This behaviour, essentially supported by passengers travelling to the South Atlantic and Africa, highlights the attractiveness of the geographic positioning of the platform, consolidating its character as an intercontinental hub, supporting the operating network of TAP routes. In addition, the operation in Porto – as the Company's 2nd operational hub – was continued, an activity which began during the course of 2006.

## Overall performance of TAP Group

The most important aspects of the overall performance of TAP Group and of the companies that make up its core business in 2012, are as follows:

- In the context of the economic scenario described above, the companies of TAP Group recorded a consolidated net income, with minority interests, for the year of the value of EUR -30.8 million, that is, EUR 46.0 million more than in 2011.
- Net operating income (before financing costs and taxes) came to EUR 34.4 million, representing EUR 52.5 million more than in 2011.

## The following factors contributed to this result

TAP, S.A. and a group of companies that carry out activities in areas linked to the Group's main businesses and in which TAP, SGPS, S.A. has shareholdings.

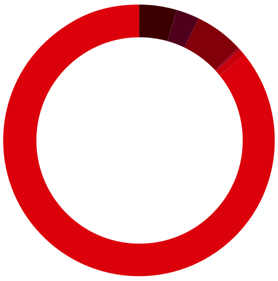
Regarding TAP, S.A., the company recorded a profit of EUR 21.4 million. This result, which was EUR 18.2 million more than the EUR 3.1 million registered in 2011 (in accordance with the IFRS), was the consequence of an increase in net operating income relative to the previous year, which came to EUR 49.6 million, EUR 8.5 million more than in 2011, strongly influenced by the effect of the permanently high price level of jet fuel over the course of the year.

With respect to SPdH-Serviços Portugueses de Handling, S.A. (Groundforce Portugal), established in 2003 from the demerger of the Ground Handling Business Unit of TAP, S.A., TAP, SGPS, S.A. owns a number of shares representing 49.9% of the company's share capital, which includes a stake of 6% held by PORTUGÁLIA–Companhia Portuguesa de Transportes Aéreos, S.A.. The company Groundforce Portugal, which adopted, as of 1 November 2005, a special taxation period from 1st November to 31st October, returned to the previous period of taxation in 2010, and recorded a net income of EUR -1.5 million.

In March 2009, a consortium of three banks (BIG, Banif and Banco Invest) transferred the stake owned in SPDH (50.1%) to TAP, S.A.. In April, TAP Group launched a tender for the selection of an investment banking institution with the mission of promoting the sale, in national and international markets, of the majority (50.1%) of the share capital of the company SPdH. The objective of the acquisition of the abovementioned shareholding, in March 2008, fostered by TAP, was to create the conditions for the managers of SPdH to be able to promote the necessary changes for solving its operating difficulties and, in this way, achieve a significant improvement in the standards of service offered, not only for TAP but also for the other customers of this handling company. Thus, in March 2009, and according to the conditions established with the abovementioned banks, the shareholding in SPdH was transferred to TAP, with the operation having been concluded for the same amount as the acquisition value. In November 2009, the AdC issued its decision, prohibiting the concentration operation between TAP and SPdH, due to considering that it could create or reinforce a dominant position of the handling company in ground handling services at airports, and, therefore, that TAP must sell the majority of the share capital of the handling operator, as well as nominate a trustee to act in the interests of the Competition Authority, managing the company SPdH independently from TAP. To that end, the management of SPDH has been assured by Europartners, which is independent from TAP, and followed by the Competition Authority.

In compliance with these provisions, through deliberation of the General Meeting of Shareholders held on 27 January 2010, three external elements were appointed a seat each in the Board of Directors of SPdH, one of whom being the chief executive officer, in the capacity of independent operating manager. TAP has continued its efforts to sell the position that it was forced to reacquire, the majority of the share capital of SPdH.

## TAP Group Turnover



- 86.1 % Air Transport
- 4.4 % Maintenance – Third Party Assistance - Portugal
- 2.7 % Maintenance – Third Party Assistance - Brazil
- 5.9% Duty Free (LFP, S.A.)
- 0.2% Catering (CATERINGPOR, S.A.)
- 0.7% Other TAP, SGPS, S.A. Activities

In order to comply with the orders justified in legal imperatives which govern the ground handling activity sector and achieve conditions which are favourable to the disposal of the majority of the respective share capital, SPdH began, in 2010, a thorough restructuring process, so as to restore equity and thus re-establish the solvency and financial autonomy ratios in accordance with the standards which are normally acceptable and confer aptitude to apply for the International Public Tender for the handling operator license in national airports, promoted by INAC at the end of 2011.

Following the initiatives taken, which resulted, at the end of 2011, in the conclusion of an agreement in principle with a national group, for the acquisition, by the latter, of 50.1% of the share capital of SPDH, on 18 June 2012, a purchase and sale contract was celebrated between, on the one hand, TAP S.A., TAP SGPS, Portugália and SPdH and, on the other hand, Urbanos Grupo, SGPS, S.A. for the acquisition, by the latter, of 50.1% of the capital of SPdH, which shall take effect from 20 July 2012, date of the deliberation of the CA regarding the decision of non-opposition to the said operation. In the interim, on 17 October 2012, Pasogal SGPS, S.A. took over from Urbanos Group, SGPS, S.A. all the rights and obligations that emerged from said contract and Shareholders' Agreement.

Regarding the company TAP–Maintenance and Engineering Brazil, S.A. (former VEM), TAP pursued, in 2012, significant efforts towards its recovery, through the development of actions aimed at improving its operational performance, in what was year 2 of a 5-year Restructuring Plan. There was, as a result, an improvement in the company's economic and operational performance, both in terms of costs and revenues, achieved on a sustainable basis due to, in this case, the expansion and diversification of the customer portfolio. It should be noted that the investment made in this company essentially represents a strategic perspective, permitting the expansion of the maintenance activity into new markets. Consequently, at the end of 2012, there was a slight recovery of the company's net income, which came to EUR -50.4 million, representing an improvement of EUR 12.3 million relative to the previous year.

## From an operating point of view

- TAP, S.A. posted an operating income of EUR 49.6 million, 20.6% more than in 2011. Operating Revenue and Gains reached a total of EUR 2,435.7 million, representing EUR 163.0 million more than in 2011, or an increase of 7.2%. Total Operating Costs and Losses, excluding fuel, reached EUR 1,471.3 million, EUR 68.1 million (or 4.8%) more than in 2011, with an increase recorded in the operation of approximately the same rate.
- In terms of the performance of TAP, S.A.'s businesses, the Maintenance and Engineering Third Party Customers segment contributed with a total of EUR 115.2 million, representing EUR 22.6 million more than in 2011, reflecting signs of recovery.
- The Air Transport activity generated total sales and services rendered of EUR 2,254.7 million, 6.2% more than in 2011. This result was significantly influenced by the behaviour of ticket revenues, which totalled EUR 2,112.9 million, 7.0% higher than the amount posted in the previous year, resulting from an increase in demand of about 4.8%, expressed in RPK, as well as some improvement of the yield. Also contributing to this result was the Air Cargo business, where TAP registered a decrease of 2.6% in relation to the previous year, reflecting the climate of economic depression.
- Regarding operating performance, and due to the adoption of a strategy of adjusted flexibility to market changes, always aimed at promoting a rational adequacy of its offer and the effective control of costs, the level of offer of the scheduled flights increased by approximately 4.1%, with demand having increased by a higher proportion, in the order of 4.8%. The overall passenger load factor thus stood at 76.8%, representing 0.5 p.p. more than in 2011. Following the application of the strategy described above, the choice of consolidating Lisbon as the Company's hub was pursued, connecting Europe to a growing number of destinations located in Africa and in the South Atlantic, standing out, in this region, as the European airline company with greatest penetration in the Brazilian market.

# TAP Group key figures

### TAP, SGPS, S.A.
(Consolidation)

| | 2012 EUR million | 2011 EUR million | var. |
|---|---|---|---|
| Net Operating Income (earnings before interest and taxes) | 34.4 | (18.1) | 290.7% |
| Pre-tax earnings | (17.2) | (64.5) | 73.3% |
| Net Income of shareholders of the parent company | (30.8) | (76.8) | 59.9% |
| Net Income of TAP, S.A. | 21.4 | 3.1 | 586.2% |
| Net Income of SPdH–Serviços Portugueses de Handling, S.A. | (1.5) | (11.1) | 86.6% |
| Net Income of Aeropar Participações, S.A. (Brazil) | (24.1) | (2.9) | -742.9% |
| Net Income of TAP–Maintenance and Engineering Brazil, S.A. | (50.4) | (62.7) | 19.6% |
| | | | |
| Total Assets | 1,650.7 | 1,982.0 | -16.7% |
| Total Equity | (380.8) | (343.2) | -10.9% |
| | | | |
| Active Staff of the Group (31 December) | 12,506 | 12,395 | 111 |
| TAP, S.A. (excluding subsidiaries) (*) | 6,837 | 6,934 | -97 |
| Air Transport | 4,479 | 4,543 | -64 |
| Maintenance and Engineering | 1,908 | 1,917 | -9 |
| TAP Serviços | 419 | 441 | -22 |
| Other | 31 | 33 | -2 |
| SPdH–Serviços Portugueses de Handling, S.A. (**) | 2,031 | 1,908 | 123 |
| Remaining Companies | 3,638 | 3,553 | 85 |

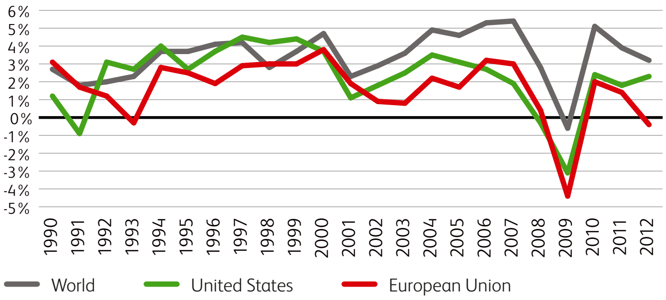
(*) Not including staff who are not placed and not active
(**) Associate Company

## Consolidation methodology

Pursuant to the legal requirements, the companies in which TAP holds, directly or indirectly, a majority of voting rights, which is the case of most, were included in the consolidation through the full integration method. The equity and net income of these companies corresponding to third party shareholdings, are presented in the minority interests headings, respectively, in the consolidated balance sheet under a separate heading of equity and in the consolidated profit and loss statement. The investments in associated companies (representing between 20% and 50% of the voting rights) are recorded through the equity method. A company in this situation is SPdH–Serviços Portugueses de Handling, S.A..

The attached consolidated financial statements of the Group were prepared in conformity with the International Financial Reporting Standards adopted by the European Union (IFRS – formerly called the International Accounting Standards – IAS) issued by the International Accounting Standards Board (IASB) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or by the former Standing Interpretations Committee (SIC), in force on the date of preparation of the said financial statements.

Economy
GDP Growth




Sluggish and irregular economic recovery, five years following the start of the financial crisis

# Review of the Economic Climate

## International Economic Climate

During 2012, a context marked by the maintenance of a high level of uncertainty, very evident in the persistent volatility of the financial markets and in the erosion of the confidence of economic agents, was consequently reflected in the continuation of the postponement, at a worldwide level, of the process of economic recovery. Under these circumstances, the evolution of global economic activity once again, in 2012, recorded a slowdown, to stand at 3.2% (0.7 p.p. less than in 2011), albeit reflecting very differentiated growth rates in the different regions of the world.

Expressed in a heterogeneous form between countries, the high level of uncertainty proved to be significantly adverse in situations where processes of adjustment of macroeconomic imbalances are underway, being particularly visible in the euro zone and United States. Regarding the euro zone, doubts persist as to the willingness of national authorities to implement the necessary policies for the resolution of the sovereign debt crisis, as well as relative to the capacity of compliance with the budget targets in some countries, in a scenario of sluggish economic growth. While in the United States, the main source of uncertainty is related to doubts as to the future direction of budget policy, considering the termination of a series of measures aimed at stimulating the economy at the end of 2012, as well as the automatic cuts foreseen for the beginning of 2013.

As a consequence, the growth of GDP of the advanced economies continued weak, standing at 1.3%, 0.3 p.p. less than in 2011. In a context of lower demand by these economies, the emerging and developing markets were also less buoyant, but, even so, recorded significantly robust growth of around 5.1%, compared to 6.3% in 2011. Particularly strong slowdown is also estimated in the economies of Central and Eastern Europe, which are more exposed to developments in the euro zone. Likewise in China and Brazil, primarily due to the slowdown of economic activity in these regions, growth is expected of 7.8% and 1.0%, that is, 1.5 and 1.7 p.p. lower than in 2011, respectively.

In the euro zone and United Kingdom, economic activity deteriorated sharply, with their evolution estimated at -0.6% and -0.2%, falling from 1.4% and 0.9% in 2011, respectively. Underlying this evolution, special note should be made of the maintenance of unfavourable financial conditions, combined with the budget consolidation process underway in various European countries, as well as the effect of contamination to the other economies, arising from the weakness of the economic activity in countries under macroeconomic adjustment pressure (Spain, Greece, Ireland, Italy and Portugal), through the decreased confidence of families and companies.

The slowdown of economic activity in 2012 is common to most countries of the euro zone, although with heterogeneous rates of growth. Hence, a contraction of -1.4% is expected in Spain and a significant slowdown in Germany, of 3.1% in 2011, to 0.9% in 2012. Regarding the other main economies, activity should also contract, similarly in Italy and the Netherlands, and remain virtually stagnant in France. In line with the contraction of activity, the conditions of the labour market should likewise deteriorate, with a significant increase of unemployment being expected, in particular in the economies under process of adjustment.

In the United States, it is expected that economic activity will have continued to recover, albeit more slowly, and proving insufficient to improve the situation of the labour market. In contrast to the euro zone, the budget consolidation process continues at a slower rate, which implies an intensification of the effort in the medium term, in order to achieve the deficit reduction targets, which, according to the forecasts, should stand at 8.7% of GDP in 2012, compared to 3.3% for the entire group of the euro zone countries.

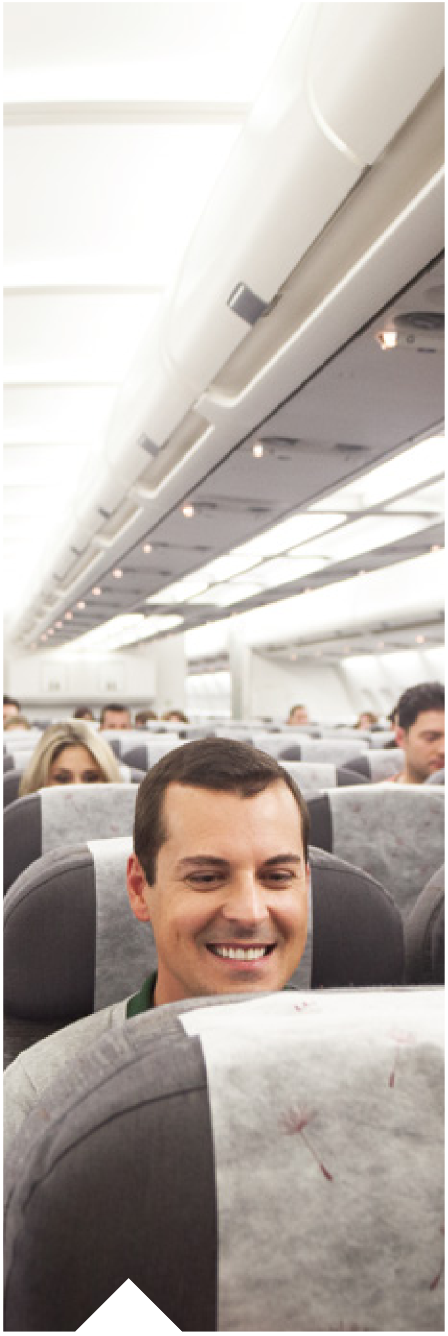
In view of the slowdown of demand of the main advanced and emerging economies, the international prices of most non-energy commodities should record a slump in 2012. However, with respect to the international prices of oil, the evolution diverged from the downward trend, exhibiting some volatility throughout the year, and closing the year to stand above the price observed at the end of 2011. This behaviour, to a large extent, reflects the disturbances on the supply side associated to the existing geopolitical tensions in the Middle East, especially the implications arising from the European Union's embargo on oil imports from Iran – the third largest exporter at a worldwide level –, enforced as of July 2012.

## National Economic Climate

After a 1.7% reduction in 2011, the development of economic activity in Portugal during 2012 contracted again, more sharply, by about 3.2%, under the effect of a decline which intensified during the second semester of the year. This evolution was characterised by a strong and widespread reduction of internal demand, contrasting with the growth of exports throughout the year. Concerning internal demand, private consumption is estimated to have contracted by 5.5%, reflecting significant declines in durable and current goods. In turn, GFCF should have fallen by approximately 14%, reflecting a reduction in all its components, with particular incidence on public, residential and business investment, and constituting a factor of the greater concern, in view of the essential role of investment in the beginning of the cycle of creation of new forms of wealth and, consequently, in the potential growth of the economy.

The contraction of overall demand, notwithstanding the significant increase of exports, contributed to a decline of imports, reflecting the strong reduction of demand components with high import content. Combined with the restrictive direction of budget policy, these dynamics, visible in the evolution of international trade of goods, have led to a significant adjustment of the current and capital balance of payments, which recorded a surplus of around 0.8% of GDP. However, this adjustment resulted in heavy repercussions in the labour market, with the unemployment rate soaring to historical heights, and the volume of employment in 2012, standing at the level observed in 1997. It should be noted that the observation of budget execution, implying the implementation of additional austerity measures with a view to compliance with the targets agreed under the Economic and Financial Assistance Programme (EFAP), although to be applied in 2013, had already shown an unfavourable repercussion on economic growth in 2012, through the more accentuated retraction of consumption, due to a dimensioned reduction in family disposable income.

At the end of 2012, net external debt represented 99.1% of GDP, that is, 12.8 p.p. above that observed at the end of 2011.



## Air Transport

Passenger traffic demand grew sharply in 2012, in spite of the negative economic context, which dominated a significant part of the last twelve months. This fact clearly demonstrates how global air transport is an integral part of the interconnected current world. At the same time, passenger load factors at levels close to the maximum levels ever recorded, confirm the extreme care shown by carriers in the management of their respective capacities. In turn, the air cargo demand remained depressed over a large part of the year, showing, merely, some signs of stabilisation, at the end of the year. In Europe, the weak levels of business confidence and the unemployment rates, at maximum levels, prevented a climate of positive contagion with respect to air transport. At the same time, a contraction of size and the cutting of the offered capacity levels were observed in some airlines of the region.

In particular, European airlines carried over 369 million passengers, corresponding to 2.2% more than in 2011. This increase represented approximately 8 million transported passengers, an increase of 4.1% in terms of the Industry's conventional unit of measurement (passenger-kilometre), according to the AEA (Association of European Airlines). Hence, positive evolutions were recorded in all regions, with increases in numbers of passenger-kilometres, reaching 2.9% in Europe, 3.6% in the North Atlantic and 1.8% in the Mid-Atlantic and 8.8% in the South Atlantic. Likewise, the connections between Europe and Sub-Saharan Africa and the Far East showed increases of passenger traffic of approximately 4.1% and 5.4%, respectively. The connections between Europe and North Africa presented significant growth, of 14.2%. The overall passenger load factor closed the year at 79.1%, that is, 1.7 p.p. higher than the value recorded in 2011. The improvement of the passenger load factor represented a performance that was extensive to the different regions, with the exception of the South Atlantic, one of the regions with highest efficiency in capacity management, where the indicator remained at the level of the previous year.

At a worldwide level, passenger demand, in terms of total passenger-kilometres, increased by around 5.3%, a value lower than the 5.9% recorded in 2011, following a slowdown of the high rates in the beginning of the year, and slightly above the average, at the level of 5%, of the last 20 years. The air cargo markets, in contrast, contracted again, which reached 1.5%, after a decline of 0.6% in 2011. In view of the increased capacity recorded, of the order of 3.9% and 0.2%, in passenger transport and in cargo transport, load factors stood at 79.1% and 45.2% for each of these segments, resulting in reductions of +1.0 p.p. and -0.7 p.p., respectively. Underlying this evolution, it should be noted that the passenger traffic in two of the three largest regions – Asia-Pacific and Europe –, grew by 5.2% and 5.3% respectively, although growth was merely 1.3% in North America, following the consolidation efforts developed in the USA. The regions of Latin America and the Middle East continued to record strong traffic growth, of about 8.4% and 15.4%, respectively. In Africa, one of the regions with the strongest performance, demand increased by about 7.5%, under the effect of the faster economic growth, at an overall level, recorded in 2012, led by some of the countries of this continent, as a whole.

Regarding the financial performance of the Industry, in spite of the environment of weak economic growth and continuously high prices of jet fuel, a positive net income is estimated, at a global level, of around USD 6.7 billion. Although this value is lower than the USD 8.8 billion of 2011, its underlying performance was constrained by the heterogeneous recessive graduations of the different regions of the world. The determinant factors which contributed to this performance include the strong growth of traffic, the improved yields and, also, the persistent efficiency gains achieved by the airline companies, as well as the favourable impact of the restructuring which is underway in the Industry.

## The profound changes that took place over the last decade, which occurred in three distinct phases, required the development of specific initiatives, within each specific context

### 2000–2005

**Cycle inversion**

- Hub-and-spoke network;
- STAR Alliance;
- Aggressive cost cutting;
- Sale of non-core businesses and closure of unprofitable routes;
- Internal and external communication.

### 2005–2008

**Strong growth**

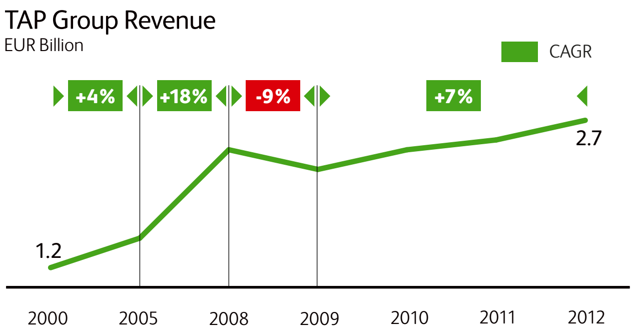
- Regional operation (PGA);
- Strong increase in capacity (new A330 fleet);
- New routes;
- Expansion of maintenance business;
- Commercial transformation process.

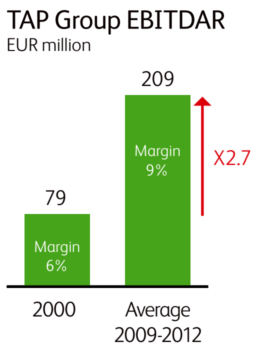
### 2008–2011

**Global crisis …recovery**

- Adjustment of capacity;
- Consolidation of commercial performance;
- Optimisation of cost structure;
- Turnaround of the performance of the participated companies;
- Gradual reduction of consolidated debt.

At the end of 2012, revenues doubled relative to the start of the period, with EBITDAR registering a value approximately three times greater




# Corporate Strategy

Following the Strategic Plan 2007-2009, strongly driven by a growth strategy, the large-scale implementation of the restructuring initiatives, established in the Strategic Plan 2009-2012, undertaken in a period of exposure to a strong crisis in the Industry, enabled TAP to sustain its good performance, a reality that is reflected in the positioning that its EBITDAR maintains relative to its counterparts.

This plan, with the objective of reinforcing the Company's profitability conditions, was based on the consolidation of its strategy in a context of limited growth, as well as on the optimisation and increased flexibility of its organisational structure and costs, creating the bases for the Company's future sustainability.

In spite of its competitive profile, the Company still faces some challenges. A future, external context with some uncertainties is expected. In particular, the continued persistence of high and increasingly volatile fuel prices, the level of intensity of the relaunch of scheduled flights within the overall Industry, following recovery from the crisis, as well as the lack of knowledge regarding the evolution of prices (yield) represent uncertainties with an impact on TAP's performance. It is also important to highlight some less favourable developments, such as the impact of the recession in the internal market due to the implementation of austerity measures in Portugal, within an international context of slowdown of the world economy, in addition to a strong exposure of the main businesses to a climate of growing competition.

- Continuation of the growth of the Network and exploitation of expansion opportunities
- Renewal of capacity aimed at maintaining unit cost gains
- Commercial performance orientation to improve unit revenue
- Guarantee a consistent focus on unit cost, through continued growth of awareness
- Refocusing the maintenance business at TAP–Maintenance and Engineering Portugal on third party customers
- Achieve the complete turnaround of TAP–Maintenance and Engineering Brazil

Strategic Plan of TAP 2012-2016
**Strategic factors**

With the aim of identifying the means necessary for the consolidation of the financial and operational performance and value creation in the Group's various businesses, the Strategic Plan of the Company for the period 2012-2016 is based on six strategic factors, continued in a growth programme, which will also contribute towards TAP's reinforcement as the reference company between Europe and the South Atlantic.

## Main developments in 2012

Network Strategy

In spite of following a limited growth strategy, there was particular emphasis on the consolidation of the connections between Europe and the South Atlantic and Africa, with the maintenance, within the Network operation logic, of the exploitation of the hub strategic geographic location. In the development of this line of action, and as a result of a systematic assessment of business opportunities, in combination with a policy of adjustment of the operation to demand, coupled with improved schedules, the Network in Europe was reinforced with three new connections: of particular note is the Turin route, in Italy, where in the summer the operation comprises 93 weekly connections, in an offer of direct flights to five cities; the connection to Berlin, in Germany, comprises 60 weekly connections in the summer, to five destinations, and the operation to Bucharest, with three weekly connections to the capital of Romania.

Strengthening of the sales performance

Based on a hub concept, the Network operation was accompanied by an aggressive effort to stimulate demand, with specific reference to an increase of approximately 13% in connection traffic, relative to the previous year, and with air traffic revenue, derived from foreign markets, having represented 85% of the total volume in 2012, thus maintaining TAP's position as a major national exporter.

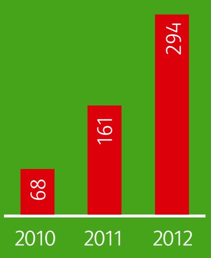
It is also important to mention the strong focus on the Customer, enabling the offer of an improved perception of Customer service, and the effort which has been made in the area of customer loyalty which has led to an increase in the number of the Victoria programme members, having reached a total of 1.3 million at the end of 2012. In turn, in a strategy of diversification and intensification of the exploitation of the main commercial drivers, Internet sales increased 31% relative to 2011, following the increase in the activity of booking through the site, with this channel already representing approximately 14% of the markets total value.

Systematic cost-cutting effort

In addition, in a continuous search for higher levels of efficiency, there was consistent action on all costs possible, with the implementation of a suitable cost-cutting programme which included a diversified series of measures, to be enforced until 2012, with transversal effects on all the companies of TAP Group. Under this programme, developed exclusively with the Company's resources, with a strong focus on improving performance, the total savings in TAP, S.A. reached about EUR 294 million by the end of the period 2009-2012. It is also important to mention the application of a strategy of continued growth in the offer of destinations and volume of service, based on existing structures, enabling the achievement of notable efficiency gains and dilution of fixed costs.

Also within this context, the remuneration reduction measures and prohibition of remuneration increases, enacted in the State Budget Law for 2012 (Law no. 64-B/2011, of 30 December), with the adaptations proposed by the Management and approved by the Government, in accordance with the possibility foreseen in the same law, were implemented.

**TAP, S.A. – Cost-Cutting Programme**
Accumulated savings
EUR million



Redefinition of the participated companies

In 2012, TAP–Maintenance and Engineering Brazil, S.A. continued its process of development of actions, aimed at improving its operating performance, in what was year 2 of a 5-year Restructuring Plan. Hence, the improvement of the company's economic and operational performance was continued. The efforts have yielded positive results, both in terms of Revenues and Costs, showing clear signs of a sustainable trend. In Revenues, there was an expansion and diversification of the customer portfolio, which resulted in an increase of revenue of R$ 149.2 million to R$ 180.3 million, equivalent to a variation of +20.8%.

This growth was more marked in the second half of 2012, when 4 months of record sales were achieved relative to the last 3 years, in spite of the breaking up of one of the major customers of TAP–Maintenance and Engineering Brazil.

Regarding Groundforce, in compliance with the provisions of the Competition Authority, following the initiatives taken, which resulted, at the end of 2011, in the conclusion of an agreement in principle with a national group, for the acquisition, by the latter, of 50.1% of the share capital of SPdH, on June 2012, a purchase and sale contract was celebrated with Urbanos Grupo, SGPS, S.A., taking effect from 20 July 2012, following the favourable opinion of the Competition Authority (AdC). The General Meeting of the company, held on 26 July 2012, marks the entry of the new majority shareholder. The newly appointed Management structure is as follows: Alfredo Casimiro (non-executive chairman, representative of the new majority shareholder), Luís Rodrigues (non-executive member, representative of TAP), Carlos Paz (executive chairman), Carlos Nogueira (executive member) and Mário Castro (executive member).

Organisational transformation

In 2012, a series of management practices and processes, with the objective of generating commitment, contribution and development, investing in people and in the strengthening of their analytical, relational and decision-making competences, were continued. It is important to mention, in this context, a training programme – Leadership for Transformation –, focusing on the development of leadership in the Company, in partnership with one of the five best worldwide business schools. The pedagogical framework of the programme, based on the Company's strategic planning, sought to reinforce the permanent link between the two critical roles of the target audience: Managers and Leaders of People, with all of the senior managers of the Company having participated in the course, which had a duration of 300 hours. Likewise, the holding of the HR Cycle of Conferences and Workshops, in a total of 17 conferences, corresponding to 6,400 training hours, covering a universe of 2,300 participants, aimed to expose employees to unusual themes within their context of work, fomenting the out-of-the-box spirit, motivation and resilience.

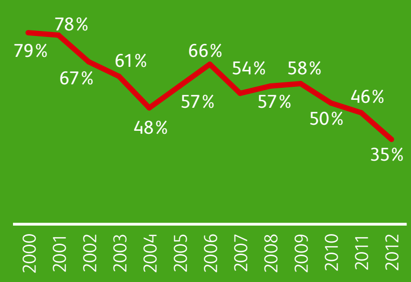
In the area of implementation of the commitments to corporate sustainability, in 2012 actions were pursued within the context of social responsibility and preservation of the environment, with the Corporate Governance and Sustainability Report for 2012 presenting the information relative to the TAP Group companies universe, with the exception of TAP–Maintenance and Engineering Brazil.

Risk management, at Group level, remained focused on the expansion, diversification and return of the air transport business and on the restructuring and adaptation of the complementary maintenance activities in Portugal and in Brazil. Other profitable complementary activities remained within the Group, with the exception of the sale of a stake in the ground handling business, as a result of the Community's legal framework.

Capital structure and risk management

Debt management faced a number of constraints during the year, related to strong credit restrictions from national entities, the significant contraction of credit to national companies by international financial institutions and the limits imposed by the privatisation process itself. As a result of these constraints, the amendments to existing contracts and the contracting of new operations were very limited, which led to a reduction of the debt stock according to the expected repayment schedule.

TAP, S.A. – Debt (Financial Institutions) Total Debt / Total Revenues
(%)



**€ 2 378.5** million
Sales and Services Rendered

**90.4%**
of the Group's Turnover

**€ 21.4** million
Net Income of TAP, S.A.

# Performance of TAP Group companies

## TAP, S.A.

### Particular exposure to an adverse European context caused by the economic recession, markedly accentuated in the domestic market

For the Air Transport Industry, at an overall level, in spite of the negative economic context, which dominated a significant part of the last twelve months, passenger traffic demand increased markedly in 2012, a fact that clearly demonstrates that global air transport is now an integrated part of today's interconnected world. In turn, the demand for air cargo remained anaemic for most of 2012, having shown some signs of recovery at the end of the year. In Europe, however, the weak business confidence indices and the unemployment rates, at maximum levels, prevented a climate of positive contagion as regards air transport, with European airline companies, hard hit by recession in their home markets, registering the worst performance, while at the same time some regional air carriers downsized and reduced the level of capacity offered. In the interim, fuel prices, at constantly high levels over the course of the year, continued to condition the Industry's profitability, in particular the carriers of the European region, where margins remained at fragile levels and the sector continues to face structural challenges.

Similarly exposed to the economic scenario described above, TAP, S.A. ended the financial year of 2012, for the fourth year in a row, with a positive net income of EUR 21.4 million, corresponding to EUR 18.2 million above that achieved in 2011. This result was the consequence of an improvement in operating income, relative to the previous year, which came to EUR 49.6 million, EUR 8.5 million more than in 2011, in spite of an increase in fuel costs of 13.2%, corresponding to an increase of EUR 94.6 million, of which EUR 65.0 million are attributable to the price effect, mainly due to the exchange rate devaluation of the euro relative to the USD. The Air Transport activity generated a total of EUR 2,254.7 million, corresponding to EUR 131.1 million more than in 2011, with this value having been significantly influenced by the behaviour of passenger income, which reached a total of EUR 2,112.9 million, corresponding to 7.0% more than the value recorded in the previous year, as a consequence of increased demand, of the order of 4.8%, expressed in passenger-kilometres (RPK), as well as of the improvement of the yield. Conversely, the income associated to the volume of Cargo and Mail transported reached a total of EUR 127.0 million, 2.5% less than in 2011.

### Strengthening of sales performance and improvement in operational efficiency

In turn, the aeronautical maintenance activity of TAP–Maintenance and Engineering Portugal, in the Third Party Customers segment, registered a total of EUR 115.2 million, 24.4% more than in 2011, in spite of the continuing climate of economic crisis, the concerted attack by manufacturers against the maintenance organisations, as well as the growing difficulties felt in the market.

It should be noted that, in a scenario characterised by continually high fuel prices relative to the historical averages, these results were only possible due to significant efficiency gains arising from the progressive improvement in productivity achieved over recent years, the adoption of best practices and the streamlining of processes, combined with an aggressive commercial policy. Note should also be made of the impact of greater rigour in cost management, with the implementation of a suitable cost-cutting programme which included a diversified series of measures, to be enforced until 2012. As a result, excluding fuel costs, Operating Costs and Losses at TAP, S.A. came to EUR 1,471 million, 4.8% more than in 2011, with an increase recorded in the operation of approximately 4.1%.

## Main Indicators of TAP, S.A.

| | 2012<br>EUR million | 2011<br>EUR million | var. |
|---|---|---|---|
| Operating Revenues and Gains | 2,435.7 | 2,272.6 | 7.2% |
| Operating Costs and Losses | 2,282.7 | 2,120.1 | 7.7% |
| Net Operating Income | 49.6 | 41.1 | 20.6% |
| Net Income | 21.4 | 3.1 | 586.2% |
| | | | |
| Total Assets | 1,725.2 | 1,880.4 | -8.3% |
| Total Equity | 76.1 | 55.5 | 36.9% |
| | | | |
| Active Staff (31 December)(*) | 6,837 | 6,934 | -97 |
| Air Transport | 4,479 | 4,543 | -64 |
| Maintenance and Engineering | 1,908 | 1,917 | -9 |
| TAP Serviços | 419 | 441 | -22 |
| Other | 31 | 33 | -2 |
| | | | |
| TAP fleet composition (average) | 55.0 | 55.0 | 0.0% |
| Flight Hours (Sched. oper. using own aircraft) | 252,900 | 242,866 | 4.1% |
| Departure punctuality up to 15' (%) | 71.4 | 75.7 | -4.3 p.p. |
| Regularity (%) | 98.7 | 99.2 | -0.5 p.p. |

(*) Not including non-placed and non-active staff

## Extension of the European connections to a growing number of destinations located in Africa and in the South Atlantic, to reinforce the importance of the Lisbon hub

During the course of the year, the policy of attracting long distance traffic was intensified, and efforts focused on growth and in the improvement of the Lisbon hub, as well as of the second operational hub, in Porto, were continued, together with the expansion of geographical coverage and the increase in traffic flows. In this regard, a policy of adjustment of the operation to demand, accompanied by slot improvements, enabled business opportunities to be exploited, with the launch of three new medium-haul destinations – Berlin, Turin and Bucharest.

In this context, it is also important to highlight the impact of the participation of TAP in the STAR Alliance global multi-hub system, which has permitted benefiting from the incoming traffic provided by the other members. Seven years after TAP's integration in this global Alliance, in a participation considered as a reinforcement by the actual Alliance, the Company has pursued the implementation of its niche strategy, connecting Europe to a growing number of destinations in Africa and in the South Atlantic, where it is distinguished as the leading European carrier to Brazil.

At the end of the year, the combined TAP + PGA fleet comprised 71 aircraft, unchanged from the previous year. In order to guarantee the fulfilment of its strategy to respond more fully and better to the expectations of its Customers, the Company intensified its efforts to optimise all available business opportunities. TAP thus transported a total of 10,186 thousand passengers, corresponding to 434 thousand more than in 2011, with increases having been recorded in most sectors of the network, with the exception of Mainland Portugal, the Autonomous Regions and the Mid Atlantic. The operation to Brazil, where the operation currently represents 41.1% of the total network is particularly noteworthy. In line with the expansion policy that has been followed by TAP, two new destinations – Boavista (archipelago of Cape Verde) and Tangiers (Morocco) – in Africa are expected to be launched in 2013.

## A safety culture

From the viewpoint of operational safety, the introduction of SMS (Safety Management System) is noteworthy, an initiative that represents one of the most significant changes at the regulatory level in the last few years, contributing to the raising of Safety levels in Aviation. Operational Safety is seen today as a continuous process, whose effectiveness is dependent on its application throughout the entire Company, covering all of the operating areas, and seeking the involvement of all employees whose activity may somehow impact Operational Safety. In this regard, in 2012, a new organisational structure of TAP, which covers all of the Company's operational areas, was implemented – the Safety Management Department. At the same time, TAP adjusted its Safety Policy, by promoting a Safety Culture that reflects the senior management's commitment to a set of enduring values related to Operational Safety, shared by all within a top-down organisational dynamic.

## Innovation and service quality

Innovation at TAP finds expression in the search and detection of opportunities that allow the Company to set itself apart from the competition, while at the same time meeting the efficiency goals continually pursued. Innovations introduced in products, services, processes, competences and organisational structures are means to ensure the Company's adaptability and survival in the market. In 2012, TAP continued to promote the changes it deemed necessary, according to the requirements of its strategic positioning and in line with market demand, in an attitude of pioneerism with respect to the use and fostering of new technologies. In this regard, various products and services were launched, as a means of differentiation and to ensure a permanent simplification of processes, in order to achieve growing Customer satisfaction.

## Growing contribution to national exports and to the Country's Tourism

TAP's capacity to attract increasingly significant traffic volumes, reflected in the strong growth of its sales in international markets, contributed to reinforce the Company's vocation to serve the national economy, and affirm its increased participation in promoting the Tourism sector. In addition to boosting the strategic importance of the Lisbon hub, the opening of new routes contributes to the promotion of Portugal, through a significant volume of traffic to Portugal, throughout its entire operation network, as well as through the activity of the Company, as an important entity in promoting national products. In this regard, the contribution of TAP was once again highlighted through the attribution of the Marketeer Award 2012, in the Tourism category.

As part of the contribution to the volume of national exports, TAP has also strengthened its positioning, having achieved total sales and services rendered in markets abroad of EUR 2,218.7 million, corresponding to 7.5% (EUR 155.2 million) more than in 2011.

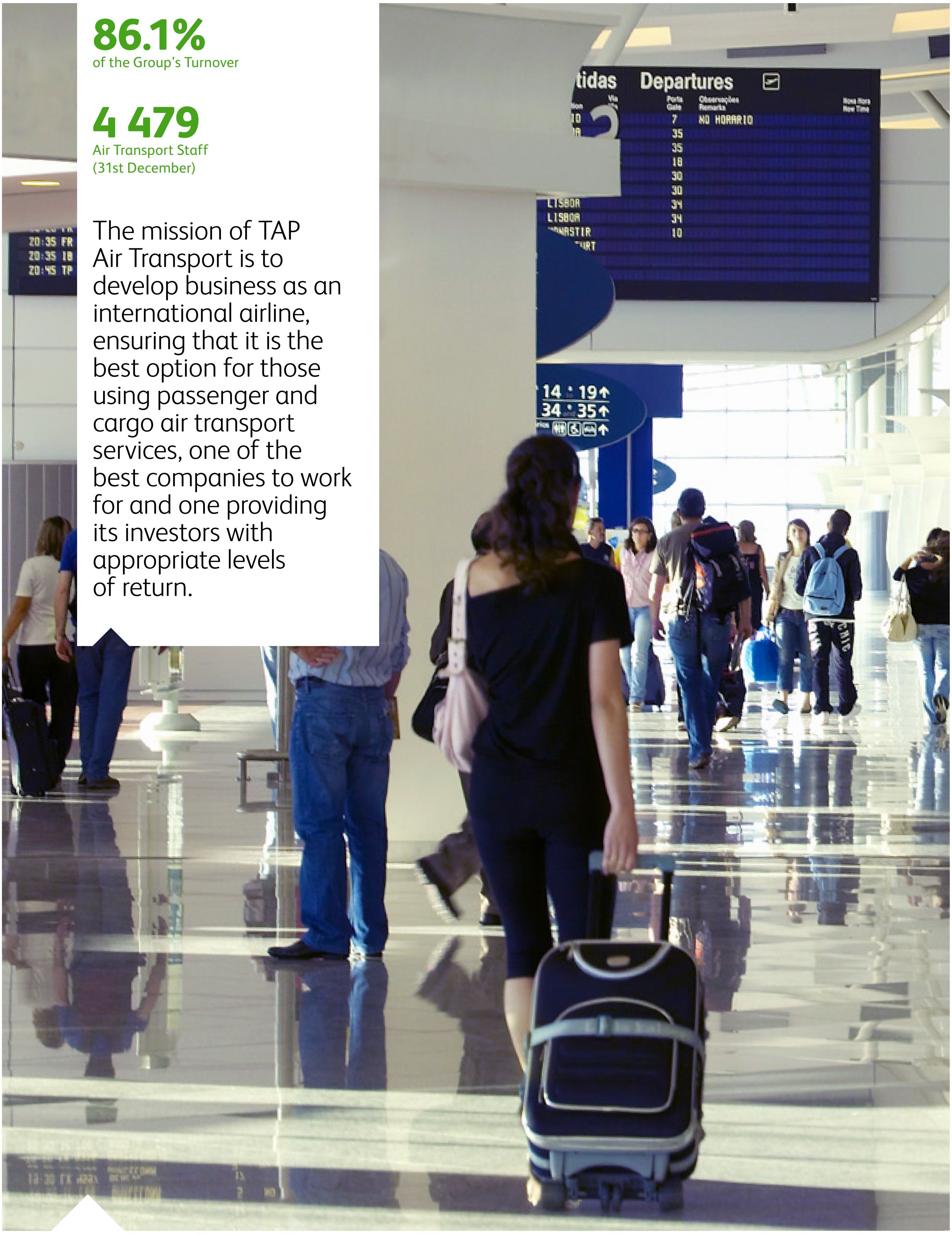
# Air Transport

**€ 2 254.7 million**
Air Transport Revenue

**86.1%**
of the Group's Turnover

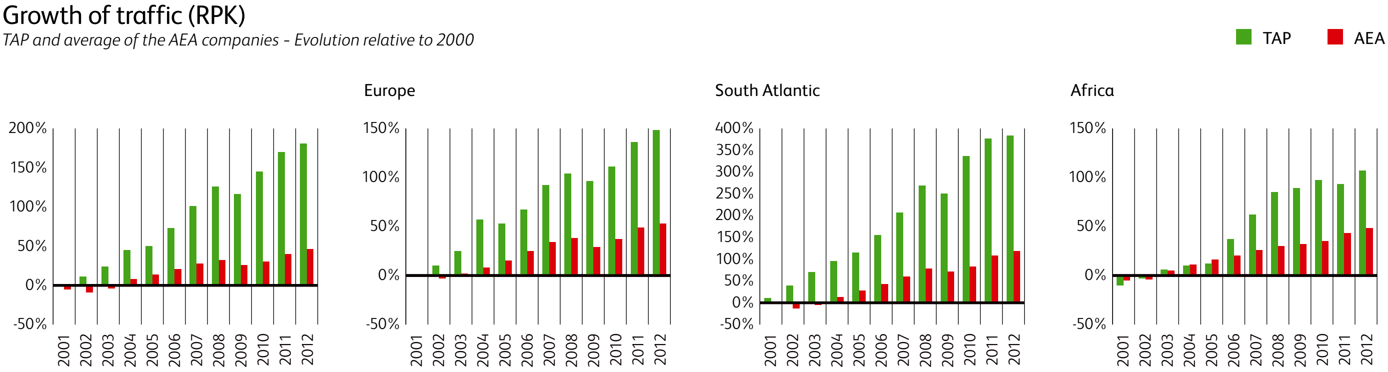
**4 479**
Air Transport Staff
(31st December)

The mission of TAP Air Transport is to develop business as an international airline, ensuring that it is the best option for those using passenger and cargo air transport services, one of the best companies to work for and one providing its investors with appropriate levels of return.



## Growth of traffic (RPK)

*TAP and average of the AEA companies - Evolution relative to 2000*




In the passenger air transport market, European scheduled operators of the AEA (Association of European Airlines) registered an industry-wide growth of 4.1%, which represents a sharp slow-down relative to the 8% registered in 2011.

The negative impact on employment and on consumer confidence brought about by the euro zone crisis contributed to this result. The slowdown and continuous loss of premium market share – registered in parallel with the decline in business confidence –, reflecting changes in the structure of the business traffic segment (from premium seats to economy class seats) is also noteworthy.

## Growth in the Air Transport activity

In TAP, the growth in demand proved to be slightly higher than the average identified for the sector, standing at approximately 4.8%, expressed in passenger-kilometres (RPK).

Hence, in the Air Transport activity, total sales and services rendered reached EUR 2,254.7 million, 6.2% more than in the previous year, following an aggressive commercial policy.

The air transport business, the main activity of TAP Group, represented 86.1% of the Company's total turnover in 2012.

## Main aspects of the commercial policy

In 2012, aimed at growing Customer satisfaction and constant differentiation in relation to the competition, TAP continued to focus on strengthening its product and service quality, as well as the most appropriate solutions for the travel of its passengers.

The Company continued to develop its strategy, maintaining as its principal objective a strict and effective management of equipment and resources, focusing on the following areas:

### Strengthening of the connections between Europe and Africa and Brazil, contributing to the growth and improvement of the hub

TAP continued its efforts focused on growth and the improvement of the Lisbon hub, ensuring service to the connection traffic. Complementarily, the Porto hub operation was maintained, as the 2nd operational hub, in order to meet the volume of traffic from the north of the Country.

The operation maintained two different operating periods in the summer, justified by the lower volume of demand at the start of this period: until the end of May, the continuation of the product offered in winter, with a lower number of night-stop flights and flights to Rio de Janeiro, Sao Paulo and Brasilia during night-time; from June until the end of the summer period, a more extensive operation, with all night-stop flights and flights to Rio de Janeiro, Sao Paulo and Brasilia during daytime.

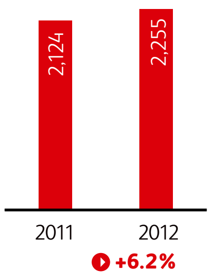
The logic of the operation was continued, focusing on the consolidation of the connections between Europe and Brazil and Africa.

A policy of adjustment of the operation to demand, accompanied by flight schedule improvements, permitted the launch of 3 new medium-haul destinations – Berlin, Turin and Bucharest –, to take advantage of business opportunities.

### Air Transport Revenues

Sales and Services Rendered

EUR million



| Policy of adjustment of the operation to demand | | | | | | |
|---|---|---|---|---|---|---|
| | Summer | Motivation | End of Summer | Motivation | Winter | Motivation |
| Europe | | | Closure of operation to Athens; Maintenance of the operation with Aegean Airlines | Crisis and insecurity with an impact on results | | |
| | Division of the Lisbon-Porto--Luxembourg daily operation into Porto-Luxembourg in 7 flights/week and Lisbon-Luxembourg in 4 or 5 flights/week (depending on the period) | Adjustment to the behaviour of the route in the Summer | | | | |
| | Reinforcement of the operations to Warsaw and Dusseldorf from 5 to 7 flights/week | Adjustment to the behaviour of the routes in the Summer | | | Reinforcement of the operation to Manchester from 5 to 7 flights/week | Adjustment to the behaviour of the route |
| | Reinforcement of the operation to Seville from 7 to 18 flights/week, via change in capacity module, from ER4 to BEH | Adjustment to the behaviour of the route | | | Maintenance of the Summer scheme | Adjustment to the behaviour of the route |
| | Reinforcement of the operation to Valencia, from 19 to 14 flights/ week, via change in capacity module, from BEH to ER4 | Adjustment to the behaviour of the route | | | Maintenance of the Summer scheme | Adjustment to the behaviour of the route |
| Africa | Reinforcement of the operation to Mozambique from 2 to 4 flights/week | Adjustment to the behaviour of the route in the Summer | | | Reinforcement of the operation to Mozambique from 2 to 3 flights/week | Adjustment to the behaviour of the route |
| | | | | | Reduction of the operation to Luanda from 10 to 7 flights/week | Adjustment to the behaviour of the route |
| | Reinforcement of the operation to Accra from 4 to 5 flights/week | Adjustment to the behaviour of the route | | | | |
| | Reinforcement of the operation to Casablanca to 14 flights/week | Adjustment to the behaviour of the route | | | | |
| South Atlantic | Reduction of the operation to Natal from 4 to 3 flights/week | Adjustment to the behaviour of the route in the Summer | | | Reduction of the operation to Viracopos from 3 to 2 flights/week | Adjustment to the behaviour of the route |

### Space management policy

In 2012, the implementation of the new Revenue Management system – O&D oriented –, was initiated, enabling TAP to use the most advanced Industry practices. The new system, which will allow a more effective management through an improved selection of traffic in the Network, will enable a more profitable operation to be achieved.

### Lower marketing costs

Following the general trend in the national and international markets, TAP has continued its marketing cost reduction policy.

**Characteristics of the new Revenue Management System – O&D oriented**

Space management, from the viewpoint of Network revenue optimisation, is undertaken by differentiating the availability of seats for sale by origin/destination and by point of sale (POS);

In this way, a more rigorous and fine-grained selection of reservations is provided;

This will enable an evaluation of the expected revenue of each reservation that is closer to reality, since the set of flights that compose the travel between a given origin and a given destination, and not only each flight on an individual basis, is incorporated in the analysis.

## Communication with Customers

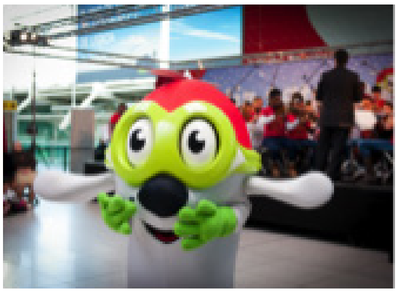
### In TAP's activity as a Golf Friendly Airline

Through the organisation of own events, TAP associates itself with Golf in Portugal. In 2012, the activity was maintained, with 4 tournaments being held, which had the technical support of Clube TAP, as the preferred partner for Golf.

- Two Victoria Tournaments (Troia/May and Vidago/September)
- TAP Open Algarve (November)
- Victoria Open Brazil (Baía/September)

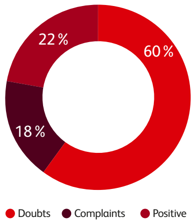
### With the FLIP FLAP brand for the younger generation

This new brand is in line with TAP's communication strategy: There is only one way to travel – TAP Portugal with Arms Wide Open –, and aims to be present at the various points of contact of TAP with the younger audience. Launched officially on World Children's Day – 1 June 2012 –, date on which TAP offered 41 children their first flying trip, the FLIP FLAP brand is now present in all actions directed at the younger age group, such as dedicated contents and in-flight merchandising, meals for the younger age group, the in-flight magazine, specific areas at the airport, a dedicated website and other street marketing actions.



**Facebook**

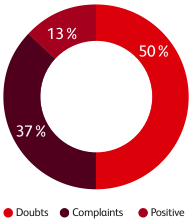
Issues raised by followers



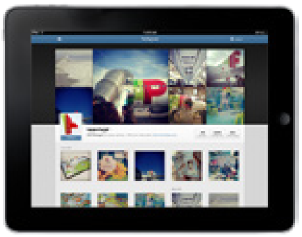


**Twitter**

Issues raised by followers

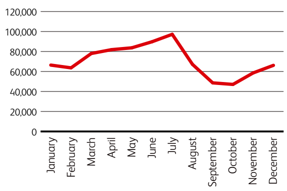



**Instagram**



**YouTube**

Views in 2012




### In the Social Networks as a means of relating with Customers

The social networks represent the most recent communication channel that TAP is using to interact with its Customers. The immediacy of the tool, millions of users as members, as well as the speed at which information is disseminated, underlie this option. Three main objectives guide the strong positioning of TAP in the Social Media area:

- *Customer Service & Relationship* – responding to the Customer in the shortest time possible (15 to 30 minutes) and anticipating and managing crisis situations;
- *Strengthening the relationship* – Creating and maintaining a strong emotional relationship with its followers, making available the content that really matters to Customers, developing fun quizzes and competitions with the potential for interaction, bringing the campaigns and participation of followers into the street, through street marketing actions associated to Facebook and other networks;
- *Marketing Promotion* – Maintaining a weekly strategy, suited to each network, type of audience and respective language, that communicates with each follower, in the network in which the latter most likes to be present, maintaining him/her updated about what TAP is doing in terms of product, price, promotions and street actions, among others.

On Facebook

At the end of 2012, the Facebook of TAP – in the markets of Portugal and Brazil –, reached a total of more than 330 thousand fans, representing an increase of 150 thousand fans relative to 2011, and in the official profile of the page of Portugal, an average of 12 to 13 thousand new fans/month. According to the information on this page, Portugal, Brazil and the United Kingdom represent the three main markets, from which TAP fans come from. In addition, according to Socialbakers.com – the most cited worldwide source regarding global data on the use of Facebook –, TAP has the best Customer service in this social network in Portugal, standing out significantly from the other companies that make up the TOP *socially devoted brands*.

On Twitter

About 10 thousand followers

On Instagram

Since June 2012, where in six months TAP is already followed by 10 thousand people.

On YouTube

Among the videos that most contributed to the development of this channel at TAP, the following stand out: Flashmob at Miami Airport; Retrofit of the A340; World Travel Awards Prizes; Children's Day/Launch of the FLIP FLAP brand and Official Video of the Song *Braços Abertos* (*With Arms Wide Open*).



| | Flytap.com | TAP Victoria | TAP Corporate |
|---|---|---|---|
| Unique Visits | 9,644,566 | 1,218,838 | 53,024 |
| Pageviews | 37,015,001 | 15,975,766 | 230,681 |

## Innovation policy

Following the launch of free applications for mobile phones, the offer of contents and functionalities was extended to Android devices, through which it is now also possible to access the mobile check-in, information on flight schedules, as well as consult the price campaigns in force or subscribe to the Victoria Programme, among other features. Through this application, Victoria Customers also have available a reserved area where, following authentication of the Member number, they can access and consult their personal account, in total security.

## In-Flight service

– In-Flight Entertainment

In order to improve the quality of the on board service, entertainment systems, and seating comfort in class Y for the long-haul fleet, the entire entertainment equipment of A340 aircraft was replaced with the interactive IFE (In-Flight Entertainment) system throughout the aircraft. At the end of 2012, seven aircraft already offered the new IFE system, in an effort to harmonise the flight experience of customer passengers.

– TAP | Executive

Likewise, the on board service for the executive class (TAP | Executive) was revamped in 2012, an initiative which will continue to be carried out in phases and whose conclusion is planned for next year. The new concept, offering a more comfortable ambience, sophisticated service ware and creative menus, involves the covering of chairs with new fabrics and the laying of carpets in harmonious shades. In order to achieve a more welcoming ambience, the softer lighting and the substitution of blankets for soft and cosy quilts has been combined with new comfort kits, made of 100% natural materials, the sophistication of the table service ware and the quality of Portuguese textiles.

Last but not least, the new menus reinterpret typical Portuguese cuisine, through a combination of tradition and modernity, with fresh and healthy ingredients, used in new creations, in which a selection of six new soups, among others, is included.

## Customer Loyalty Policy

Within the scope of TAP Victoria and TAP Corporate's customer loyalty programmes, there was an in-depth restructuring of the customer loyalty platforms, as well as of the online reservation engine, in order to enhance the expansion of the presence of both programmes in markets considered as strategic and with strong growth potential. In these Programmes, efforts have been developed with a view to making new contacts and promoting TAP price campaigns, Company products or promotions of the programme itself and its partners. Throughout 2012, the campaigns launched represented, relative to the TAP Victoria Programme, a total of 6 million contacts and, relative to the Corporate Customers Programme, in the Portuguese and Spanish markets, more than 997 thousand contacts.

## In the creation of the new Safety Video

This video associates a key piece of communication on board – the safety video –, to the Company slogan (There is only one way to travel – TAP Portugal With Arms Wide Open), launched in 2011. The Customer plays a fundamental role at TAP and having him as an active participant in the Company's communication represents another form of developing the way TAP relates with its Customers.


## Communicating the Values of TAP

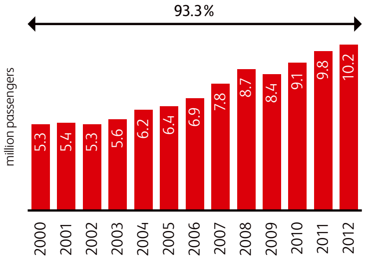
The campaign *With Arms Wide Open* has been communicated among Customers, but TAP employees provide the content to this positioning and slogan. Regardless of his/her function, each employee builds the TAP brand, with the 10 values of the brand (Cooperation, Dedication, Dynamism, Availability, Enthusiasm, Passion, Proactivity, Professionalism, Responsibility and Congeniality) represented by TAP employees from the most diverse areas, having been extensively communicated in 2012.

## Holding of campaigns

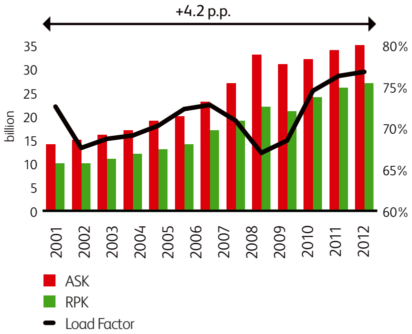
In addition to other various major campaigns, in online campaigns with a focus on a search engine held in various markets, the investment made translated into a total of 250 thousand reservations, i.e., 17% more than in 2011, in this environment. In the flytap.com portal, with the new markets and languages launched in 2012, the website of the Company also began to provide information and promotions in 50 markets, in 23 languages.


- Swedish; Finnish; Danish, Norwegian, Czech, Croatian, Hungarian; English as a new language for the market of Brazil (June)
- Romanian; Turkish, Ukrainian; English as a new language for the markets of Germany and Austria (July)
- Three new markets: Estonia; Latvia and Lithuania

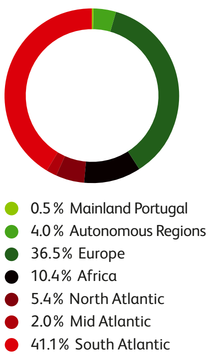

## Carried Passengers
Scheduled Flights




## Capacity, Traffic and Load Factor
Passenger-Km and %




## Traffic (RPK) by Route Network Sector
Scheduled flights




# Route Network

In the Company's Route Network, in 2012 TAP pursued its strategy of providing an offer of quality services, adjusted to its Customers' needs and aimed at meeting their expectations.

For the entire network, the level of supply of the regular operation increased by approximately 4.1%, relative to an increase in demand of 4.8%. As a consequence, the passenger load factor increased by 0.5 p.p. to 76.8%. The total number of passengers transported reached about 10.2 million (+4.5%), with ticket revenues having come to a total of EUR 2,112.9 million, corresponding to an increase of 7.0% relative to 2011.

During the operation, over 106 thousand services were provided. Furthermore, it should be noted that the Company was present in over 79 thousand flights operated by other companies under code-sharing agreements. The Company flew approximately 253 thousand hours with its own aircraft and approximately 55 thousand hours with Portugália aircraft, reaching a total of 4.3% more than in 2011. The number of kilometres covered corresponded to 181.6 and 30.2 million, respectively.

# Medium-haul network

Medium-haul traffic represented, in 2012, 41.0% of the total Route Network when expressed in passenger-kilometres (RPK), representing an increase of 0.4 p.p. relative to 2011.

- In the Autonomous Regions (Madeira and the Azores), the strict analysis of the operation, with a view to better matching supply and demand on the Lisbon-Funchal route, led to the suspension of flights, affecting operations with lower passenger load factors.

- Thus, the offer for this sector of the Network decreased by 1.7%, with demand having registered a higher reduction, in the order of 2.8%, decreasing the overall passenger load factor by 0.8 p.p., to 69.6%.

  The Autonomous Regions recorded a weight of 4%, that is, 0.3 p.p. less than in 2011.

- In Europe, representing 36.5% of total demand, this region is the 2nd most important sector in TAP's network. However, also taking into account the demand of Mainland Portugal and the Autonomous Regions, the European region accounted for 41% of the Company's total demand in 2012.

  The increased supply in this sector of the network, of around 4.7%, was entirely compensated for by the increase in demand, which came to 6.9%. As a consequence, the overall passenger load factor increased by 1.5 p.p. to stand at 72.7%.

- In Mainland Portugal, the directives of the Competition Authority were implemented, placing flights between Lisbon and Porto at less than 3 hour intervals, between 6H00 and 22H00.

  Following a better distribution of the operation between Lisbon and Porto throughout the day, which enabled one flight to be withdrawn in some periods of the year, there was a reduction in the offer attributed to this sector of the network in the order of 2.3%. In view of an increase in demand of 1.0%, there was an increase in the overall passenger load factor of approximately 2.0 p.p.. The representativeness of this network sector remained at almost the same level, in the order of 0.5%.


# Long-haul network

Long-haul traffic accounted for 59.0% of the total Route Network in 2012, representing 0.4 p.p. less than the previous year.

- In Africa, with the expected competitive reinforcement of the Lisbon hub, offering good connectivity from and to other intra-European destinations served by the Company, the amount of scheduled flights offered was increased by 7.2%. In view of the increase of 8.2% in demand, the overall passenger load factor increased slightly by 0.7 p.p. to 73.5%.

  The representativeness of the region, in the entire network, stood at 10.4% or 0.3 p.p. more than in 2011.

- Demand aimed at the North Atlantic sector of the network increased sharply, by around 20.0%, while the offer increased by 14.4%, due to the introduction of a new destination in the region, the operation to Miami, in the second half of 2011. As a result, the passenger load factor increased by approximately 3.7 p.p. to 80.1%. Thus, the weight of this sector's traffic in the total network increased slightly relative to 2011, to 5.4%.

- In the Mid Atlantic, the contraction of demand for this region, by around 2.6%, was slightly higher than the reduction of the offer which fell approximately 1.9%. As a consequence, the overall passenger load factor fell slightly by 0.6 p.p. to 78.0%. The representativeness of the region in the entire network fell 0.2 p.p., relative to 2011, to 2.0%.

- In the South Atlantic region, the increased supply for this region, of around 2.5%, was slightly above the increase in demand, which reached 1.8%. As a consequence, the overall passenger load factor fell slightly, to 82.5%.

  Reinforcement of the leadership position in Brazil

  The South Atlantic was the most representative sector of the route network, reaching 41.1%, 1.2 p.p. less than in 2011, continuing to exceed the size of the Europe network sector.

  The continuing increase in supply in this sector of the network, reflecting both the reinforcement of the operation and the opening up of connections to new points, such as the launch of the operation to Porto Alegre in the second half of 2011, reflects the option of the Company to specialise in traffic between Europe and the South Atlantic.

## Collaboration with partner companies

The intensification of the relationship with STAR Aliance member-companies continued, being noteworthy the increase of the number of destinations served in code-share with the partners UNITED AIRLINES and AIR CHINA, as well as the extension of code-share with AUSTRIAN AIRLINES, resulting from the increase in destinations offered by TAP in own aircraft in 2012, thus allowing for more flights and diversification of the offer through an increased number of code destinations shared between companies. Also noteworthy is the increase of the connections with the company ETIHAD, whose code-share began at the end of 2011.

It is also important to mention the negotiations, with the technical process currently underway, for the implementation of the code-share agreement with the counterpart AVIANCA/TACA.

Lastly, also worthy of note are the new code-share agreements with FINNAIR (April), S7 Airlines (June) and Emirates (December), resulting from the opening up of new cooperation opportunities for the Company, always with a view to obtaining benefits for its passengers, through the continued expansion of routes and destinations in partnership.

| | | Change on previous year | | |
|---|---|---|---|---|
| Region | Traffic Volume (Thousand Passengers) | Capacity (ASK) | Traffic (RPK) | Load Factor |
| Mainland Portugal | 567,243 | -2.3% | 1.0% | 59.8% |
| Autonomous Regions | 947,448 | -1.6% | -2.8% | 69.6% |
| Europe | 6,105,387 | 4.7% | 6.9% | 72.7% |
| Africa | 675,402 | 7.2% | 8.2% | 73.5% |
| North Atlantic | 254,700 | 14.4% | 20.0% | 80.1% |
| Mid Atlantic | 84,599 | -1.9% | -2.6% | 78.0% |
| South Atlantic | 1,551,587 | 2.5% | 1.8% | 82.5% |
| Total | 10,186,366 | 4.1% | 4.8% | 76.8% |

# Cooperation and Partnership Agreements * 2012

| Portugal | |
|---|---|
| Autonomous Regions | Austrian Airlines, Sata International |
| Mainland Portugal | Brussels Airlines, Continental Airlines (until March), Egyptair (until March), Emirates (since December), Lufthansa, Sata International, Swiss, Turkish Airlines, Ukraine International, United Airlines (since March), US Airways (since March) |

| Europe | |
|---|---|
| Austria | Aegean Airlines (since October), Austrian Airlines, Brussels Airlines, Ukraine International |
| Belgium | Austrian Airlines, Brussels Airlines, Etihad Airways, Finnair (since April), LOT - Polish Airlines, Thai Airways (since March), Ukraine International, United Airlines |
| Bosnia and Herzegovinia | Austrian Airlines |
| Bulgaria | Austrian Airlines, Lufthansa |
| Croatia | Croatia Airlines, Lufthansa |
| Czech Republic | LOT - Polish Airlines (since March), Lufthansa |
| Denmark | Lufthansa, Sata International (until March) |
| Finland | Finnair (since April), Lufthansa |
| France | Brussels Airlines, Sata International (until March) |
| Germany | Aegean Airlines, Air China, Austrian Airlines, Brussels Airlines, Croatia Airlines, Etihad Airways, LOT - Polish Airlines, Lufthansa, Sata International (until March), Thai Airways, Turkish Airlines, United Airlines, US Airways |
| Greece | Aegean Airlines, Lufthansa, Swiss |
| Hungary | LOT - Polish Airlines (since October), Lufthansa |
| Italy | Aegean Airlines, Air China, Alitalia, Austrian Airlines, Croatia Airlines, Egyptair, Etihad Airways, LOT - Polish Airlines, Ukraine International (since March) |
| Ireland | British Midland, Sata International (until March) |
| Netherlands | Finnair (since April), LOT - Polish Airlines, United Airlines |
| Norway | Lufthansa |
| Poland | LOT - Polish Airlines |
| Romania | Austrian Airlines, LOT - Polish Airlines (since March), Lufthansa |
| Russia | Siberia Airlines (since June) |
| Serbia | Austrian Airlines, Spanair (until March) |
| Slovakia | Austrian Airlines |
| Spain | Aegean Airlines, Air Canada (from March to October), Air China, Austrian Airlines, Croatia Airlines (from March to October), Egyptair, Sata International (until March), Spanair (until March), Thai Airways, Turkish Airlines, Ukraine International (since March) |
| Sweden | Brussels Airlines, Lufthansa, Sata International (until March) |
| Switzerland | Austrian Airlines, Croatia Airlines, Etihad Airways, Finnair (since April), LOT - Polish Airlines, Swiss, Thai Airways, Ukraine International, United Airlines |
| Turkey | Turkish Airlines |
| Ukraine | Ukraine International |
| United Kingdom | Aegean Airlines, Air Canada, British Midland, Etihad Airways, South African Airways , Ukraine International (since March), United Airlines |

| Middle East | |
|---|---|
| United Arab Emirates | Emirates (since December), Etihad Airways |

| Africa | |
|---|---|
| Egypt | Egyptair |
| Ghana | South African Airways |
| Morocco | Etihad Airways (since October) |
| South Africa | South African Airways |

| North Atlantic | |
|---|---|
| Canada | Air Canada, Sata International |
| U. S. A. | Air Canada, Continental Airlines (until March), Sata International, United Airlines, US Airways |

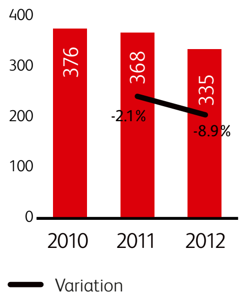
| Mid Atlantic | |
|---|---|
| Mexico | Continental Airlines (until March) |

| South Atlantic | |
|---|---|
| Brazil | TAM |

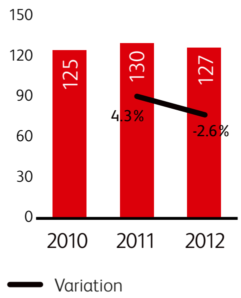
| East | |
|---|---|
| China | Air China |
| Hong Kong | Emirates (since December), Lufthansa |
| Malaysia | Emirates (since December) |
| Singapore | Emirates (since December), Lufthansa |
| Thailand | Emirates (since December), Thai Airways |

* Code-sharing operation

Cargo
and Mail Traffic
million RTK




Cargo and
Mail Revenue
EUR million




# Cargo

The Mission of TAP–Cargo is to provide a reliable service for the collection, transport and delivery of goods and parcels on the aircraft of TAP and its partners, in a timely manner, suited to its Customers' needs and at competitive prices.

Carried Tons
By Route Network Sector

- 2% Mainland Portugal
- 8% Autonomous Regions
- 20% Europe
- 16% Africa
- 6% North Atlantic
- 2% Mid Atlantic
- 46% South Atlantic

## Consolidation of its excellent strategic positioning between Europe and South America and Africa

2012 was a good year for TAP–Cargo. In spite of yet another recessive year for air cargo at a worldwide level, following the trend of the previous year, cargo and mail revenue fell by merely 2.6% in relation to its historical maximum, reached in 2011. However, TAP–Cargo was responsible for the improvement of its contributory margin to the business, due to the achievement of an operating cost cutting programme, in particular in the areas of terrestrial transport and chartering.

Through its rotating platform in Lisbon, TAP–Cargo continues to consolidate its excellent strategic positioning between Europe and South America and Africa, especially concerning the markets of Brazil and Angola, but also directly linking the entire TAP network.

Approximately 70% of the cargo and mail revenue is generated abroad. The most important market in terms of revenue was, however, Portugal, followed by Germany, Italy, Brazil, USA and France. In terms of percentage growth, Portugal, Belgium and USA were the most productive.

In the ongoing endeavour to ensure Customer satisfaction, TAP continued to develop its activity in its entire range of products, such as general cargo, mail, valuable cargo, express cargo, cargo in controlled temperature, large format cargo, and live animals, amongst others. TAP–Cargo also extends its activity to dedicated, regular or one-off charter services, namely for transport of special or large format cargo, according to the logistics desired by the Customer.

In 2012, the first investment priority was incident on the area of information technologies. The new Cargospot system now covers the areas of booking, aircraft space control, pricing, revenue management, invoicing and accounting, on an integrated platform.

The EU and national customs authority have specified the need, in Portugal, for more electronic information, between the company's own systems and those of the airline companies. These new standards have taken the form of law and are thus indispensable for the continuity of the business.

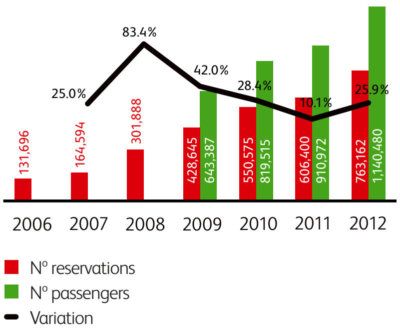
For this purpose, the ICS (Import Control System) and ECS (Export Control System) have already been implemented, and work is underway on the SDS (System of Summary Declarations) project.

The Company has maintained close relations with IATA, whose recommendations are followed rigorously. In this regard, TAP–Cargo is coordinating the development of e-freight in Portugal, under IATA supervision.

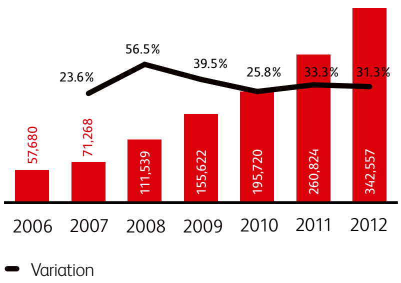
### New Projects

- Cargospot – Integration of bookings and pricing with invoicing and accounting
- ICS, ECS and SDS – New requirements of the EU and customs authorities
- E-freight

Online Bookings




Online Revenues
EUR thousand




# e_commerce

**Presence of the portal Flytap.com in 50 markets, in 23 languages**

TAP's online activity has been reflected in total sales revenue of the order of EUR 342.5 million, 31.3% higher than in 2011, corresponding to a total of 1.1 million passengers. The numbers presented by this distribution channel, which already accounts for 13.7% of the total revenue of the markets clearly reflect the growing provision of a wide range of options relative to the booking, payment and issue of tickets. The most important markets, in terms of turnover, are those of Brazil, where TAP showed remarkable growth of 79%, and Germany, where sales also increased considerably, by around 77%.

In 2012, the FLYTAP portal, already present in 47 markets, was extended to Estonia, Latvia and Lithuania, and is now also available in Swedish, Danish, Finnish, Norwegian, Czech, Croatian, Turkish, Romanian, Hungarian and Ukrainian.

Continuing its strategy of diversification and location of business opportunities, a new sales channel was inaugurated in 2012, the mobile channel. With the launch of the FLYTAP portal and booking engine for mobile devices, TAP currently promotes sales in a total of 23 languages and 50 markets, with a broad range of forms of payment, both international and national, such as iDeal in Holland and the acceptance of payment in local currency in Turkey and South Africa.

The online booking platform has been remodelled, in order to ensure improved adequacy of the offer and provision of flights to user searches.

In the Affiliation Programmes, efforts have been developed to expand the online presence and stimulate new contacts and promotion actions. Complementarily, and in order to consolidate a strategy based on the provision of high demand target services, a new functionality has been launched on Flytap.com, enabling the request of refunds online in the markets of Holland, Greece, Belgium, Romania, Ireland, Germany, Finland, Portugal, Luxembourg, Spain, France, Italy and Austria. Also complementing this offer, the online services have been expanded through new partnerships with Royal Caribbean (with the introduction of the possibility of online cruise booking on the Portuguese market) and ANA Aeroportos de Portugal (in the context of the sale of parking at Lisbon, Porto and Faro airport car parks), as well as the extension of Web Check-in and Mobile Check-in for the points of origin Casablanca, Bilbao, Seville, Marrakech, Luxembourg, Helsinki, Turin, Berlin and Valencia. In this area, a new integrated sale application has been launched for Rent-a-car with Avis, as well as a new cobranded site.

Total revenue from complementing flight services stood at approximately EUR 3 million in 2012, with a net margin of EUR 560 thousand.

Regarding the TAP Victoria and TAP Corporate customer loyalty programmes, the online loyalty and booking engine platforms have been thoroughly restructured in order to boost the expansion of the presence of both programmes in markets that are considered strategic and of strong potential growth.

- **Launch of the new sales channel – the mobile channel**
- **Provision of high demand target services:**
  - Online refunds;
  - Expansions to more points of origin of the web check-in and mobile check-in
  - Expansion of partnerships:
    - Royal Caribbean
    - ANA
    - Avis (integrated sale and new cobranded site)

# Customer Service

## Main functions

- **Manage operations at Lisbon airport,** with a view to improving their punctuality and regularity;
- **Manage passenger attendance in Lisbon,** in all aspects (check-in, transfers and baggage, amongst others);
- **Guarantee the provision of a service of recognised quality to passengers,** in TAP network airports, ensuring, in advance, the resolution of any possible irregularities;
- **Coordinate the implementation of the service levels,** practices and guidelines, for the different ground handling services;
- Promote the initiative, development and implementation of **improvements in service quality,** which are recognised by Customers.

The mission of the Customer Service Department is to ensure the provision of ground handling services, in all airports of the TAP network, with high commercial and operational quality standards, in order to ensure Customer satisfaction.

## Main priorities in 2012

### Luggage irregularities

**In line with the trend of the last few years, TAP has registered an improvement in luggage irregularity performance, managing to achieve improvements of 22% and 25%, respectively, in the Network and the Hub, relative to 2011.**

This improvement was largely due to the implementation of new transfer luggage tracking processes in the Lisbon hub, a vital procedure due to the luggage processing capacity limitations at Lisbon airport terminals, exacerbated by the improvement works in progress PDAL (LADP–Lisbon Airport Development Plan).

### CITP (Common IT Platform) – Amadeus Altea Project

During 2012, efforts were continued in the project of the area – initiated immediately after the migration to the DCS Amadeus Altea system, at the end of 2010 –, with a view to bringing online, all of the stopovers of the TAP network. In this regard, at the end of the year, 84% of stopovers were operational on Amadeus Altea, following the migration of the Casablanca, Marrakesh, Bilbao, Luxembourg, Seville and Valencia stopovers.

### Ground Operations Library

In 2012, a tool was implemented to manage all the information related to ground handling services and to bring together, within a single repository, several manuals and documents from various departments and operating areas. The introduction of this tool facilitated the access of all stopovers, and of the Customer Service Department, to operational information, with significant improvements in processes, namely:

- Efficiency in information updating and revision processes;
- Improved access and greater speed in access to information;
- Better organisation of manuals and documents;
- Greater control and security in access to information.

## IOSA 2012

The first half of the year was marked by the IOSA re-certification, whose audit was undertaken between 28 May and 1 June. This certification, in addition to representing a quality certificate of TAP, from the operational viewpoint, also represented an opportunity to verify the efficacy of the continuous improvement methods that are adopted.

This challenge, specifically as regards the Customer Service Department, was met with zero non-conformities and zero recommendations, which means that all the processes implemented are in accordance with the proposed objective: *ensure the provision of a secure and quality service.*

The renewal of the IOSA Registration comprised an operating audit of all operating areas of TAP, of an operational flight and a flight simulator session, involving dozens of professionals, in their preparation and supervision, so as to achieve the good result obtained.

Immediately after the IOSA Audit, and at the end of the first half of 2012, the STAR Audit was conducted, with a view to verifying the operating quality and service requirements imposed by this alliance, in which the Customer Service Department registered an exemplary performance.

## Opening of new Routes

Throughout the year, TAP Portugal inaugurated three new routes in Europe, namely Berlin, Bucharest and Turin, bringing the total number of destinations operated by the Company to 77. The Customer Service Department participated actively in the entire preparation process for operational start-up in those airports, covering operations, airport infrastructure and passenger and aircraft handling services.

## Participation in the new STAR terminal project at Heathrow airport

TAP, through the Customer Service Department, was one of the three STAR companies that participated actively in the pilot testing of Self Tagging and Self Service Bag Drop, in a collective project with London Airport–Heathrow and Amadeus, which enabled defining for the first time the specifications of this product for Amadeus, with 3,700 pieces of luggage having been processed in this context.

## Improvement of processes in the Lisbon hub

*Restructuring of communications in Lis Hub* – The purpose of this project was to optimise communications at the main hub of the Company, conciliating cost savings and mobility improvement. In addition to the distribution of digital radios to teams on the ground, restructuring also involved the substitution of classic telephones with IP telephones;

*CCTV* – After lengthy negotiations, conducted by the Customer Service Department, this function was finally granted, by Lisbon Airport to the Hub, with the remote viewing of our operation and of the critical aspects of the airport by HCC (Hub Control Centre), having been authorised;

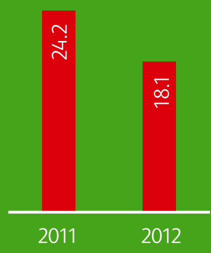
*Transfers Team* – a multi-skilled team was created, managed by the Customer Service Department, to coordinate and support the transfers of passengers and luggage in the hub, enabling the quality of the service to passengers that pass through Lisbon travelling from the Americas, or Africa, to Europe and in the opposite direction to be improved.

## Mishandled Bags/1,000 passengers

Network


In 2012, in the TAP network, 11.3 mishandled bags/1,000 passengers, an improvement in performance of about 22.1% relative to 2011.

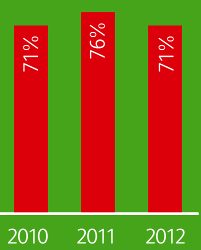
Lisbon hub



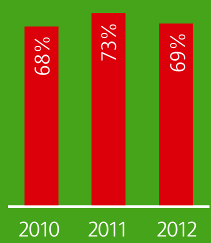

In the Lisbon hub, 18.1 mishandled bags/1,000 passengers, reflecting an improvement of 25.3% relative to the previous year.

## Departure Punctuality (until 15')

Network




Lisbon hub



# Fleet

There was no change to the TAP Group fleet, which includes the aircraft of TAP and PGA, in relation to January 2010, with the use of 71 units in its fleet as at 31 December 2012. The TAP fleet is composed of 55 aircraft (39 of medium-haul and 16 of long-haul) and, at the end of 2012, the average age was 11.5 years. There was also no change to the PGA fleet, comprising a total of 16 aircraft (2 aircraft in ACMI of OMNI).

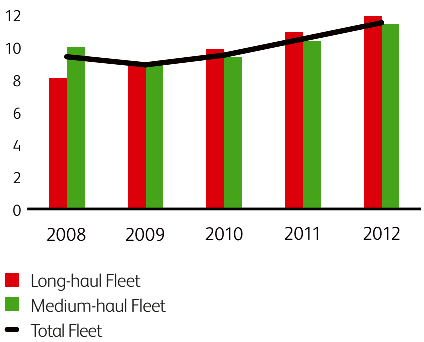
## Outlook for 2013

The year of 2013 is expected to be a year of consolidation, and no structural changes to the TAP and PGA fleets are, at the moment, expected.

Notwithstanding the foregoing, a study on the reinforcement of the long-haul operation is underway, which involves the addition of three wide body aircraft to the current fleet over the three-year period 2013-2015. In the event of this long-haul future reinforcement, it shall thus be necessary to also increase the medium-haul fleet capacity.

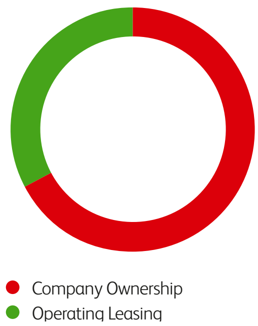
With the modification of the last aircraft (CS-TOA), the project involving the upgrade of IFE and of the Y/C chairs of the A340 fleet shall be concluded in May, corresponding in this way to the commercial need to improve comfort and in-flight entertainment service in this fleet.

### Average Fleet Age




### TAP Fleet Financing

31 December 2012




Of the total 55 airplanes comprising TAP's fleet, in operation, as at 31 December 2012, 37 were owned by the Company and 18 were under a regime of operating leasing.

- Owned by the Company
  15 A319; 5 A320; 2 A321; 11 A330 e 4 A340
- *Operating leasing*
  4 A319; 12 A320; 1 A321 e 1 A330

### Composition

Number of Aircraft on 31 December

| | Units | | Average Age | Ownership | Rental | 2013 | |
|---|---|---|---|---|---|---|---|
| | Dec/11 | Dec/12 | | | | Additions | Options |
| Medium-haul | | | | | | | |
| A319 | 19 | 19 | 13.6 | 15 | 4 | | |
| A320 | 17 | 17 | 8.9 | 5 | 12 | | |
| A321 | 3 | 3 | 11.5 | 2 | 1 | | |
| Long-haul | | | | | | | |
| A340 | 4 | 4 | 17.7 | 4 | 0 | | |
| A330 | 12 | 12 | 9.9 | 11 | 1 | | |
| Total | 55 | 55 | 11.5 | | | | |

### Average Daily Utilization

Block Hours/Day

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| Medium-haul | | | | | | |
| A319 | 10.39 | 10.90 | 10.40 | 10.18 | 10.76 | 10.82 |
| A320 | 11.08 | 11.51 | 10.45 | 10.65 | 10.95 | 12.32 |
| A321 | 12.38 | 12.04 | 10.85 | 10.88 | 11.56 | 11.94 |
| Long-haul | | | | | | |
| A340 | 13.87 | 12.90 | 10.97 | 13.40 | 14.37 | 13.54 |
| A330 | 15.24 | 15.16 | 13.56 | 13.83 | 14.66 | 15.56 |
| A310 | 13.48 | 6.78 | – | – | – | – |

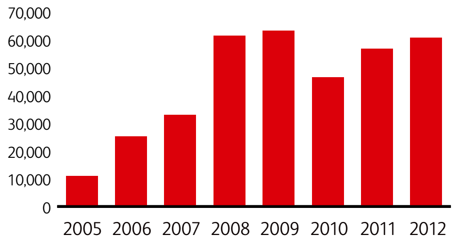
# Fuel Saving

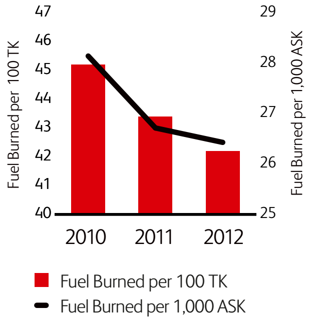
## The TAP Portugal Fleet

During 2012, the TAP fleet carried out approximately 76,000 flights, reaching a total of 230,000 flight hours and consumed a total of about 815,000 tons of fuel. The year, with respect to energy efficiency, was marked by the protests of third countries against the EU Emissions Trading Scheme and, consequently, by the resulting indefinitions and suspension of the system, for non-European flights. With regards to the TAP operation, in 2012 there was an improvement of the energy and operating efficiency indicators, registering values significantly higher than those of the previous year. The average consumption of fuel per passenger came to 3.1 l/100 RPK.

The Fuel Conservation project, whose launch dates back to 2005, reached a total reduction of $CO_2$ emissions of approximately 60,000 tons in 2012, corresponding to a reduction, since the beginning of this project, of more than 360,000 tons of $CO_2$.

Reduced Annual $CO_2$ Emissions
(ton)




**3.1** kg per 100 RPK

*2012 Passenger Fuel Efficiency*

In terms of initiatives undertaken, it is important to mention, during 2012, the completion of the substitution of the lifejackets for others that are lighter and have a longer useful life, enabling the weight of aircraft, in the medium-haul fleet, to be reduced. In the Flight Operations area, the introduction of the Electronic Flight Bag (EFB) will in future provide pilots with more and better information, which will certainly lead to an improvement of efficiency levels. The EFB will also, in future, enable weight on board to be reduced, through the partial elimination of the quantity of paper. In turn, in the Flight Operations area, in 2012 there was a reinforcement of the levels of participation in fuel consumption reduction initiatives, such as the Single Engine Taxi, Reduced Flaps and Idle Reverse, which contributed significantly to the good results obtained.

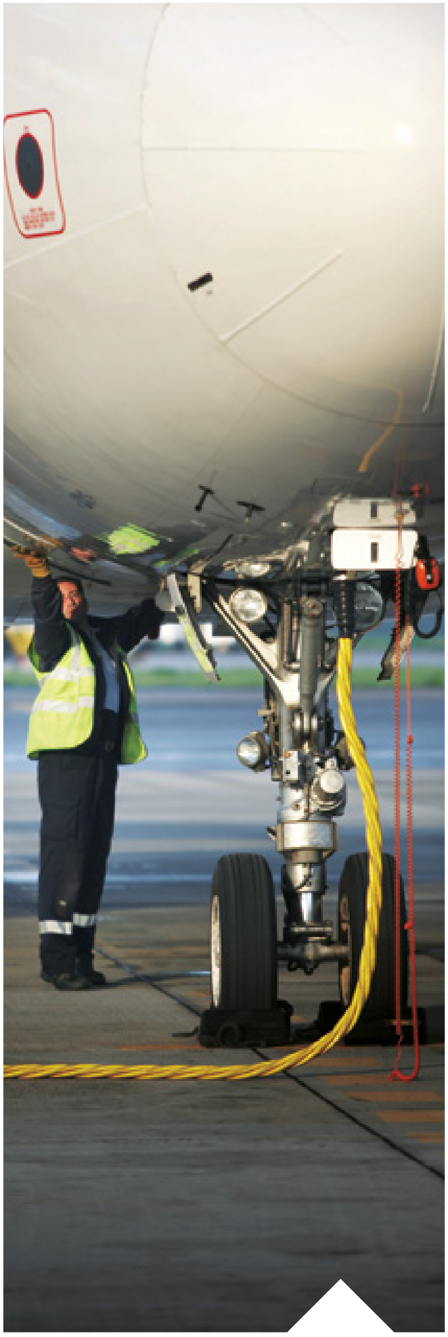
It is also important to mention the increased commitment towards improving the fuel data supporting the Fuel Conservation project and its initiatives. In a continuous pursuit for improved quality and quantity of information, an innovative tool to support the handling and control of fuel data was developed. This tool allows combining, in a single platform, an extended set of various sources, to support the data validation process, providing increased efficiency to the process, which will surely lead to an improvement of the quality of the data obtained.

## The Portugália Fleet

Although the Customer is responsible for the costs of the fuel item, PGA manages internally its Fuel Maintenance project, through the work coordinated between the Flight Operations and Maintenance and Engineering Departments. With the intention of improving efficiency levels, PGA has been improving its fuel policy, which brings together a series of optimization measures, with which it was possible to avoid, in 2012, the emission of 8 tons of $CO_2$. The following initiatives are, in this context, particularly noteworthy:

- In-flight weight reduction programme, with emphasis, in this case, on the substitution of elements for fixing the windshield (titanium vs. stainless steel) and cabin intervention. The reduction of weight obtained with these measures means less consumption and, consequently, lower $CO_2$ emission levels;
- Programme of periodic washing of aircraft.

Also noteworthy is the refinement of the tool created by the Technical Support Engineering Department, for the control and monitoring of fuel consumption, enabling a more detailed analysis of the KPIs. It is also worth pointing out, within the TAP Group, the advances in the creation of a common platform, aimed at the standardization of the fleet performance analyses. In 2013, TAP intends to continue to promote continuous improvement and the refinement of the measures already implemented, which in general terms may represent cost savings of about 0.7% relative to the revised value for the year and, as a result, a reduction of $CO_2$ emissions of about 10 tons.



| | 15 years before | 2012 |
|---|---|---|
| Member airlines | 5 | 27 |
| Daily departures | 6 | 22 |
| Destinations | 578 | 1,329 |
| Countries served | 106 | 194 |
| Fleet | | 4,570 |
| Number of employees (thousand) | | 449 |

### 15 years of activity

The growth of the globalisation and recognition of the increasing interdependence between markets constituted the determinant factors in 1997, for the adoption of a global strategy, embodied in the creation of an alliance. Thus was conceived the STAR Alliance network.

15 years later, with a size 5 times larger, its objectives have become reality – today it is the world's leading alliance of airline companies, aimed at the frequent international flyer.


# STAR Alliance

## STAR Alliance: the first, the largest and the most awarded

Assuming its position as the first multilateral aeronautical alliance, the STAR Alliance is also the largest and most awarded alliance of airline companies, whose network, of a truly global coverage, offers the highest standards of comfort and convenience, following a commitment based on two fundamental concepts: *the concept of Partnership* – a Customer of any member company of the STAR Alliance is a Customer of all the member companies, receiving identical experiences in the service provided, and the *concept of hub-and-spoke* operation – global reach of the Alliance sustained on connections between the different hubs of the member companies. The airline companies belonging to the STAR Alliance network are amongst the most highly respected at a worldwide level, implying that all members maintain the highest standards of the Industry in the service offered to the customer, in safety and technical infrastructures.

In 2012, the 15 years of activity of this alliance were commemorated, with its initial start-up having occurred when the founding companies (Air Canada, Lufthansa, Scandinavian Airlines, Thai and United) understood that the growth of globalisation would be accompanied by an increasing need for international travel, to a broad range of destinations. In offering the airline companies means to ensure the efficient performance of their corporate objective, guaranteeing Customers the harmonisation of service levels and the best connections possible between the different continents, the alliance also implied that the actual companies were able to benefit from economies of scale, increased market share and the expansion of the network of destinations.

The STAR Alliance was, in 2012, once again distinguished, for the sixth time in the last seven years, as the *Best Alliance of Airline Companies*. This distinction was attributed under the Skytrax World Airline Awards, considered the principal benchmarking tool for assessment of the satisfaction levels of airline company passengers in the world. The underlying questionnaire, conducted amongst passengers representing over 100 nationalities, covered more than 200 airline companies, measuring standards in excess of 38 aspects, involving first-line products and services of these companies. The study analyses customer satisfaction based on their total travel experience, as airline company passengers, from the attendance at the airport environment, to the in-flight service – from check-in to boarding, the comfort of the aircraft seats, the cleanliness of the cabin, the in-flight food, drinks and entertainment, and the service provided by the staff and crew. All the collected information is analysed and audited by an independent market research company.

## Future members and strategic development

It should be noted that some companies left the alliance during 2012, namely, Spanair, due to termination of activity, BMI and Blue1, in this case converted into a capacity provider for SAS. Although TAM merged with LAN Chile, forming the LATAM Airlines Group, TAM remained in the Alliance, and LAN continued in the Oneworld alliance. In turn, Avianca, Copa Airlines and TACA Airlines joined the Alliance, which enabled the addition of approximately 50 new airports to the global network of the Alliance, thus strengthening the brand of the STAR Alliance in the Latin American economies, undergoing fast growth. Also, the integration of Shenzhen Airlines, the fifth largest airline company of China, led to the reinforcement of the presence in this country, as well as in Asia as a whole, benefiting the customers of the Alliance with better access to an economically important region.

Pursuing the policy of expansion of its network to new and competitive markets, the Alliance unanimously approved the membership application of Eva Air, a fact which will enable reaching a total of eight member companies based in the Asia/Pacific region in 2013. Since its foundation, the STAR Alliance has progressively built up its presence in this region, hence this decision represented an important step in the implementation of the long term strategy of the Alliance, of expansion of the network and offer of access to new regions, with strong economic and development potential.

The integration of TAP in the STAR Alliance Company Plus should also be noted, which is a customer incentive and loyalty programme, designed for small and medium-sized enterprises, through which the participant companies have access to the VIP areas and may, through the website, exchange points for upgrades, tickets and excess baggage, or even exchange points for money. The programme currently has close to 1,000 companies enrolled, and it is expected that this number will double in 2013.

During 2012, it was also possible to announce the establishment of Terminal 2, at Heathrow Airport, as the new space where all the companies of the Alliance will be concentrated. This initiative, allowing for the provision of innovative conditions, with the most recent technologies, as well as integrated facilities and alignment of processes, enables the significant improvement of TAP's operating conditions and, as a consequence, the experience of the passengers.

## Declaration of Environmental Commitment

The global vocation of the Alliance offers important opportunities for cooperation and sharing of information on environmental issues, where each member seeks to include environmental considerations in all aspects of the respective business. However, although each member operates in the most diverse regions of the world and faces specific local challenges, the


companies share various fundamental principles, which represent the challenge to reduce their impact on the environment and maintain a healthy balance between progress and environmental sustainability.

- Awareness and protection of the environment through an appropriate management system;
- Conduct of the business in conformity with all the applicable environmental standards and expecting that their employees assume the responsibility of compliance with these standards in the performance of their duties;
- Working and communicating with customers, governments, local communities, unions, employees and suppliers to identify and solve environmental problems;
- Prevent pollution at source, reducing waste, through the recycling or elimination of items, and purchase of products which may be reused or contain recycled materials;
- Directing all efforts to develop and use technology that respects the environment and promoting the improvement of environmental standards in the purchase of new aircraft, equipment and facilities;
- Finally, the search for new methods to balance the ongoing need of development with the commitment to protect the environment, through continuous improvement.

The STAR Alliance network supports IATA and its vision of carbon neutral growth, in the medium term, through cooperation extended to the entire Industry in investment in technology, improved operating efficiency and the creation of better infrastructures and economic incentives.

| Regions | Main hub airports |
|---|---|
| **Europe** | |
| Adria Airways | Ljubljana, Pristina |
| Aegean Airlines | Athens, Heraklion, Larnaca, Rodes, Thessaloniki |
| Austrian | Vienna |
| Brussels Airlines | Brussels |
| Croatia Airlines | Zagreb |
| LOT Polish Airlines | Warsaw |
| Lufthansa | Frankfurt, Munich |
| Scandinavian Airlines | Copenhagen, Stockholm, Oslo |
| Swiss | Zurich |
| TAP Portugal | Lisbon, Porto |
| Turkish Airlines | Ankara, Istanbul |
| **Africa** | |
| EGYPTAIR | Cairo |
| Ethiopian Airlines | Addis Ababa, Lome |
| South African Airways | Johannesburg |
| **North Atlantic** | |
| Air Canada | Montreal, Toronto, Vancouver |
| United | Chicago, Cleveland, Denver, Guam, Houston, Los Angeles, New York (Newark), San Francisco, Tokyo (Narita), Washington (Dulles) |
| US Airways | Charlotte, Philadelphia, Phoenix, Washington, D.C. |
| **Mid Atlantic** | |
| Avianca-TACA | Bogota, Lima, San Salvador, San Jose |
| Copa Airlines | Panama City |
| **South Atlantic** | |
| TAM | Brasilia, Rio de Janeiro, Sao Paulo |
| **Asia** | |
| Air China | Chengdu, Beijing, Shangai |
| ANA | Tokyo (Haneda), Tokyo (Narita) |
| Asiana Airlines | Seoul Incheon, Seoul Gimpo |
| EVA Air (*) | Taipé |
| Shenzhen Airlines | Shenzhen, Guangzhou |
| Singapore Airlines | Singapore |
| Thai Airways Intl | Bangkok, Chiang Mai, Hat Yai, Phuket |
| **Oceania** | |
| Air New Zealand | Auckland, Hong Kong, Los Angeles |

(*) soon to join

The mission of TAP Serviços is to develop its activity of providing support and management services, contributing to improved profitability for its Customers, through competitive positioning and high standards of quality and effectiveness, with the objective of continuous improvement and operating excellence.

# TAP Serviços

Through a deep commitment to the fulfilment of its different missions, TAP Serviços seeks to enable Business Units and Group companies to focus on their core activity

**Finance** – To define a financial and accounting management model, and adopt procedures that guarantee the integrity and availability of the information for the entire organisation, as well as compliance with legal obligations.

**Human Resources** – To ensure an effective management of the Group's Human Resources, fostering the development of all employees' technical and social competences, and defining common policies and instruments that permit controlling the implementation of human resources processes.

**Labour Relations** – To ensure the institutional business units relations of TAP Group in the Labour Area, particularly with the Labour Administration, Trade Unions and Staff Commission Bodies. To ensure labour law advice to the TAP Group business units and companies. To ensure the representation of TAP Group companies before the Labour Courts and the Authority for Work Conditions (ACT – *Autoridade das Condições do Trabalho*), as well as the investigation, including legal representation, of all legal or administrative offence cases, in which Group companies are involved. To ensure compliance with the legal and conventional labour standards, elaborating and disseminating regulations and directives on the same.

To ensure the investigation of inquiry and disciplinary procedures.

**Logistics** – To conduct the procurement process, providing goods and services to the entire TAP Group, at the best cost-quality ratio.

**Administration and Management of Physical Resources** – To define and guarantee the provision of support services to the governing bodies, ensure the effective management of the installations and equipment, security and safety, environment, insurance, documentation and general support services, necessary for the Group's activity, guaranteeing its profitability in compliance with the legal and business requirements.

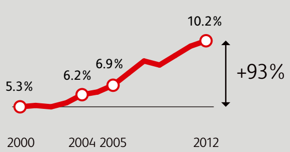
**Legal Office** – To ensure the study, follow-up and representation of legal issues, aligned with the legal framework and guiding principles of the Organisation.

**Audits** – To oversee the business of the Group through a systematic and disciplined audit approach, carrying out the planning, development and execution of activities that guarantee the smooth functioning of internal control systems and promote compliance of the Group's management and governance.

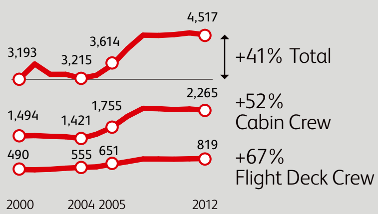
**Strategic Planning and Performance** – To provide support in the definition of the business strategy and guidelines for the Group, participating in the elaboration of Strategic Planning. Support TAP Serviços, managing relations with its Customers, developing the Performance measurement system and the Costing, Pricing and Invoicing Model/System and collaborating, in functional analysis, on process and system change projects.


## Activity of Customers of TAP Serviços

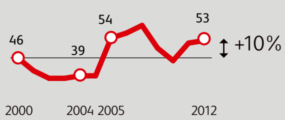
Carried Passengers
(million)



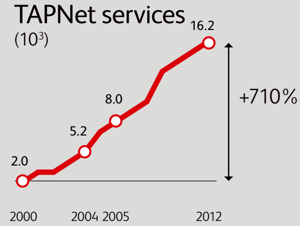

Air Transport Employees
(average no.)




Maintenance and Engineering
Third Party Customers

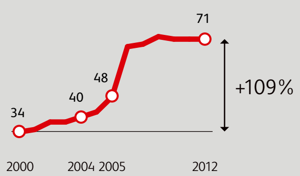



Megasis
Users of
TAPNet services
($10^3$)

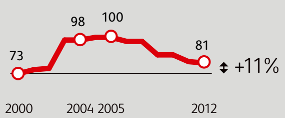



Supply (ASK)
($10^9$)

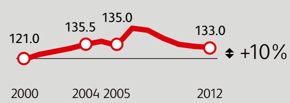

Aircraft
(31 December)




SPdH
Movements
($10^3$)




UCS
Complementary
diagnostic exams
($10^3$)



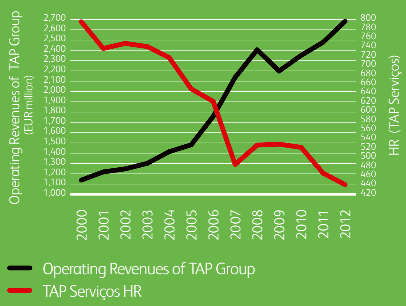
**Effort of internal organisation of the Business Unit, with a view to modernising and improving its services,** developing processes at the level of the best market practices, reflected in a significant increase of efficiency, in addition to a continued reduction of costs.

**Capacity to support the constant changes and needs in their Customers' businesses,** developing activities in highly competitive markets.

**Structured Customer relations and performance management processes,** contributing to constant monitoring and the improvement of the quality of services provided, by these, to their Customers.

Created in 2004 – preceding a period of strong growth for TAP –, **activity in the TAP Serviços Business Unit reflected the development registered in it's Business Units and Group company customers, underscoring a growing operational efficiency.**

### TAP Serviços Efficiency



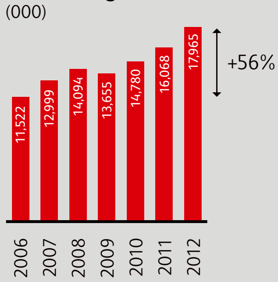

# TAP Serviços

## An organisational model of shared services

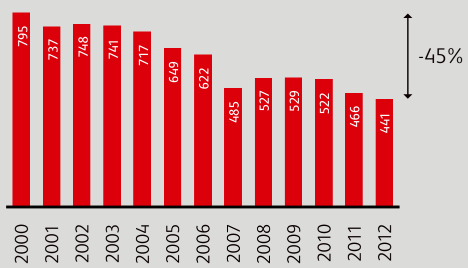
Involving a structure that provides financial services, human resources, procurement and warehousing, administrative, audit and legal services as well as other support activities, TAP Serviços offers the remaining Business Units and TAP Group companies a platform of sustainable growth, providing an extensive set of benefits, with emphasis on:

- Permitting the Business Units and Group Companies to focus on their core activity;
- Significant decrease of costs, through economies of scale and reduction of duplications;
- Improvement of the efficiency of processes, via the use of best practices;
- Development of specialised competences at TAP Serviços;
- Considerable improvement in supporting the customer decision process, through greater operational efficiency of the management systems;
- Improvement of the levels of services provided, via standardisation of the processes and the increase of the quality of the support functions;
- Improved strategic management, through the concentration of qualified resources, a faster and better grounded decision-making process, effective management of the available resources, sharing and exchange of knowledge and better alignment of the resources with the Company's mission.

### Processings
(000)

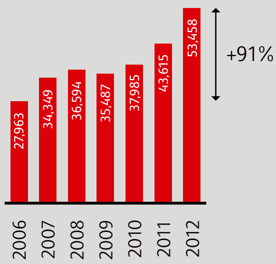



### TAP Serviços HR




MENÇÃO HONROSA
PRÉMIO BOAS PRÁTICAS no sector público

### Processings/FTE



## Finance

Activity in the Finance area was strongly impacted, during the second half of the year, by the work associated to the due diligence process within the scope of the Company's privatisation process, and process optimisation efforts continued whenever possible.

Within the framework of the Corporate Finance activity, the following are noteworthy: the conclusion of various amendments to financing agreements and short term credit lines in force; the negotiation of extensions to the rental of various aircraft; the contracting of financings for various vehicles, as well as the establishment, in coordination with Maintenance and Engineering, of a new simultaneous sale and leasing operation involving various spare engines. The negotiation of several service provision contracts was also followed up. The area continued to ensure the close monitoring of the behaviour of the various markets, having negotiated conditions for the investment of surplus liquidity and contracted various fuel and $CO_2$ emission allowance risk hedging (within the framework of the regulation of the European Union Emissions Trading Scheme) operations.

In addition, during the course of the year, information was prepared and provided to various entities, both within the framework of the privatisation underway and to financial entities, including supervisory, oversight (such as taxation) and audit entities, as well as to shareholders.

## Human Resources

The Company's Human Resources (HR) model, based on a logic of optimisation of resources and continuous innovation, is structured in accordance with the following three main areas:

- A transactional area (which includes Staff Administration and Remunerations, Travel Office and HR Management Information), progressively automated, providing faster response times and improved quality of the service provided at a lower cost;
- A transformational area (which includes Talent Management, Recruitment and Selection and Professional Training), with the mission of identifying, developing, training and supporting people, aimed at creating value for the business;
- Related to these areas, the area designated as Human Resources in the Business, i.e., the scope of direct intervention of the HR directors of the different Business Units of the Company – the HR Business Partners.

Of particular note, over the course of 2012, within the scope of Talent Management, is the continuity of a series of management procedures and processes, designed to generate commitment, contribution and development, through investment in people, as well as in the strengthening of their technical and social competences. Efforts were also continued with a view to guarantee alignment with the objectives of the business, and continue to promote competitive compensation practices in relation to the market.

Stimulating a humanised organisational culture, so as to encourage teamwork and enhance the exchange of knowledge, were also concerns of this area. The creation and sustainment of high performance teams has been influenced through various actions, such as internal and external recognition of people, continuous training for the growth of each professional, investment in the development of leaderships, and the cycles of conferences and workshops, an initiative that contributes to a perception of the business as a whole, and places emphasis on the role and importance of each person in the value chain.

*Cycle of Human Resource Conferences* – Over the course of 2012, 17 conferences were held, corresponding to 6,400 training hours, covering a total of 2,300 participants. Open to the entire TAP Group, the conferences aim to disseminate unusual themes within the technical context of work, encouraging critical thinking, motivation and resilience.

*Recognise Programme* – Continuing the Recognise Programme, another ceremony of this programme was held. Launched in 2003, this initiative has evolved to the point where today it is *from all to all*, since the developers are now able to recognise peers, colleagues that report to them, superiors, colleagues from other areas and from other TAP Group companies. In 2012, 10 Ceremonies were held, which distinguished more than 500 employees. The Company believes that the survival of the businesses depends, in large part, on its people and on the way they contribute to the creation of value. Particular note should be made of the importance of this programme, as a means of contributing to the creation of the TAP personality, positively differentiating, motivating and reinforcing the culture and the appropriate attitude.

*Performance Management* – During the year, within the scope of TAP Group, the alignment of the system, as well as the consolidation of IT support, was conducted. The system, which is based on competences and on the fulfilment of objectives previously defined and agreed with employees, must not be perceived as an end, but as a means to, with clarity, encourage people, increase their impact and guarantee alignment with the strategic objectives of the Company. In partnership with the business areas, the HR area customises the system and adapts it to the needs and specificities of each area, so that the process is not perceived as merely bureaucratic and administrative.

*Technical Curriculum* – Developed and implemented in 2012, in the central IT system, this transversal Human Resources management tool enables, in a dynamic way, making available and integrating data relative to professional experience, competences, language skills, training, qualifications, certifications, performance management, remuneration and relevant facts of each Company employee.

*Professional Training* – In 2012, a new form of management in Professional Training was initiated. The mission of this area consists of continuing to improve its functional efficiency – maintaining the high quality level of technical and specific training, based on all the internal know-how –, and in parallel, undertake strong investment in management and e-learning training. In this respect, Professional Training is already considered, externally, as a reference case, due to the quality and diversity of contents and tools developed, as well as the multidisciplinary character of the team of specialists. Professional Training currently offers a vast portfolio of e-learning products, mostly on technical training areas.

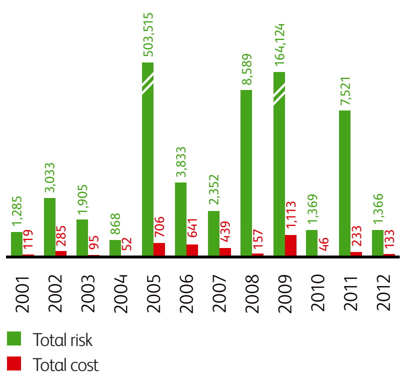
## Labour Relations

In the Labour Relations Area, the need for specification and monitoring of the application of the remuneration reduction measures and of prohibition or conditioning of remuneration increases, enacted in the State Budget Law for 2012, was maintained.

In the labour dispute area, very good results were once again registered.

Among other factors, the continuity of the action developed among the Company's Business Units and other TAP Group companies, with a view to suitably preventing and providing a framework for situations that could generate administrative offence or legal actions, certainly contributed to this performance.

**Labour Dispute – Risk and Cost**
EUR thousand




The total number of legal cases brought to a close in 2012 (including convictions and settlements) represented about 9.7% of the value of the total risk inherent to those actions, with a high success rate being maintained (90.3%), in line with what was recorded in previous years.

## Logistics

The activity of TAP is set in the context of the civil aviation business, a sector which has as reference dynamism, innovation and competitiveness, with the final objective being the guarantee of maximum Customer satisfaction.

The mission of the Negotiation and Logistics area of TAP Serviços, in direct coordination with its internal customer, involves negotiation with current and potential suppliers, in terms of the quality-price binomial. In this process, several variables are taken into consideration, from quality and safety to ethics, in addition to a rigorous financial assessment, so as not to place at risk the operation of the Company, for possible breach of contract arising from the absence of financial solidity of the supplier.

Given the complexity of the current corporate financial environment, at both national and international level, a Business Information Scoring tool was implemented with the objective of obtaining detailed information on the financial solidity, as well as the continuous monitoring, of current and potential suppliers and service providers.

The Sourcing policy has focused on the selective concentration of suppliers, with interconnection and optimisation in operational and information processes, with the permanent control and monitoring of the same.

## Administration and Management of Physical Resources

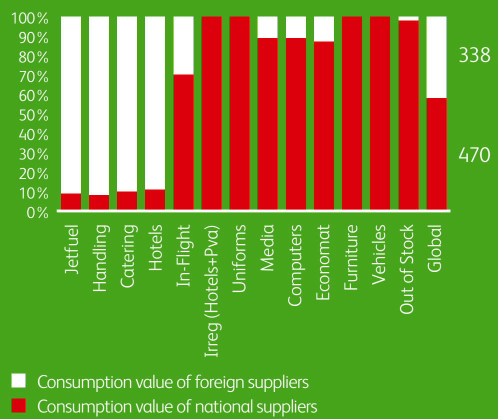
The activity of the Administration and Management of Physical Resources Department developed by focusing in particular on the rationalisation of resources, reduction of costs and improvement of processes, *doing more and better*, at a *lower cost*, with a view to boosting the contribution of TAP Serviços to the results of TAP Group.

In the *Facility Management* area, a new service provision model involved the adjustment of the levels of service provided to the needs of each Customer, as well as an added focus on the quality and optimisation of processes, with a reduction in annual costs having been registered, as a result of the selection, in 2011, of a new service provider. In the projects and works area, the compliance with national and community legislation and the elimination of risks associated to the installations dominated the activity. The optimised management of water and energy (natural gas and electricity) consumption enabled some installations to meet energy certification requirements. In addition, the investment in consumption management and monitoring tools, leading to a decrease in the consumption of EPAL water is noteworthy. In the technical consultancy area, there was collaboration on projects developed by TAP Group companies for third parties (namely, the creation of the Professional Training unit for TMAs (Aircraft Maintenance Technicians) of TAAG, as well as the provision of technical support to some installation certification projects.

The *Insurance Management* area maintained the joint negotiation strategy of the Insurance of the Aviation Branch (hulls, liabilities, spares, war and terrorism), within the scope of the Group of airlines that TAP has been a member of since 2005, a procedure that enabled reducing the insurance premium by 23% in 2012, corresponding to USD 1.4 million, within the set of TAP and PGA companies. This negotiation placed the Company in 2nd place in the benchmark of airlines with the lowest costs in aviation insurance (composed of 22 world airlines, whose insurance negotiation is conducted on the same date as TAP). Furthermore, the integration, for the first time, of TAP–Maintenance and Engineering Brazil in the joint negotiation of the Civil Aviation Liability Insurance guaranteed this company a reduction in the insurance premium of about 30% (USD 0.9 million). The policy of pooling and controlling claims processes and the transfer of risk to Insurance Companies was also continued, resulting in a cash inflow of about USD 3 million in 2012, in contrast to the previous situation, in which the Company assumed these total costs.

In the purchases relative to categories of goods and services, whenever the specificity permits, and always taking into account the equality of circumstances, partnerships have sought to be established with national companies, stimulating their competitive capacity in the various international markets, contributing not only to the relaunch of the national economy, but also to a correct management of stocks.

**Typification of the value spent with Suppliers per purchase category**



In the *Security* area, the increase of about 10% in the number of trainees, in the Security courses ministered and in e-learning actions, is noteworthy. Following contracts entered into with border control authorities, the celebration of a cooperation protocol with the Aliens and Border Service (SEF–*Serviço de Estrangeiros e Fronteiras*) and the contracting of local security services for foreign stopovers, there was a 37% decrease (Lisbon Stopover) in the total number of INADs, enabling a reduction (-26%) in the total number of fines applied to TAP and, consequently, their costs, by about 36%. Following the increase in the number of stopovers operated by TAP, there was an increase (+50%) in the number of Security audits and inspections, enabling a reduction, of about 20%, in *Non-Conformities* detected.

In the *Installation Security* area, following the contracting of a new security service provider, automatic access controls at the TAP Campus were implemented. In addition to the increase (+30%) of the coverage of the area monitored by a CCTV system, this project, included in the Cost Reduction Project of the Company (2010/2012), enabled a reduction, of about 16%, in security service costs.

The *Environment* area invested in environmental promotion and awareness raising, giving continuity to the AGIR ECO training programme. Considering the importance of the involvement of the Company's stakeholders, training was extended to the service providers residing at the TAP Campus, with 29 training sessions having been held, involving a total of 400 trainees, among employees of TAP Group's different Business Units/Companies and service providers. Distinguished with the *2010 Planet Earth* Award, the Voluntary $CO_2$ Emissions Compensation Programme of TAP, developed in partnership with IATA, achieved outstanding results, with more than 20 thousand passengers having voluntarily compensated the $CO_2$ emissions from their flights in 2012. In 2012, 9,579 tons of $CO_2$ were compensated, having surpassed the objective established by 128%. Under a culture of integrated responsibility, various socio-environmental campaigns were also developed, based on the three Rs (*Reduce*, *Reuse* and *Recycle*) philosophy.

- *For more information, see the chapter "Environmental Perspective" in the Corporate Governance and Sustainability Report of TAP.*

In the *Fire Prevention and Other Risks* area, with the objective of preventing risks of fire, explosion and spillage of chemical products in the common spaces and roadways of TAP, the Internal Security Plan of the TAP Campus was prepared and published, covering all of the infrastructures of TAP's Business Units.

The number of emergency simulations – training of the occupants of buildings and emergency support teams in evacuation procedures in emergency situations –, exceeded (+33%) the total undertaken in 2011, involving the participation of 700 employees.

The service providers residing at the TAP Campus were included in the training actions which, in total, covered 580 trainees, with the aim of ensuring that they have knowledge on fire safety organisation, as well as relative to the procedures to be adopted in emergency situations. The tool for the prevention of risks associated to the use of dangerous products used mostly in the aircraft and engine maintenance unit – database containing the security data files of about 800 chemical products –, was also updated. In these files, made available to employees, reference is made to the risks associated to chemical products, as well as the procedures in emergency situations.

The fire risk management system, which also includes a plan of periodic audits to the installations, now includes a plan of audits to the fire safety equipment maintenance service provider, in order to guarantee the quality and improvement of the service provided.

In the *document management* area there was an increase (+30%) in the volume of documents submitted to scanning, with the parameterisation and development of the new RDEC – *Registo, Digitalização e Encaminhamento de Correspondência* (Recording, Scanning and Mail Forwarding) – system having been initiated. This system, which will enable a 70% reduction in physical paper within the Company, will also reduce sectoral archive space in the TAP Campus by about 65%, in alignment with Company policy, relative to the adoption of the best environmental practices.

In the *Contract Management* area, transversal collaboration with the Group's Business Units and Companies was registered, with emphasis on the development of projects with UCS, with a view to raising awareness among the TAP population towards healthier and more nutritionally balanced eating habits (*Hit the Health* + Project, specifically directed, in this case, at the users of the Vending service). It was also possible to once again satisfy all the requests for access to TAP's Nursery services, with a total of 337 children (+22% than in 2011) having enrolled at the start of the academic year 2012-2013, in the Crèche and Day Care areas. It was thus possible, in a difficult year for many working families, to confirm TAP's culture of concern with the work-family balance, through assurance in the quality of services and proximity to the workplace, as well as the provision of this service at a lower price (about 75%) than that practiced in the market.

# Internal Audit

Internal Audit continued to reinforce the use of the Continuous Audit methodology, using Audit Command Language techniques as the basis, contributing in this manner to enhancing the control function, as well as continuous monitoring.

The monitoring process was also sustained by greater emphasis on the follow up procedure as a means of guaranteeing efficacy in the fulfilment of the area's mission, as well as evidence of performance, conformity and quality of the processes.

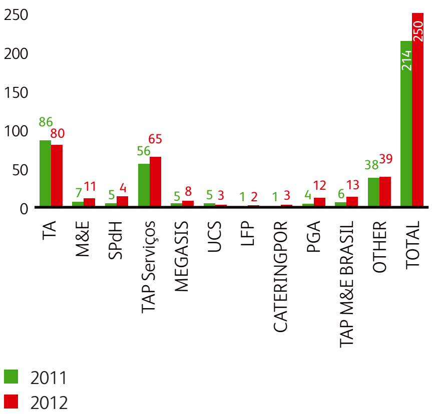
The area has been aligning its actions in accordance with management of the risks associated to business processes and critical control activities, and with the Company's corporate objectives and strategies.

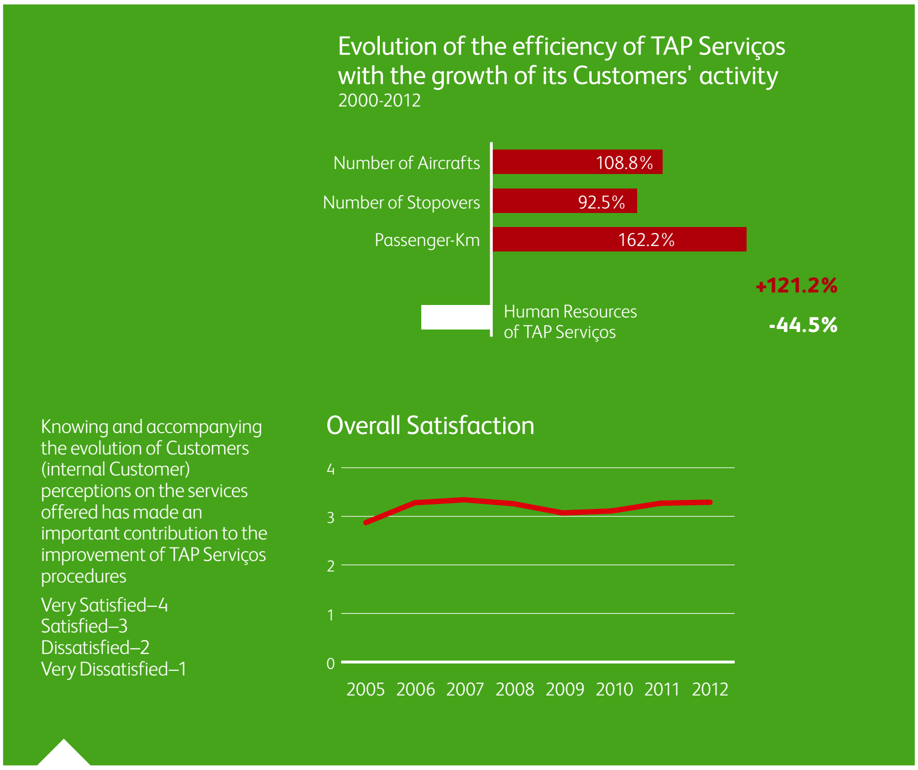
As a dynamic process, the management of the Continuous Audit is constant, involving the periodic and progressive review of its rules and parameters. Among the main benefits of this methodology for TAP Group, it is important to highlight the reinforcement of the organisational value, provided through greater efficiency, timely information, reinforced and less complex controls.

Among the main objectives of the Continuous Audit process applied in TAP Group, the following routines are noteworthy:

- Detective – To detect potential errors;
- Preventive / Psychological – To inhibit inappropriate behaviour and events;
- Financial – To reduce or avoid financial losses;
- Compliance – To verify compliance with existing laws, rules and procedures;
- Operational – To guarantee a good operational performance and full compliance with the Service Level Agreements established with Group companies.

### Number of Audits Carried out






## Strategic Planning and Performance

Aimed at the consolidation of a culture driven by the fulfilment of objectives, in 2012 various procedures were continued in the Strategic Planning and Performance area, structured to provide support to the Group's business strategy.

In this sense, support to TAP Serviços was continued, in the relationship with the Business Unit Customers, and in the measurement of the perception of its performance. The consolidation of the Costing, Pricing and Invoicing Model is also noteworthy, with emphasis in this context on the continuous measurement process, to which the pricing and invoicing models are subject to. Within the scope of functional analysis, there was also collaboration on projects involving process and system changes.

Constituting an objective of TAP Serviços the continuous achievement of customers' efficiency and productivity gains, in all their management processes in the business support areas, the measurement of the performance of the Business Unit continued. This procedure, which covers the systematic measurement of performance, involves the dissemination of a set of reports, directed at each management level, on the fulfilment of the defined objectives as well as on the operational performance of each area (efficiency, cost, efficacy, times and quality).

During the year, the monitoring of compliance with the Service Level Agreements (SLA) with the different Customers – Business Units/Group Companies –, adapting them to any specificities applicable, was continued.

In addition to these initiatives, the area continued to develop its mission, by providing advisory services to the Board of Directors, whenever requested and proactively, combining the know-how of the TAP Business Units, preparing studies, analyses and issuing opinions of a qualitative and quantitative nature.

In 2012, the intervention within the scope of the privatisation process of TAP, in the function of coordination of the flow of information, as well as of needs in the preparation of the process, is also noteworthy.

## Legal Office

The year of 2012, apart from the study and monitoring of the various legal issues that arise in an economic group of the size of TAP Group, was particularly challenging.

The following actions developed in the following areas stand out as the most relevant:

- Issues raised by the European Commission, over the course of four months, within the scope of Competition Law, over the sale of TAP shares in the company SPdH to the Urbanos group;
- Information, monitoring and providing clarifications to the advisory group of Parpública, within the scope of the privatisation process of TAP;
- Analysis and provision of advice, within the context of the financial operations of the Company.


BEIROS 116
MAINTENANCE & ENGINEERING

# Maintenance and Engineering

**€ 115.2** million
Revenue with Sales and Services rendered from Maintenance to Third Party Customers

**4.4%**
of the Group's Turnover

**1 908**
Maintenance and Engineering Staff (31st December)

The mission of TAP–Maintenance and Engineering is to provide maintenance and engineering services for aircraft, engines and components, for the Company and external Customers, guaranteeing a high level of quality and actively contributing to uphold the high safety standards required by the Aeronautical Industry, to ensure safe conditions for people and goods and protection of the environment.

## Competition strengthens in Maintenance

The beginning of 2012 showed a continuation in the growth of traffic, following the trend of the previous year. However, this evolution was not reflected in an improvement of the associated financial results, with the maximisation of the use of aircraft combined with the increased load factor having merely offset the effects of the increased price of oil and further dampening of the economy. In terms of air transport, apart from fuel costs, maintenance charges also represent a significant weight in the operation, showing an upward trend. The aging of the fleets, the accumulated postponement of inspections, the need to replace stocks of circulating assets, as well as the growing domination of OEMs (Original Equipment Manufacturers), in the after sales market, represent the main factors explaining this trend. In view of this reality, airline operators have shown a growing demand for next generation aircraft, a fact which implies, for MROs (Maintenance, Repair and Overhaul units), alterations in terms of the materials and technologies used in repair, lower incorporation of labour and, also, less need for immediate intervention.

For the MRO affiliated to airline companies or of independent nature, there has also been a growing threat derived from the new technologies used in modern aircraft and engines being restricted to the manufacturers, which value them highly and protect them through evocation of intellectual property. This behaviour, hindering the activity of maintenance organisations, is leading to a progressive monopoly of manufacturers in the after sales market. Furthermore, discounts are also frequently applied, at the time of sale, which can reach various million euros, on engines and equipment, conditional to the signing of long term maintenance contracts by the airlines. In the competition arena, apart from these crafty means, inaccessible to maintenance companies, there is also restriction of information on equipment, which is essential to the development of the business of maintenance organisations which, by implying a situation of market closure, interferes with fair competition laws. However, in the long term, the growth prospects of the market for MROs are maintained, with the engine maintenance segment continuing to show the strongest trends for outsourcing. The heavy downward pressure on prices remains, while at the same time labour costs increase, forcing the identification of creative strategies, in order to ensure operating margins, in particular the inclusion of value for the customer and endeavour to secure customer loyalty through the creation of customised packages.

It is under this scenario of change of paradigm that TAP–Maintenance and Engineering currently stands and has managed to survive, albeit at some considerable cost, since the retention of customers has implied some concessions, reflected in terms of turnover. Although a small-scale operator on the MRO market, this Business Unit aims to be a reference on the world market of aeronautical maintenance, with respect to the provision of maintenance services and total support to aircraft, fleet management, engineering services and assurance of airworthiness, constituting a partner in the achievement of the objectives of its customers.

Its base strategy and principal priority consists of ensuring to continue to be the best choice for its internal customer, the airline company, with respect to total support to and assurance of the airworthiness of the respective fleet. This unit is currently preparing not only to increase its in-house production capacity, with all the inherent productivity gains and cost reductions, but also the constitution of the necessary capability and certifications for the maintenance of the future fleet. Concerning its activity aimed at third party customers, engine maintenance represents the area which could ensure strongest growth, where it is forecast that in the short term a new engine model will be added to the list of the workshop's capacities.

## Shared marketing alliance

Under the commercial strategy, TAP–Maintenance and Engineering and ATITECH, an Italian maintenance company, signed a cooperation agreement, through which both will be presented on the market with a series of complementary services, operating as independent contractors in the promotion of the respective services, in a shared marketing alliance. ATITECH is an organisation specialised in aircraft maintenance (cell), with total capacity for MD80, B737 and A320 family. This partnership will enable offering customers a broader range of services, in particular the maintenance of CFM56-3, CFM56-5 and CFM56-7 engines and respective components, whose intervention will be carried out by TAP– Maintenance and Engineering.

## Cost reduction

Aimed at the creation of value for shareholders, the actions relative to cost reduction are an important element. In this context, TAP–Maintenance and Engineering is promoting the use of PMA (Parts of Manufacturer Approval), spare parts which are equivalent to the originals, authorised, recognised and approved by the same aeronautical regulators. The great advantage of the use of PMA lies in the price which, in the vast majority of cases, is significantly lower when compared to the equivalent OEM (Original Equipment Manufacturer). The concept of PMA is not supposed to bring in other technical advantages, since the equipment should present exactly the same geometry and basic material.

However, an additional positive aspect should be highlighted, which is related to the guarantees presented by PMA manufacturers that are frequently superior to the actual OEM. However, for reasons of competition, the OEM are not interested in the expansion of PMA, to the extent of suggesting that the alternative parts are of lower quality than the originals.

In this context, and on a par with the development of a process of continuous improvement whose objective was to facilitate the internal use of PMA, TAP–Maintenance and Engineering promoted a workshop in Lisbon, which was attended by three of the main PMA manufacturers and over 90 members of TAP–Maintenance and Engineering working in the most varied areas, enabling the exchange of experiences, clarification of concepts and interpretation, as well as the encouragement of the use of PMA in the activity of this Business Unit.

Also in a cost-cutting perspective, in January of this year, TAP–Maintenance and Engineering became the first aeronautical maintenance company in the world to use RFID (Radio Frequency Identification) technology for the tracing of engine parts, with the implementation of the MeerA (Mobile enabled engine repair Application) project. Although the project represented a high investment, of approximately EUR 750 thousand, very significant annual savings are estimated, of the order of EUR 2.5 million, where this amount includes, in particular, the reduction of costs related to inventory processes of a total value of around EUR 1.6 million annually.

The main advantages of using RFID technology are, in brief, linked to the reduction of TAT (Turn Around Time), greater visibility in the location of engine parts, improved productivity through gains in procedural efficiency, higher reliability of processes and, above all, cost reduction.

Plans have been made for the application of this technology in a wider perspective, in the near future, in the context of TAP–Maintenance and Engineering processes, namely with respect to the tracing of tools, life jackets and emergency equipment of TAP, as well as in logistical support to Line Maintenance.

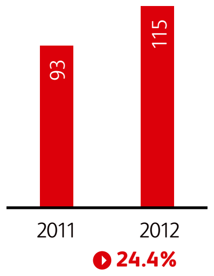
In the development and implementation of this project, TAP–Maintenance and Engineering was supported, internally, by the collaboration of Megasis, and externally, by the companies Airbus, Accenture and OAT.

### What is RFID technology?

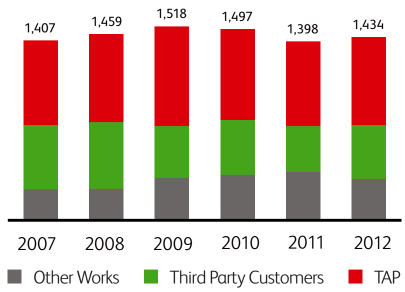
In general, RFID is the identification of remote objects, through the use of specific tags, via radio transmission. RFID also enables the recording and automatic reading of data of the micro-chips of these tags.

The architecture of the MeerA system include not only the RFID passive tags and respective printers, but also a variety of mobile equipment for reading and recording tags, operating over a UHF frequency band authorised for use in the context of this technology.

### Revenue from Sales and Services Rendered from Maintenance to Third Party Costumers
EUR million




### Maintenance Workforce
(000) Man-Hours




## Maintenance activity shows signs of recovery

In spite of the economic crisis currently sweeping through a series of countries, the concerted attack of manufacturers against maintenance organisations and the growing market difficulties, the final outcome relative to 2012 proves to be very positive, with some signs of recovery of maintenance activity currently starting to be visible.

Concerning the work provided to the third party customer segment, there was an increase of close to 24.4% of sales. At the end of the first quarter, the aircraft maintenance area had almost all the space available for third parties occupied in Portugal, and by the end of the year the total number of major inspections carried out on the fleet of third party customers had increased by 73%, in relation to the previous year. The 10 aircraft of the company Finnair were determinant for this increase, which also enabled filling in the slots during the summer period, normally vacant, thus contributing to the achievement of an occupation rate close to 100% in aircraft maintenance in 2012. In turn, engine maintenance also showed significant improvement in relation to the previous year, with a 19% increase in ESV (Engine Shop Visits) of third party customers.

Also concerning the third party Customer segment, we note the completion of the second two-year extension of the contract for total support of the A340 aircraft of the French Air Force, taking effect between 2013 and 2015, and the renewal of the contract for total support of the fleet of four A320 and four A310 aircraft of SATA. Equally important, we highlight the fact that TAP–Maintenance and Engineering continues to assure the total maintenance and airworthiness

of TAP's fleet, at a cost which stands below the AEA average, being one of the lowest amongst the various companies that are part of this organisation.

In terms of work processes, during 2012 there was a significant evolution, in particular with respect to Research and Development projects. Apart from the implementation of the RFID project in the Engine Workshop, with major gains in terms of productivity, reliability and costs, the use of the AIRMAN system was expanded significantly, which enables in-flight monitoring and identification of any irregularities which require prompt action upon arrival, where TAP–Maintenance and Engineering is recognised as one of the users with strongest evolution. The demonstration of the feasibility of the *Mobility in Line* project was also completed, which will improve the efficiency of the activity in this area.

At the same time, the Continuous Improvement area pursued its activity, with the completion of the projects relative to *Prevention of Occupational* Accidents in the area of Engines, the Maintenance and Engineering at TAP–Maintenance and Engineering, the *Diagnosis of the TAT* (Turn Around Time) of *engines* and the *Diagnosis of the TAT of aircraft C-Checks*. These diagnoses led to the identification of actions of improvement to be developed in the future.

Concerning cooperation for development, the contacts were continued with national industry, which had been initiated at the meeting promoted last December, with a view to making the most of synergies in terms of technological capacity. Hence, together with other entities, involving universities and industry, TAP–Maintenance and Engineering submitted applications for European research and development projects. In this field, the following should be highlighted:

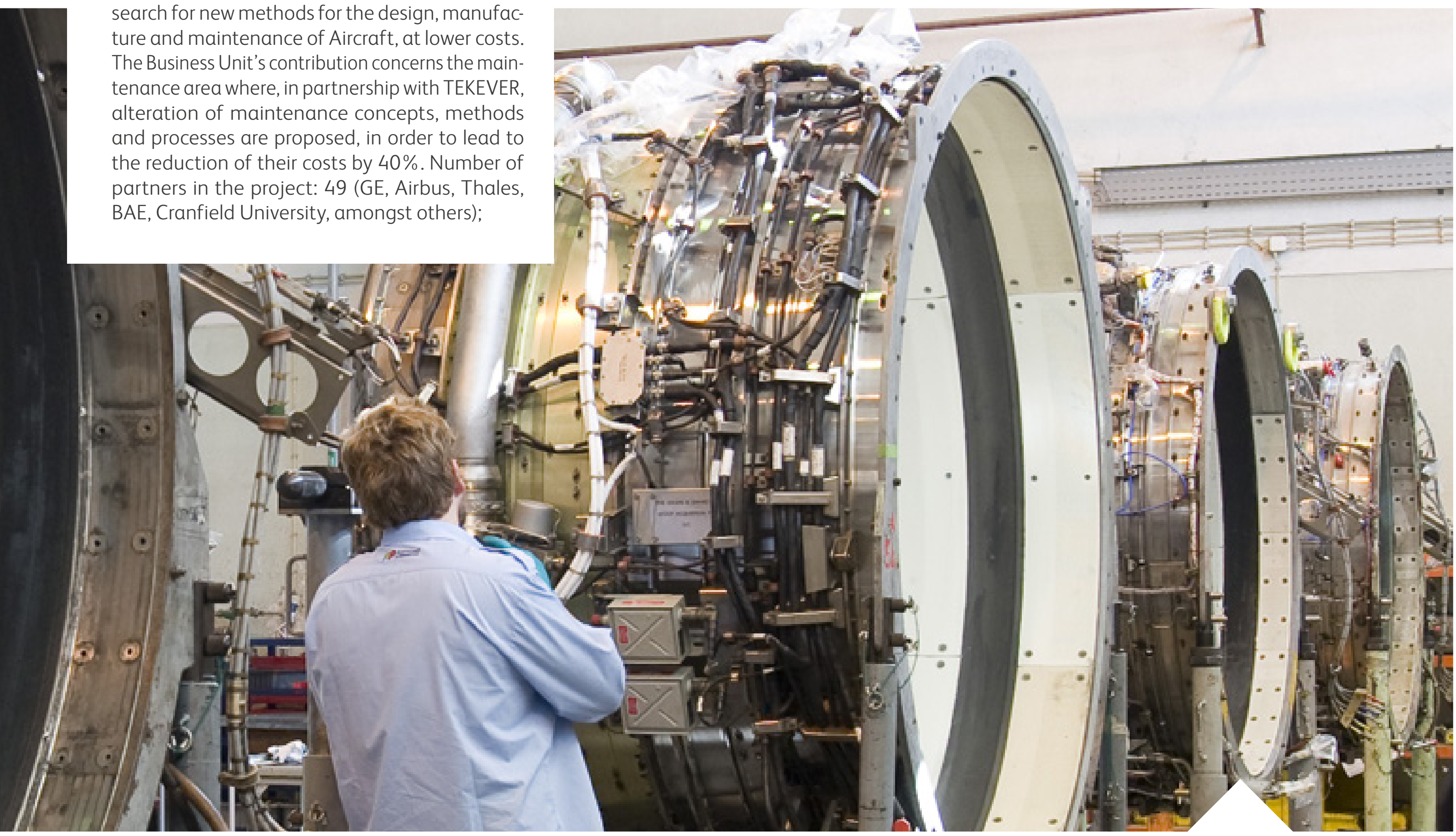
- ATOME – Airline Technologies for Operation and Maintenance Enhancement, which consists of the search for new methods for the design, manufacture and maintenance of Aircraft, at lower costs. The Business Unit's contribution concerns the maintenance area where, in partnership with TEKEVER, alteration of maintenance concepts, methods and processes are proposed, in order to lead to the reduction of their costs by 40%. Number of partners in the project: 49 (GE, Airbus, Thales, BAE, Cranfield University, amongst others);
- TRACE-IT – Development of an inspection system of the phased-array of critical aeronautical structures, especially composite materials, automated and with automatic data processing. The participation of the Business Unit in this project consists of the specification of the inspection's technical and operating requirements, as well as the identification of the areas of most interest to be inspected, and collaboration in the execution of the tests on prototypes. Partners in the project: 10 (ISQ, NTUA, Aerohelice, Hellenic, amongst others).

Considering that training is one of the key foundations on which the future of TAP–Maintenance and Engineering should be based, the *Team Management and Development* course was launched, which has been received extremely well by the participants. Also regarding training, the opportunity emerged to commemorate the 25th anniversary of the 1st course of TMA *Ab Initio*, a notable milestone, since it demonstrates the capacity to invest, continuously, in the training of its Employees, enabling ensuring a highly qualified maintenance team which contributes to the high standards of operating safety.

Finally, note should be made of the work developed in terms of Special Projects, covering Logistics Services, Industrial Infrastructure Consultancy and Engineering Consultancy, whose activity grew strongly in 2012, a result which was largely due to the consolidation of the TAAG/ TAP–Maintenance and Engineering partnership, in the area of Logistics Services. Among the various actions developed, we highlight the successful completion of the reorganisation of TAAG's warehouse in Luanda. TAAG's use of the AOG Desk (Aircraft on Ground) of TAP–Maintenance and Engineering in Lisbon was strengthened, significantly improving the availability of the aircraft for the commercial operation of this company. In addition to the Training in Management of Materials, a project of Reengineering of Logistics Processes was started in 2012. This ambitious project seeks to ensure a thorough reorganisation of the Logistics area of TAAG-DME (Maintenance and Engineering Department), with the objective of achieving operating excellence, in line with the best practices of the industry. TAP–Maintenance and Engineering, together with TAP's Professional Training Department, is currently involved in a process of implementation of a new Instruction Centre for TMAs (Aircraft Maintenance Technicians) in Luanda, with the first course for TMAs *Ab Initio* being planned to begin in the first semester of 2013, with TAP trainers. The results for 2012, in this new service area, are very encouraging, contributing to the strengthening of TAP–Maintenance and Engineering as a provider of comprehensive maintenance solutions.

## Engines
## Improvement of efficiency, productivity and organisation

The activity recorded and improvement in 2012, with the consequent increased income and respective margins. The third party Customer segment recorded an increase (approximately 26%) in the number of ESV carried out. Furthermore, the activity of support to operators, involving the deployment of teams for the execution of work outside the base, presented an important evolution, achieving a sustained level which is currently very significant.



Over the year, the process was developed for the introduction, in terms of total maintenance, for a new type of engine, the CF6-80C2, for both configurations, AIRBUS and BOEING, whose certification by the aeronautical authorities is expected during January 2013. In the meantime, the capacities for the maintenance of JT3 and RB 211 engines were deactivated, due to their obsolescence.

In order to support the peak, expected for 2013 and 2014, of removal of CFM56-5B engines arising from the inspection programme, the investment in a small stock of material was proposed and accepted, which, concomitantly with a reduction of the TAT from 60 to 30 days, enabled avoiding the hire of replacement engines, where this action is estimated to have achieved a cost reduction of around USD 4 million.

With the support of the area of Continuous Improvement Projects, the pilot *TAT Diagnosis* was developed, which is a transversal analysis of the organisation with a view to improved efficiency, productivity and sustainable reduction of TAT. This analysis gave rise to a series of 10 improvement actions, to be developed by the area of Engines and 3 pilot projects to be developed and coordinated by the Continuous Improvement team.

The computer system supporting the activity of Engines (GENESIS), designed and implemented between 1985 and 1990, is currently under a reengineering process, with its operationalisation being expected in the 1st quarter of 2013. This system includes the control of engines with regard to their constitution, configuration management, limitations of the period of life of the parts and control of the entire workshop circuit. Concerning engine repair, apart from the technical aspect, it also supports the labour accounting functions and includes invoicing, validating items with replacement and/or repair costs, and contains the necessary data for planning and production. Initially designed for P&W and RR engines, it subsequently required adaptation to more recent CFM and GE engines. For a variety of reasons, amongst which the discontinuation of the programming platform which supported this system, it was evidently necessary to progress to GENESIS V2, currently at the final testing stage. The new system not only enables greater flexibility in the management of the different existing concepts among manufacturers, but also enhanced data recording capacity, as well as better indexing of actions/records to the users.

Regarding the improvement of environmental performance in the procedural area, note should be made of the change of the sludge open loop, derived from the only shot peening equipment available in the Mechanical Treatment Sector for closed circuit, through restricted centrifugal treatment (*Trowal ZM03-FL*). Also, in the same context, the Engine workshop increased in repair capacity with the acquisition of new peening equipment linked in parallel to this centrifugal treatment. This centrifugal treatment ends with the sending of the process waters to the sewer and, at the same time, recycles the water consumed in the process, thus reducing its consumption.

## Components
### Increased in-house component repair capacity

In 2012, the development of the in-house component repair capacity was continued, with the installation and adaptation of test-beds and tools for a variety of equipment of the A320 and A330 fleets, thus leading to lower repair costs, as well as the expansion of the technical capacity to support TAP and third party Customer fleets.

The set of equipment subject to analysis and development was significantly diversified. Capacity was created to repair drag stays, a mechanical component of the landing gear of A330/A340 fleets and the test-beds were converted for engine units, enabling gaining capacity to repair and test FMU / HMU units (Fuel Metering Unit and Hydro Mechanical Unit) equipping CF6-80E and PW4000 engines. In terms of avionics, note should be made of the creation of capacity to repair the Antenna Coupler HF units (A320/A330), as well as the development of the internal capacity to repair the latest generation Smoke Detectors. Finally, we highlight the adaptation of the workshop for FANS B+ components, and the completion of the first overhaul of the APIC APU (Auxiliary Power Unit).

The contract of support to the equipment to test ATEC60 electronic units was renegotiated, and now includes next generation control units. Test-Beds for In-Flight Entertainment system units of the A330/A340 (IFE 2000e) fleets were also obtained, under leasing FOC (Free of Charge).

As a result of the introduction of the EASA-FAA bilateral agreement, it was found to be necessary to proceed with the adaptation of various internal processes. Hence, this implied continuation of the process of analysis of digitalisation and custody of archives of the Workshop Planning and, under the development of systems, aimed at improved control of the SBs (Service Bulletins) applicable for each unit, the launch of the SBSystem – COMET interface.

In Component Maintenance, 2012 was also a year of continuity of the development and implementation of the Continuous Improvement Projects, aimed at achieving improved productivity levels and the consequent reduction of the periods of delivery of the units. The *Jetway Planning and Improvement of the Wheels Workshop* projects evolved with alterations and improvements to the workshops as well as acquisitions of new equipment, with both projects being maintained in 2013. Following a continuous improvement pilot project, the IT project *Planning of Priorities* was started, which is intended to be a more efficient means of planning for the units in the workshop. The Components workshop also participated, with other areas, in other projects which are transversal to TAP–Maintenance and Engineering, namely the *Recovery of Consumption Material for Storage and Invoicing*.

## Aircraft
### Improved cabin interior of TAP's long-haul fleet

The Aircraft Maintenance area ensured the total maintenance of TAP's fleet, carrying out a total of 331 inspections, 5% more than in the previous year, where this increase essentially took place in terms of small inspections. This performance fundamentally resulted from the increased number of hours flown by TAP's fleet, leading to an increase in the number of small inspections, 21 more than in 2011. In contrast, there was a reduction of major inspections in relation to the previous year, from 29 to 24, due to the longer period between major inspections of the maintenance programme. Due to limitations of the physical capacity of the hangars, three major A330 inspections of TAP's fleet were transferred to TAP–Maintenance and Engineering Brazil.

Regarding technical reliability operational clearance, the total figure for the fleets stood at 98.58 %, slightly below the figure for 2011 (98.88%), essentially due to the influence of the summer period during which the significant increase of the number of flights, combined with limitations of productive human resources, created major difficulties in the resolution of anomalies, leading to the consequent reduction of technical reliability clearance.

Concerning the third party Customer segment, the aircraft area recorded a heavy increase in major inspections, currently corresponding to a share of 44% compared to the 28% recorded in 2011, with the aircraft maintenance of operators such as SATA, XL, Orbest having been ensured, and, in particular 10 inspections to the aircraft of the operator Finnair.

The maintenance of the two A340 of the FAF (French Air Force) continued to be assured in its entirety, with a clearance reliability of 99.52%, which was, once again, highly praised by the Customer.

One of the strategic objectives of TAP–Maintenance and Engineering is to continue to represent the most attractive maintenance option for its internal Customer, the operator TAP. In this regard, several projects were developed, with the following being of particular interest:

- *Retrofit* of the cabin of the A340, in order to install IFE (In-Flight Entertainment) in the entire aircraft (made to two A340).
- Modification of the aircraft of TAP's fleet so as to accommodate the transport of bottles of oxygen inside the passenger cabin, thus ensuring the service of $O_2$ supply to passengers, in all flights where this service is requested.

Various actions were also developed aimed at increasing productivity, through alteration of processes and procedures (A320 Visual Management, provision of materials close to the aircraft, amongst others) and improved working conditions in hangars and workshops (systematic application of 5S, floor covering of Hangar 5 and workshops, and other measures).


Under the cooperation projects, a team of maintenance technicians were deployed to support two Airbus aircraft of the TAP fleet, whose inspections were carried out in the Brazil unit.

Under the agreement of assistance to TAAG, the consultancy service in the area of Planning and Control of the Maintenance Programme of this operator's fleet was successfully completed, with the line maintenance assistance also having been continued at the Lisbon stations.

Finally, with the objective of preparing for the maintenance of the future A350 fleet, one team member of Aircraft Maintenance Engineering has been kept on, integrated in the Airbus Airline Office, working with this manufacturer's team, on the development of this aircraft.

## Human Resources

### Team management and development

In general terms, during 2012, 815 training sessions were carried out, covering a total of 108,695 hours, in classrooms and on-the-job situations, covering 10,539 trainees, corresponding to a 97% level of opportunity. In relation to the previous year, this training programme recorded an additional 32,920 training hours (+43%) and an increase of 1,620 trainees involved.

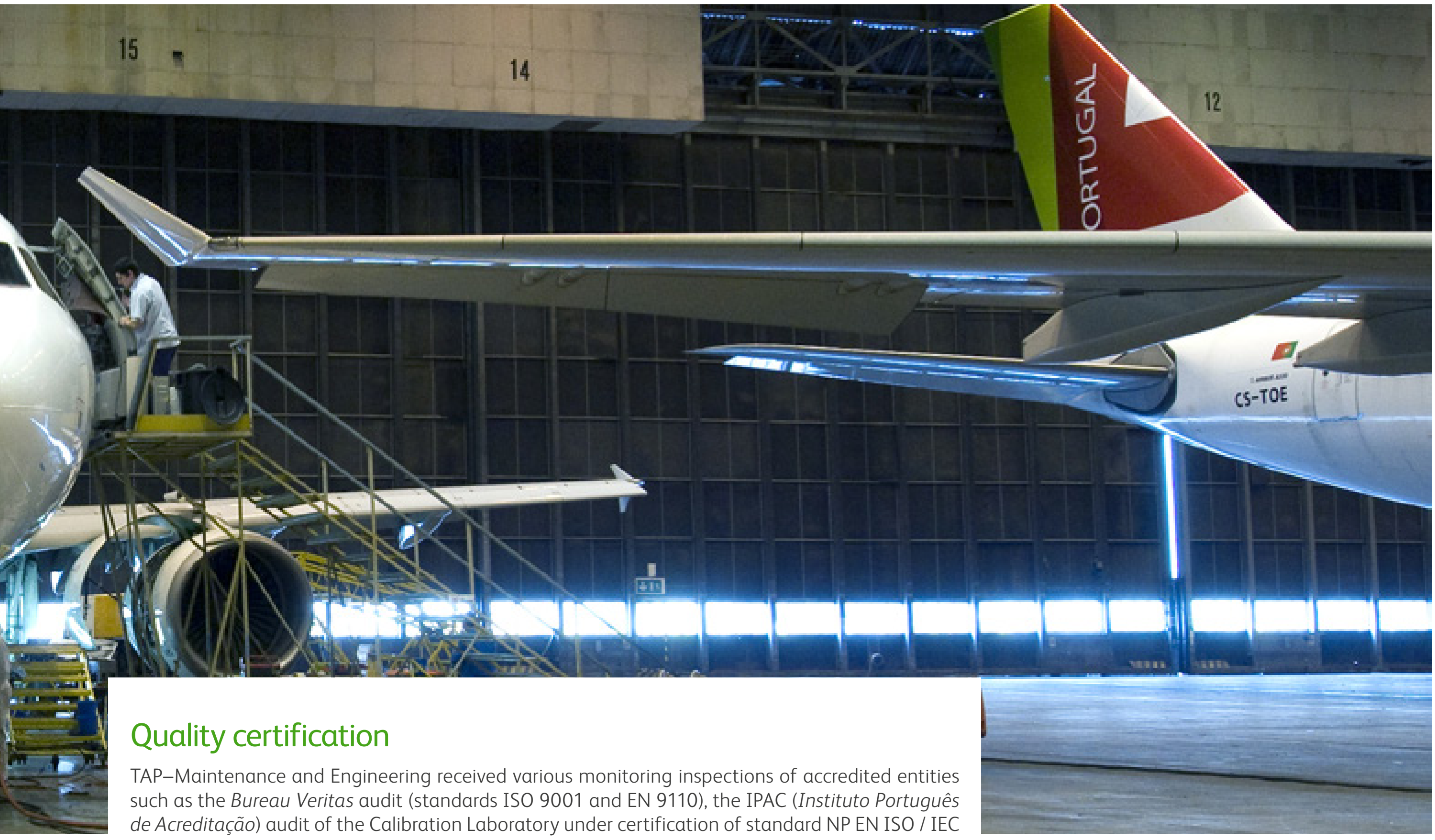
Amongst all the training actions, we highlight the Team Management and Development course, aimed at developing the team leaders of TAP–Maintenance and Engineering. This training course, designed to meet the specific needs of its targeted population, included a broad range of materials considered crucial, with the collaboration of a group of internal trainers, representing an important milestone in the training and development of the skills of the 1st and 2nd line leadership. In this way, knowledge was provided of a general character in various areas, in order to enable the follow-up, clarification, encouragement and development of its employees, thus contributing to the achievement of the organisation's objectives. The interest raised by the different materials addressed, as well as the results of the assessment made by the trainees, determined the continuity of this initiative.

The average number of staff in 2012 was 1,917 employees, 1% below the level of the previous year. As at 31 December 2012, this figure stood at 1,908, corresponding to 9 fewer employees than at the end of 2011. During the year, 89 employees left the Company and 78 were recruited, with 18 employees having been made permanent staff members (this figure does not include direct entries to the permanent staff).

### Occupational accident Prevention Plan

In view of the evolution recorded over the last 5 years in relation to occupational accidents, as well as the number of days of absence associated to occupational accidents, TAP–Maintenance and Engineering implemented an occupational accident prevention plan which is supported by the Health Care Unit of the TAP Group (UCS). This plan complements the various actions developed on this matter in terms of prevention, identifying possible failings or omissions and correcting behaviour.

Particular note should be made of the training ministered to all professionals as of their recruitment, the appraisal of existing risks in workplaces, and the adoption of measures aimed at their elimination or mitigation, along with the provision of the necessary protective equipment for their work activity. Apart from seeking to reduce occupational accident rates and personal damage, this plan aims to boost the use of collective and individual protection equipment (CPE and IPE), notify the employees as to their need to comply with their legal obligations, and also make them accountable for the failure to use, or incorrect use, of the safety and work tools and equipment provided by TAP. The plan is developed in two areas, namely the identification of situations likely to lead to accidents, through visits to workplaces, and the actions to be carried out after their occurrence.




## Quality certification

TAP–Maintenance and Engineering received various monitoring inspections of accredited entities such as the *Bureau Veritas* audit (standards ISO 9001 and EN 9110), the IPAC (*Instituto Português de Acreditação*) audit of the Calibration Laboratory under certification of standard NP EN ISO / IEC 17025:2005 and the IOSA audit (IATA Operational Safety Audit).

In November, the usual annual quality audit relative to the 14 CFR Part 145 certification of the FAA (Federal Aviation Administration) took place. This audit is essential for the annual renewal of the certificate of approval as an FAA Repair Station, which the Business Unit has held since 7 July 1983. Apart from being a prior condition for carrying out maintenance work for American operators, this certification is also a motive of prestige for TAP–Maintenance and Engineering in the MRO market. Under the implementation of the EU-US Bilateral Agreement, this audit was, this year for the first time, carried out by INAC, the authority which will henceforth undertake the supervision of this certification.

Likewise, as a result of the implementation of the EU-Canada Bilateral Agreement, TAP–Maintenance and Engineering prepared the necessary procedures for the respective certification audit which will also be carried out by INAC as of this year. During 2012, other quality audits were made by the aviation authorities and their customer operators, essential for the maintenance of various approvals of the Business Unit's activity.

In 2013, the manuals, regulations and procedures of TAP–Maintenance and Engineering affected by the implementation of the new EASA Air Ops Implementing Rule (EU Regulation 965/2012) will begin to be altered, namely those with greatest impact on EASA Part M. Likewise, there will be continued study of the structural alterations to be implemented for the introduction of the Management Systems, pursuant to EASA NPA 2013-01.

### National and international certifications

| | |
|---|---|
| Portugal | IPAC (*Inst. Port. de Acreditação*): NP EN ISO / IEC 17025:2005 |
| Portugal / UE | INAC / EASA: EASA Part-145<br>INAC / EASA: EASA Part-M Subpart G (CAMO) and Subpart I<br>INAC / EASA: EASA Part-147 |
| France | French Air Force / DGA: AQAP 2120 / ISO 9001:2008 |
| EU | EASA: EASA Part-21 Subpart J (DOA) |
| USA | FAA: 14 CFR Part 145 |
| International | IOSA: IATA<br>Bureau Veritas: NP EN ISO 9001:2008 / EN 9110:2005 |

# Information systems and technological development

In Commercial Aviation, initiatives with a view to introducing gradual improvements in business processes, although essential, are not sufficient to guarantee the survival of companies, with airline companies today requiring swift and profound changes in operating processes, in order to ensure that they remain in business

The required focus to improve the performance of the business must reconsider the way in which it is viewed and structured, analysing not only its divisions or functions but, fundamentally, its key products and processes. Substantial improvements in performance levels may only be obtained through their redesign and total integration, using, in this process, all the technologies and organisational resources available. Radical change requires, in this context, powerful technological tools – to facilitate the optimisation and integration of work processes – that should, nonetheless, form a flexible and integrated infrastructure, which is a difficult task due to the speed of change inherent to the business. It is within this framework that TAP maintains the pursuit of a systems development and integration strategic plan, whose most visible aspect is the definition of a system architecture, enabling the coherent and consistent growth of its information systems and technologies infrastructure, without compromising the speed imposed by business transformations. TAP has developed, as a result of this plan, a set of initiatives related to the processes of information integration and definition of the architecture of services and integration of the application presentation layers. Some technological infrastructures were also improved and extended, fundamental for the maintenance of the System Architecture and considered strategic assets, with emphasis on the service integration structure (TAP Integration Platform), the extension of the corporate Data Warehouse and the definition of the Operational Data Store for the main information entities of the Company.

## The involvement of Employees, active part in processes improvement

In this way, the Employee involvement strategy was continued, with the latter being considered an active part in the process of decentralisation and improvement of the Human Resources management processes. This strategy, in addition to the increased efficiency, resulting from the training of Employees to work with new technologies, also allows the Company to pursue the objective of improving its relationship with the latter. The services provided as self-service within FlySTAFF (payment of tickets with credit card and access to ticketing facilities via mobile – Tablets and Smartphones) are good examples. Investing in the improvement of Employee management and development processes, the implementation of strategic tools for the identification and management of human resources and capital was continued, with emphasis on the Individualised Career Management, Technical Curriculum Management, Performance Management per Function and Competences and Benefits Management systems. The application of these tools enables the recognition in advance of the Employee competences and functional requirements to be developed, in order to fulfil the missions and challenges employees are faced with today.

## Ability to act proactively according to the profile of the Passenger

TAP's loyalty programme, which started about 20 years ago, has acquired characteristics that classify it as one of the Industry's leaders, frequently nominated and many times awarded at international level, establishing itself as one of the pillars of TAP's relationship strategy with its Customers. With the objective of consolidating this strategy, and promoting the adaptation to new realities, TAP has adopted a new loyalty platform that, providing support to business processes, also allows for integration with other solutions of the Group, and consequently the availability of information and functionalities in different systems and channels. This evolution reinforced the analytical capacity within this scope, enabling a better knowledge not only of passenger profiles, evaluating their position within a social-demographic perspective, but also of their habits as frequent passengers, and their responses to marketing campaigns. This analytical capacity is a competitive advantage that allows us to forecast the future travel needs of each passenger, and naturally, to act proactively according to his/her profile as a consumer.

## New communication technologies in messages between airlines

The transmission of operational messages among airlines plays a paramount role in the commercial aviation industry, particularly in operational areas. Over the years, the need to integrate more entities, such as Handling Agents or other technologies, into this huge message exchange system, has driven companies to develop IT systems which are complex, costly and difficult to maintain. In 2012 TAP developed an innovative message exchange system based on new system development technologies, less costly and easier to maintain, which allows integrating new communication technologies such as Internet-based ones. This system (B_BOX) is today one of the components of the TAP Integration Platform, a central structure in the integration strategy and architecture of services-oriented systems.

# Most relevant developments in progress in the Company

## TAP, S.A.

### Air Transport

- **Common IT Platform (CITP)** – Implementation of new functionalities and new modules, aimed at the continuous improvement of processes supported by this applicational platform, in both areas, Reservations and Departure Control System. Within the scope of STAR Alliance, participation in several initiatives, namely in the pilot testing of new self-service services at the airport;
- **PROS** (Revenue Management) – Start of the implementation of the revenue management programme in an O&D (origin-destination) logic. Status of the project: Phase I-concluded; Phase II-start in the 1st Half of 2013; Phase III-start in 2012, conclusion in 2014;
- **New Loyalty system** – Implementation of the CRANE system for frequent passengers (Victoria) and companies (Corporate), integrated with the other systems that provide support to business processes, ensuring the availability of loyalty services in multiple channels.
- **Smile** (Management of complaints, suggestions and praises from passengers) – Reformulation of the system, implementing a consolidated management of customers in all representative offices, an improved integration with financial processes and a new Business Intelligence module. Implemented in Portugal, Brazil and Spain;
- **Electronic Flight Bag (EFB)** – With its operationalisation on medium-haul flights, conclusion of the implementation of this general-purpose computing platform, which intends to reduce or substitute paper-based information, used by crews on flights;
- **Safety Management System** – Resulting from the implementation of SMS in the Company, implementation of a collaborative portal with Safety information and provision of dashboards relative to flight data monitoring containing indicators on events occurred during the flight.

### TAP–Maintenance and Engineering

Developments of the integrated information systems platform – COSMOS

- **POLARIS**
  - **ICIP** (Interior Cabin Inspection Program) – Management of TAP Fleet inspections of items visible to passengers using the mobile (tablet) component in Line, for identification of problems in mentioned items.
  - **SLIP Technical Log module** – Management of information related to the Technical Log (anomalies and malfunctions detected during the operation, as well as the maintenance of the aircraft carried out during the operation).
  - **HIL** (Hold Item List) **module** – Information management related with HILs, respective connection to the request for material and management of supply forecast.
- **URSA** (Unified Repair and Supplier Acknowledgment) – Follow up of the orders for Service Acquisition Request, Immediate Consumption and for Fixed Assets and for Restocking and Complaints Management;
- **MIRA** Phase I (Maintenance Invoicing and Revenue Accounting) – Modernisation and updating of the invoicing process based on a new algorithm, and with automatic generation of chronological and sequential numbering of accounting documents;
- **LYNCE** (Service Handover System in Line Maintenance and Control of Work Orders) – Record of service handover between shifts, tasks performed and pending and record of maintenance actions, through the electronic format of the Work Order document.
- **CASTOR v2** (Calibrations Tracking and Operational Control System) – Management of interventions in TAP and Third Party aircraft. Elaboration of budgets and external site for requesting budgets;
- **COMET** (Components Maintenance and Engineering System) – Priority Planning Module for the components area;
- **DENEB** (Document Network-based Management Application) – Continuation of the development of modules and interfaces;
- **GALAXY** (Business Intelligence System for Maintenance and Engineering) – Start of construction of a Business Intelligence platform (GALAXI), aimed at creating an analytical repository covering all the business areas of TAP–Maintenance and Engineering, as well as providing reports, indicators and dashboards supporting decision-making. This platform will permit the alignment of concepts aimed at the construction of an integrated business vision.

Other developments

- Management and automation of the entire Evaluation of Performance and Potential process for Maintenance and Engineering using interactive documents;
- Implementation of the TAP/MTO Trainee Management module;
- Interface for collecting data on professional experience and integration in the Authorised Technicians Management central IT system.

### TAP Serviços

- **FlySTAFF** – Automation of the ticket reservation and emission processes for staff, also enabling the payment of tickets via credit card and access to the application via mobile devices (tablets, IOS and Android);
- **Central IT system** (HR) – Support to the identification and development of human resources and capital through the cockpit implementation of individualised career management, technical curriculum, performance management per function and start of the cockpit implementation of competences management and benefits;
- **Jetfuel** – Development and implementation of a jet fuel management system, within the central IT system, integrating the operational and financial information, automating and validating invoices and anticipating the closure of accounts by calculating an estimate value;
- **Portal of Caterers** – Automation and optimisation of caterers' management processes;
- **ARAMIS** (Airline Revenue Accounting Management Information System) – Conclusion of the implementation of the technological platform that enables the reception and sending of clearing invoicing through the IATA SIS (Simplified Interline Settlement), guaranteeing the distribution and collection of information by ARAMIS;
- **Budget** – Reformulation of the tool, aimed at improving the support provided to the budgetary process;
- **CargoSpot** – Implementation of the cargo traffic revenue model, which is expected to be concluded in June 2013.

## SPDH–Serviços Portugueses Handling, S.A.

- **New Check In system** – Start of the implementation of the AMADEUS Departure Control System to assist passengers of other airline flights assisted by SPdH, which is expected to become operational in March 2013.

## UCS–Cuidados Integrados de Saúde, S.A.

- **Medicine One** – Implementation of an integrated support system for clinical and administrative processes of UCS;
- **Prevent Project** – Implementation of IT solution within the scope of the project for the control of alcohol, drugs and tobacco consumption of TAP Group Employees.

## PORTUGÁLIA–Companhia Portuguesa de Transportes Aéreos, S.A.

- **Amos** – Implementation of the integrated MRO (Maintenance, Repair & Overhaul) system, including support to aircraft maintenance, line maintenance, components maintenance control, engineering, planning and logistics processes;
- **Central IT system** (HR) – Development of the functionalities of staff management and payroll, for PGA, which is expected to be implemented in January 2013.

# Human Resources

The year of 2012 consolidated the Human Resources (HR) model, composed of three major areas: On the one hand, a transactional area which includes Staff Administration and Remunerations, the Travel Office and HR Management Information. This area, by adopting progressive automation, presents today faster response times and improved service quality, at a lower cost; on the other hand, the transformational area of Human Resources, which includes Talent Management and Professional Training, whose mission consists in identifying, developing, training and supporting people, with a view to creating value for the business. Lastly, and closely related to these two areas of Human Resources – the transactional and transformational –, the area that is designated as Human Resources in Business, a space of direct intervention of the HR Directors of the Company's different Business Units – the HR Business Partners. This model is based on the optimisation of resources, innovation, the use of synergies of scale in Human Resource Management and in the search for coherence and continuity in practices.

With the objective of creating commitment, contribution and development, investing in people and in the strengthening of their technical and social competences, a series of practices and management processes were continued. It is important to mention the investment in leadership development, with the implementation of the programme *Leadership for Transformation*, in partnership with one of the five best worldwide business schools, with a view to strengthening leadership competences based on analytical, relational and decision-making skills, reinforcing the permanent link between the two critical roles: *Managers and Leaders of People*. In addition, open to all Employees, the cycle of conferences aimed to expose all the employees to unusual themes within their context of work, fomenting the out-of-the-box spirit, motivation and resilience. From the viewpoint of Performance Management, within TAP Group, the alignment and consolidation of the respective process in computerised form took place, basing the system on competences and on the fulfilment of objectives defined and agreed with the employees. Performance Management is essential for fostering communication, competitiveness, efficiency, success, transparency and continuous improvement, and should be perceived as a means to, with clarity and objectivity, encourage people, increase their impact and guarantee alignment with the Company's strategic objectives. TAP has compensation and benefit procedures, based on benchmarking practices, in relation to the market and encourages management practices and processes that contribute to the satisfaction and commitment of employees to achieve the Company's objectives. During 2012, the Technical Curriculum was developed and implemented in the central IT system, a tool that allows making available and integrating, in a dynamic manner, data relative to Professional Experience, Competences, Language Skills, Training, Qualifications, Certifications, Performance Management, Remuneration and Relevant Facts.

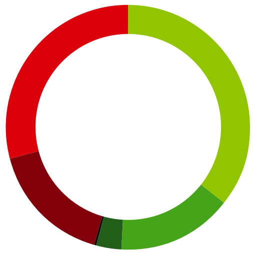
*Employer Branding* – Within this scope, practices on the positioning of TAP, as an employer, are promoted, guaranteeing that the Company creates an identity that is appealing, differentiated, known, respected and considered as a reference to work for (both internally and externally), involving the coordination of various initiatives, namely:

i) The Recognise Programme (*Programa Reconhecer*), aimed at the internal acknowledgement of employees' exceptional actions, intends to contribute to the creation of the TAP personality, generating a multiplier effect relative to what positively differentiates the organisation and makes it more efficient, more available to the Customer and more competitive in the market. The Company thus demonstrates that it is attentive and values its Employees, showing that all can make a difference.

ii) The Congeniality Programme (*Programa Simpatia*) symbolises the commitment to quality of the TAP brand, seeking to distinguish those that most stand out in its promotion. By distinguishing politeness, courtesy and professionalism, passengers help the Company improve the quality of service. The main objective of the Congeniality Programme is to involve the passengers in distinguishing those employees whose attitude of special congeniality, courtesy and attention to service is noteworthy. TAP thus encourages its Employees to perform better, based on the most favourable attitude to obtain results: enthusiasm, creativity, attention to external and internal customers, determination, flexibility and initiative in resolving problems through combined efforts.

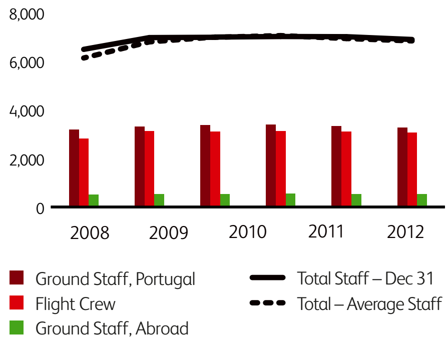
iii) *Welcoming, Integration and Monitoring*: It is fundamental to communicate, engage and empower. TAP, through its attraction policy, invests strategically in recruitment, and believes that the quality of Welcoming and Integration is crucial for its adaptation process, level of performance, adoption of the right culture, and encouragement of its enthusiasm, motivation and confidence, maximising the levels of retention of its employees. In 2012, within the scope of the Transversal Welcoming Plan of TAP Group, the action *Passion for Business* was made available, which focuses on the aeronautical and business culture, with a view to promoting its complementarity and systemic synchronisation. By welcoming, in a personalised manner, new employees, through the voice of those who live the aviation business and offer their experience and passion, TAP has the power to inspire people and make them feel more fulfilled with their work. At the same time, it contributes to the creation of the TAP personality, cementing the values/attitudes that the organisation values and consolidating the cultural fit.

## Employees of TAP Group companies
on 31 December (%)



54.7 % TAP, S.A.
35.8 % Air Transport
6.6 % Flight Deck Crew
17.9 % Cabin Crew
11.3 % Ground Staff
15.3 % Maintenance and Engineering
3.4 % TAP Serviços
0.2 % Other Staff of TAP, S.A.
16.2 % SPdH, S.A.
29.1 % Remaining Companies

## Active Staff on 31 December
Number of Employees of TAP, S.A.




# TAP Group Staff

On 31 December 2012, TAP Group (TAP, S.A. and other participated companies) had 12,506 employees, 111 more than on 31 December 2011. This fact was essentially due to increases in staff members of the associated company SPdH–Serviços Portugueses de Handling, as well as of staff members in the other participated companies, resulting in a reduction in total human resources of the company TAP, S.A.. The most significant changes were seen in TAP S.A.'s Air Transport, TAP Serviços and Maintenance and Engineering Business Units, which had staff reductions of 64, 22 and 9 people, respectively;

Therefore, in TAP, S.A.'s total staff (6,837 employees), there was a decline in Cabin Crew (-41 Flight Assistants and Stewards) and Ground Staff (-23 Employees) and no change in Flight Deck Crew. The staff of the other companies (3,638 employees) increased by 85 employees, largely due to the increases in the companies TAP– Maintenance and Engineering Brazil, LFP and Portugália of 69, 29 and 3 Employees, respectively. There were also reductions in Megasis (-7), Caterigpor (-5) and UCS (-4). There was, in turn, an increase of 123 employees in the company SPdH–Serviços Portugueses de Handling.

By the end of the year, TAP, S.A. accounted for 54.7% of the Group's total number of employees; SPdH–Serviços Portugueses de Handling employed 16.2% and the Other Companies 29.1%. The average number of active staff of TAP, S.A. was 6,895 employees, of which 543 were located abroad, which is lower than that for 2011 by 22 employees.

## TAP Group Staff
Situation on 31 December 2012

| | Employees | % Total | Variation | |
|---|---|---|---|---|
| Ground Staff, Portugal | 901 | 7.2% | -2.5% | -23 |
| Ground Staff, Abroad | 520 | 4.2% | 0.0% | 0 |
| Total Air Transport – Ground Staff | 1,421 | 11.4% | -1.6% | -23 |
| Cabin Crew | 2,236 | 17.9% | -1.8% | -41 |
| Flight Deck Crew | 822 | 6.6% | 0.0% | 0 |
| Total Air Transport Flight Crew | 3,058 | 24.5% | -1.3% | -41 |
| Air Transport Staff | 4,479 | 35.8% | -1.4% | -64 |
| Maintenance and Engineering Portugal Staff* | 1,908 | 15.3% | -0.5% | -9 |
| TAP Serviços Staff | 419 | 3.4% | -5.0% | -22 |
| Other Staff of TAP, S.A. | 31 | 0.2% | -6.1% | -2 |
| Total TAP, S.A.** | 6,837 | 54.7% | -1.4% | -97 |
| Total SPdH, S.A.*** | 2,031 | 16.2% | 6.4% | 123 |
| Remaining Companies | 3,638 | 29.1% | 2.4% | 85 |
| Total TAP, SGPS, S.A. | 12,506 | 100.0% | 0.9% | 111 |

(*) Includes staff Abroad, of a total of 26 employees, in 2012 and 2011.
(**) Not including non-placed and non-active staff
(***) Associated Company

## Training

TAP has invested in Training since its foundation, and has a Professional Training Centre in a building specifically for this purpose, comprising fully equipped Training Classrooms, Workshops, Laboratories, Technical Training classrooms, a Distance Training Classroom (e-Learning), Mock-ups and Flight Simulators. Due to the specificity of its corporate reality, the Company favours the use of internal Trainers.

Training at TAP can take place along two different lines:

*Initial Training:* with the objective of preparing new Employees for their integration into the Company and workplace, aimed at a correct and suitable job performance;

*Continuous Training:* with the objective of maintaining the proficiency of its Employees, aimed at ensuring the quality and safety of the service performed;

At TAP, the Training process includes both Specific Technical Training (initial and continuous) and Transversal Training. The first aspect is directed at the performance of duties in each Area of the Company, corresponding to any needs encountered as well as compliance with national and international rules for Commercial Aviation; in the second aspect, the actions are carefully chosen in order that they might also be of benefit to the Employee and the Company. The intensive investment in e-learning training has enabled the Company to be classified externally as a success case, due to the quality and diversity of the contents and tools developed, as well as the multidisciplinary character of the team of specialists, with an extensive portfolio of products being provided through this means, mostly on technical training areas.

## TAP Group volume of training

| | TAP, S.A. | | | TAP Group | | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | Var. | 2011 | 2012 | Var. |
| Training Actions | 2,825 | 2,864 | 1.4% | 5,236 | 5,753 | 9.9% |
| Participants | 18,078 | 21,076 | 16.6% | 35,848 | 38,171 | 6.5% |
| Training Hours 000 man-hours | 297.6 | 324.0 | 8.9% | 800.3 | 770.2 | -3.8% |

Similarly to the trend in the Industry, TAP holds its financial investments in the following areas: Catering, Information Systems, Airport Shops and In-Flight Sales, Health-Care Services, Aeronautical Maintenance, Ground Handling Services

# Other activities of TAP Group

With regards to the remaining shareholdings held by TAP, SGPS, S.A., it is important to mention the development of activity in areas related to the main businesses of the Group – Air Transport and Maintenance and Engineering – which work through their services to enable a better control of the service chain, as well as the increase in competitive advantages promoted through the effects of synergies. The selection criteria for these investments was based on the assumption that the development of the respective activities contributes to the strengthening of the Group's main businesses, through returns on the capital invested, held by TAP, directly or indirectly, wholly or only as part of the share capital of that group of companies.

With the fundamental objective of supervising, in a direct and participatory manner, the management of some of its subsidiaries, developing complementary or collateral activities of its main business of air transport and maintenance, TAP also has a company which functions as a holding company, TAPGER–Sociedade de Gestão e Serviços, S.A..

Similarly to the trend in the Industry, TAP holds its financial investments in the following areas: Catering, Information Systems, Airport Shops and In-Flight Sales, Health-Care Services, Aeronautical Maintenance and Ground Handling Services.

During 2012, in terms of the shareholdings held by TAP Group, 50.1% of the share capital of the ground handling company SPdH–Serviços Portugueses de Handling, S.A. was acquired by a national Group, with TAP remaining in possession of 49.9% of the share capital.

### Other TAP Group shareholdings, on 31 December 2012
EUR thousand

| | | Stake of TAP (%) | Amount of TAP Share Capital | Net Income |
|---|---|---|---|---|
| Portugália, S.A. | | 100 | 15,000.0 | 10,327 |
| Aeropar Participações, S.A. (Brazil) | | 100 | 0.2 | (24,106) |
| | TAP–Maintenance and Engineering Brazil, S.A. | 98.64 | 207,057.7 | (50,362) |
| | | | | |
| TAPGER–Sociedade de Gestão e Serviços, S.A. | | 100 | 2,500.0 | 5,146 |
| Catering | Cateringpor–Catering de Portugal, S.A. | 51 | 1,785.0 | 1,546 |
| Airport Shops and In-Flight Sales | LFP–Lojas Francas de Portugal, S.A. | 51 | 280.5 | 9,431 |
| Information Systems | Megasis–Soc. de Serv. e Eng. Inf., S.A. | 100 | 500.0 | 78 |
| Health-Care Services | UCS–Cuidados Integrados de Saúde, S.A. | 100 | 500.0 | 9 |

# PORTUGÁLIA–Companhia Portuguesa de Transportes Aéreos, S.A.

### General Meeting Committee

Chairman
Alda Maria dos Santos Pato

Secretary
José Carlos Magalhães Ferreira

### Board of Directors

Chairman
Fernando Abs da Cruz Souza Pinto

Chief Executive Officer
Luiz Filipe Plácido Lapa

Member
Manoel José Fontes Torres

Member
Michael Anthony Conolly

Member
Fernando Jorge Alves Sobral

### Audit Committee

Chairman
Luís Miguel Tavares de Almeida Costa

Member
Maria de Fátima Castanheira Cortês Damásio Geada

Member
Maria Paula Rodrigues da Costa

### Chartered Accountant

PricewaterhouseCoopers & Associados, SROC, Lda.

### Registered Office

Aeroporto de Lisboa
Rua C – Edifício 70
1749-078 LISBOA
Telef. +351 21 842 5500
Fax +351 21 842 5625
Email: pga@pga.pt

Share Capital EUR 15,000,000

Taxpayer 502 030 879

### Main Activity

Air Transport.

The year of 2012 was marked by the privatisation process of the TAP Group, an operation which ended up not taking place although, according to information supplied by the Government, the intention of still going through with the operation during the financial adjustment process of the Country, i.e. until 2014, remains.

During the year, the substitution of the maintenance management software was concluded successfully, with the launch of production in August representing the culmination of a process that lasted about a year, and was preceded by a period of contractual selection and negotiation that began in 2010. The implementation of the Safety Management System (SMS), initiated in 2011, expanded significantly in 2012. As an Operational Safety management tool, which involves a systematic, precise and proactive risk (mitigation and monitoring) management process, the SMS allows the definition of policies, objectives and indicators, the planning of activities and the measurement of Safety performance.

In terms of TAP Group, the contribution of the Company towards global results is a recognition, once again, of the value of the company for the Group. In the interim, the consolidation of the business model resulting from the restructuring undertaken in July 2007 was continued: flight capacity provider of the TAP Group, under a Wet Lease contract with the company Transportes Aéreos Portugueses, S.A.. In 2007, the company was integrated into the TAP Group, having changed its core business and continued, in 2012, with the exploitation of Group synergies and the improvement of the functional matrices identified.

PGA maintained its operation with the same fleet – 6 Fokker 100 and 8 Embraer 145 –, with capacities of 97 and 49 passengers, respectively. The average Flight Hours per day remained above that registered by analogous European companies operating the same type of equipment. Within the scope of the safety of the operation, although there was an increase in the number of events reported in 2012, the level of risk fell, indicating an enhanced Communication Culture and a Learning Culture – acquired by the analysis of the reporting of events and the preventive actions taken –, and an incentive effect in the reporting of events, which is a central and primary perspective of the policy of the Safety Management System being implemented.

In 2012, a significant part of the effort of the Human Resources (HR) team was focused on the migration of their IT system to the central IT system. This project was considered a priority, since it allows for the optimisation of the management and allocation of resources to the administrative processes of the area, and provides the company with a strategic tool for the development of the Organisation's human potential, concentrating in a single tool all the processes and databases currently dispersed over several systems in the company. PGA thus began to benefit from a series of tools that, in addition to providing new services to Employees – FlySTAFF, Technical Curriculum and Portal, among others –, streamline processes, reducing the need for direct contacts and travelling to the HR department. The application of the new Performance Assessment System was also successfully concluded in 2012, resulting in a better distribution and enhanced differentiation of Employees, launching the bases for the existence of a network of objectives to support and improve the objectivity of the assessment criteria, and reinforce the quality of the Appraiser-Appraisee interviews. Regarding technical instruments of HR, at PGA the Function Analysis and Qualification Methodology of the HAY Group was introduced. The Team Leaders of the Maintenance Service area and the Heads of Fleet of the Engineering and Technical Support area of the Maintenance and Engineering Department have already been assessed. In 2013, the identification of the key functions of PGA is planned, which shall be subject to a functional description, with a view to their subsequent assessment by the Methodology.

The total Employees of PGA, as at 31 December 2012, was 550, of which 41% are women and 59% are men. It is also noteworthy that 37% of Employees are less than 35 years of age, and 49% have a seniority of more than 10 years, with the average age of the company being 39 years of age.

### Operating performance

There was a 5% increase in block-hours flown relative to 2011, related to the fact that the summer of 2012 represented a period in which the company was called upon to deal with a very intense operation.

## Maintenance and Engineering

In 2012, maintenance requirements, due to the occurrence of inspections involving longer stoppages, had a greater impact on aircraft availability. Aircraft availability commitments, which do not normally contemplate prolonged simultaneous stoppages for more than one aircraft, were unable to be fulfilled, as a result of the execution of the maintenance programme and of the availability of suppliers. With regards to the maintenance inspections, the deviation from the budget was caused by an unanticipated consumption of material during the D inspections of the Fokker fleet. In budgetary terms, there was also a stronger impact due to the departure of 30% of the permanent employees of Engineering, 11% of qualified TMAs and 8% of specialised technicians. These unforeseen departures made it necessary to bring forward the hiring of permanent employees planned for 2013, given the market shortage of qualified Technicians and Engineers with experience, and implied the programming of further training. In turn, the adaptation to the company's *modus operandi* by the newly hired employees had an impact on the inspections underway and route support, resulting in occasional extensions of aircraft downtime. The certification of PGA Part M Sub-part I, pending approval at INAC since March 2011, was obtained in August 2012. This certification allows PGA to issue Aeronavigability Assessment

Certificates for its fleet, with the need to subcontract the assessments that expired before August 2012 having been noted. The constraints arising from the effective departure of employees from the Maintenance and Engineering Department had a significant negative impact on the activity of this area, such that some impact on operational management in 2013 is expected.

The company improved its operating performance (impact of technical anomalies) during the peak season – between 15 June and 15 September and during the Christmas and Easter weeks. In fact, although the number of AOG (Aircraft on Ground) events was superior, the return of the aircraft to the route occurred within a shorter period. On the other hand, meeting the majority of TAP Schedules' requirements for the PGA operating plan, namely regarding the number of aircraft staying overnight at stopovers with maintenance support and regarding the operating network structure, had beneficial effects on the use of crews, as well as in the reduction of delays due to technical causes. Following legislative amendments, 2013 will have a significant impact on the training of TMAs, such that PGA is in the process of obtaining certification that will allow it to minister the standard courses of the fleets that it operates, resorting to internal workforce. The pressure of the current legislative framework, as well as the economic climate, foresees additional departures of technicians. There is therefore a need to create an autonomous training structure, aimed at reducing certification times (from an average of 5 to 3 years). The possibility of PGA ministering the *Ab Initio* basic courses for TMAs, thus overcoming the extreme difficulty of finding TMAs with basic training in the national market, is also being assessed. Given the limitations in human resources, it became necessary to reassess the full compliance of the inspections programmed at PGA, such that contacts were resumed with the usual partners, with respect to the Fokker fleet.

## Quality

Safety: The continuous search for improvement of the level of safety in operations remains a primary objective in the management of the PGA. In 2012, the transversal training phase of the entire company in SMS was extended. SMS is a comprehensive and transversal tool, whose success depends on its appropriation by the organisation, becoming part of the culture of the company. The implementation of this tool and its training shall be continued in 2013.

In-Flight Service: Numerous innovations and alterations to the standards of service in force resulted in the recognition by the Customer of the In-Flight service quality.

Environmental Policy: Within the scope of the European Union Emissions Trading System (EU ETS), an audit of the 2011 data was conducted in March 2012. During the previous year, TAP Group operated 103,913 flights covered by the EU ETS (Emissions Trading System), i.e. 2.8% more than in 2010, with total emissions calculated during 2011 being 5.4% higher than in 2010. In terms of efficiency, measured in $CO_2$ per RPK and RTK, there was a decrease in both indicators, which translates into an increase in operating efficiency relative to the previous year, confirming that the methodologies implemented, as well as the programme currently used meet the necessary requirements for the EU ETS. The monitoring process is autonomously managed by PGA, with TAP being responsible for reporting to the Portuguese Environmental Agency (APA). At the end of 2012, the EU partially suspended, for a period of one year, the process of inclusion of aviation in the EU ETS, i.e. only the flights to/from the EU were suspended, such that the ETS will apply, for now, only to intra-European flights (whatever the nationality of the operator). If there is no progress at the level of ICAO, the EU ETS shall be applied again in its original format. The opinion of the majority of operators is that, not having been suspended in its entirety, this measure imposes a discriminatory burden on companies that only operate within the EU. PGA adopted an environmental protection strategy, seeking to eliminate the negative impact of its activity, focusing on the definition of objectives and concrete plans of action to implement good practices within the scope of energy and environmental efficiency. It is also important to mention the participation in environmental projects, promoting protocols with companies specialised in waste collection and treatment, as well as the implementation of various measures that have translated into a plan to reduce the environmental footprint.

# SPdH–Serviços Portugueses de Handling, S.A.

### General Meeting Committee

Chairman
José António de Melo Pinto Ribeiro

Secretary
Carlos Pedro Silva

### Board of Directors

Chairman
António Alfredo Duarte Casimiro
(non-executive)

Deputy Chairman
Carlos José Baptista da Paz

Member
Carlos Gomes Nogueira

Member
Luís Manuel da Silva Rodrigues
(non-executive)

Member
Mário Pedro Martins e Castro

### Executive Commission

Chairman
Carlos José Baptista da Paz
(Chief Executive Officer)

Chief Finance Officer
Carlos Gomes Nogueira

Chief Operations Officer
Mário Pedro Martins e Castro

### Statutory Auditor

Efetivo Deloitte & Associados, SROC S.A.

### Registered Office

Edifício 25-6°, Aeroporto de Lisboa
1700-008 Lisboa
Telef. +351 21 891 8700
Fax +351 21 891 8701
Email: welcome@groundforce.pt
Website: www.groundforce.pt

Share Capital EUR 500,000

Taxpayer 506 651 649

### Main Activity

Provision of ground handling services for air transport, as well as professional training associated with the provision of these services.

## Strategy – initiate the turnaround process

With the renegotiation of the provisions of the Labour Agreement, combined with a rigorous cost-cutting process and the conquest of new customers, the inversion of the cycle of strongly negative results was continued. There is no doubt that the global profitability of the company, from an operational and invested capital viewpoint, constitutes a critical success factor that is indispensable to its continuity and sustainability. It is vital to create operating surpluses that can be translated into adequate levels of EBITDA and have a strong, robust balance sheet.

Efforts to consolidate and improve the service quality process, operational efficiency and continuous improvement were continued.

The bases were launched to ensure a harmonious and balanced development of the portfolio of products, covering the areas of technical assistance and training, as well as diversification of markets.

## The Business – clear and adjusted attitude, catering to our Customers' preferences

In 2012, within the context of the development of the activity of the Sales area, twenty-nine contracts were renewed and new customers were conquered. The activity of SPdH is carried out in an increasingly competitive and demanding market, in which the in-depth knowledge of Customers' requirements and the establishment of relations of trust are extremely important, generating sustainable gains and mutual advantages for both parties.

Negotiations and renegotiations were prepared and conducted with customers, namely regarding issues of pricing, commercial conditions and service levels, coordinated with the operating area managers, in order to ensure that the commercial objectives of customers match the operating capacity of the company.

Throughout the year, some specific actions were undertaken, namely the monitoring of the Bonus / Malus regime and the maximisation of Invoicing / Zero Tolerance – creating good practices that generate more revenues –, the promotion of selective price increases and investment in the excellence of the quality of the service provided.

In addition, careful management of all the complementary core activity services, often conceived to meet the specific requirements of each Customer, contributes strongly to their satisfaction. Services which are already consolidated, such as Blue Lounge, Groundcare, Baggage Delivery and Personalised Assistance, enable the provision of an integrated and progressively more complete offer to our Customers, in addition to facilitating the acquisition of new Customers and Partners.

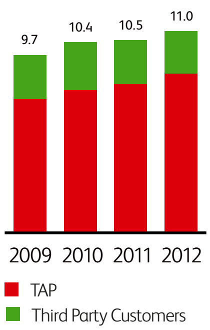
The year of 2012 was a year of contraction of operations, with the exception of TAP, which fulfilled its operating programme as set out in the budget. The market share of SPdH stands at approximately 62%.

## Quality – strategic factor in the development of the organisation

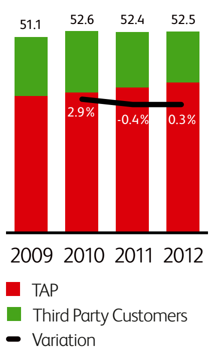
SPdH, aware of best practices, adopted an Integrated Quality Management System, involving the implementation of certifications in Quality Management (NP EN ISO 9001:2008), Environment (NP EN ISO

Prior note – Considering that the financial year of 2010 covered 14 months, the values for comparative analysis have been adjusted to 12 months.

### Attended passengers in Lisbon
million




### Total weighted attended movements in Lisbon
thousand



14001:2004), Health and Safety at Work (OSHAS 18001:2007/NP 4397:2008) and ISAGO (IATA certification that regulates the Security and Safety standards) in the Handling and Cargo 2000 (Quality Management system for the air cargo industry promoted by IATA – C2K Phase 1) sector.

Within the scope of the certification processes, recognition is provided by an external and independent entity concerning SPdH satisfying all interested parties and complying with all the legal and regulatory requirements effectively, by means of concession, renewal and follow-up audits.

The integration of all of these standards in the SGIQ (IQMS–Integrated Quality Management System) of SPdH represents a key contribution to the competitiveness of the company, granting greater organisation and credibility, and enabling the maximisation of benefits, in a continuous improvement process for all interested parties: shareholders, customers, employees, suppliers and surrounding environment.

## The Organisation and Human Resources – the renegotiation of the Labour Agreement as a pillar of sustainability of the business

In a highly globalised and competitive environment, the management of human resources in organisations such as SPdH is today a differentiation factor that leverages know-how.

The year of 2012 was marked by the culmination of the renegotiation of the Labour Agreement with the unions representing the employees, which introduced significant changes in labour relations, in harmony with the major current legislative changes, bringing it more in line with the characteristics of the activity. With this new Labour Agreement, SPdH gained an important instrument for the Company's recovery, with a view to facing a strongly competitive market, constrained by very unfavourable international economic prospects. Flexible working hours was one of the most relevant measures considered in the Labour Agreement, refocusing the management strategy of Human Resources on the optimisation of the labour input associated to a progressive reduction of insecure employment, which took place during the year.

In 2012, the development of a new Performance and Potential Management System, based on a Competences Management Model, was initiated, which allows assessing the performance of SPdH employees in their functions, and detecting any training needs and personal and professional development opportunities.

In December 2012, the total number of employees at SPdH came to 2,507, of which 2,061 are of SPdH and the remainder is divided between temporary employment and service provision companies.

## Training – enhancement of human capital by investing in professional training

In 2012, SPdH continued to invest in its People, through training actions oriented towards the development of individual and team performance, thus contributing to the improvement of the overall company indicators.

In addition to technical training, applicable to the Ground Handling activity, other training actions were also developed resulting from the alignment of the company with the requirements of an Integrated Quality Management System, namely in the Hygiene and Safety at Work, Environment and Social Responsibility area. During the year, the Groundforce Academy significantly increased the turnover associated to the provision of external training services, to both national and international customers. This investment in the provision of training services, in the Handling areas, has promoted the image of SPdH, due to the quality of the services provided, and spread its good reputation to other geographies.

## The operating performance

In 2012, SPdH assisted 80,556 movements, 14.7 million passengers and 97 thousand tons of cargo.

In terms of service quality indicators, SPdH has improved its operating performance, both in terms of number of baggage left behind, which decreased from 19 in 2011 to 14 in 2012 (Lisbon figures), and in terms of baggage delivery times, having achieved, in 2012, an average time of 14 minutes in the delivery of the first piece of baggage. Note should also be made of the slight improvement in the punctuality index of SPdH (from 99.3% in 2011 to 99.4% in 2012).

## The economic performance

In 2012, turnover reached EUR 105.2 million, representing a decrease of 3.1% relative to the previous year. This evolution reflected the general behaviour of the market, characterised by the overall contraction of the activity of company customers, with the exception of TAP.

# TAP–Maintenance and Engineering Brazil S.A.

### General Meeting Committee

Chairman
Luis Manuel da Silva Rodrigues

Secretary
Bernardo Accioly Molin

### Board of Directors

Chairman
Luis Manuel da Silva Rodrigues

Member
Nestor Mauro Koch

Member
Maria Teresa da Silva Lopes

### Registered Office

Estrada das Canárias, 1862
21941-480 Rio de Janeiro / RJ
Brazil
Telef. +55 21 3383 2782
Fax +55 21 3383 2047
Email: marketing@tapme.com.br

Share Capital R$ 568,022,848

### Main Activity

Aircraft Maintenance and Engineering.

In the development of its Aircraft and Component overhaul activity, TAP–Maintenance and Engineering Brazil has two Maintenance Centres, located in the city of Rio de Janeiro (GIG) and in Porto Alegre (POA), covering a total area of over 370,000 m2.

The company has a productive capacity in excess of 1,600,000 HH year, and has been certified by the main international certifying bodies (EASA; FAA; TCCA; ANAC) to carry out the general overhaul of all aircraft models of the Airbus, Boeing and Embraer (Authorised Service Centre) fleets, which operate in South America, in addition to over 17,000 P/Ns of aeronautical components (Engines; Landing Gear; Accessories and Avionics).

In 2012, TAP–Maintenance and Engineering Brazil, S.A. continued its process of development of actions, aimed at improving its operating performance, during this second year of a five-year Restructuring Plan. Hence, the improvement of the company's economic and operating performance continued to be pursued. The efforts have yielded positive results, both in terms of Revenue and Costs, showing clear signs of a sustainable trend. In Revenue, there was an expansion and diversification of the customer portfolio, which resulted in an increase of revenue from R$ 149.2 million to R$ 180.3 million, equivalent to a variation of +20.8%.

This growth was more marked in the second half of 2012, when 4 record Sales months were achieved of the last 3 years, in spite of the breakup of Webjet, one of the largest customers of TAP–Maintenance and Engineering Brazil. This also shows the need to deal with the very long lead times, an aspect which characterises the Industry and hinders the acceleration of the company's performance. Customer airline companies produce aircraft Maintenance and Engineering plans for periods of 3 - 5 years, during which the company, in order to survive and succeed, must demonstrate improvement of its capacities in the market.

Particular note should be made of transversality of the commercial effort. The growth of Revenue was derived both from stronger penetration in current Customers and the entry of new Customers. Note should also be made, albeit still of a marginal effect, of the first successes in the last 5 years in the military maintenance market. This is a segment which presents notable potential and which, due to many vicissitudes of the last 5 years, TAP–Maintenance and Engineering Brazil had not had the opportunity to provide service. Apart from this specific market segment, the principal opportunity, and where a progressively stronger effort should be concentrated, resides in the areas of highest value added – Engines, Landing Gear and Components.

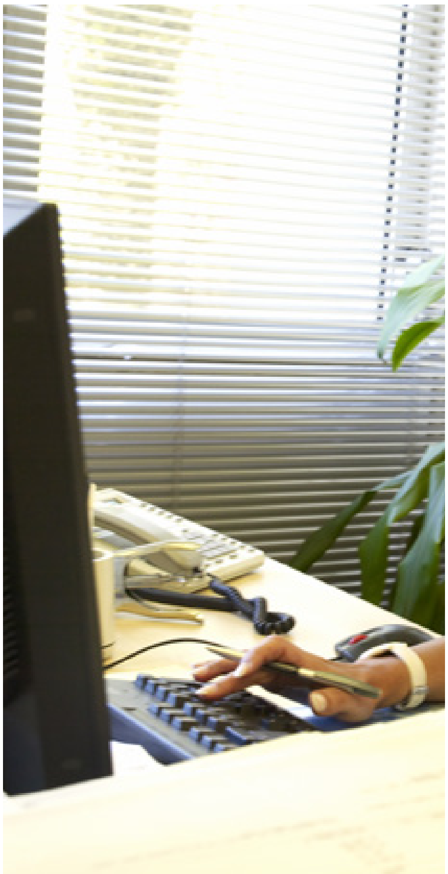
Underlying this commercial growth was the continuous transformation of operating activity, with significant improvement of the indicators at all levels. Demonstrating this is the fact that TAP–Maintenance and Engineering Brazil, during the last quarter of 2012, was approved with merit at a technical and operational audit requested by the airline Lufthansa. It should be noted that 3 years previously, the company had remained very distant from overcoming this test. On a more general level, the development of the operating capacity was reflected in the increase of the satisfaction indices of all Customer airline companies.

The growth of Revenue occurred with a marginal net change of Operating Costs, whose growth was limited to 2.3%. Therefore, it was possible to accommodate a 6.9% growth of Staff Costs, the result almost entirely of the application of the dissent, mandatory by Law. In compensation, Other Operating Costs fell by 3.2%, the result of review programmes in all areas of the company. This capacity of increased efficiency and cost containment is even more notable in view of the higher activity levels that continue to be observed in the local economy.

As a result, the company's EBITDA, albeit very negative, improved for the 2nd year consecutively, this time by 25%.

Meanwhile, in 2012, the consolidation of the REFIS debits generated an effective reduction of the tax liability, but which was more than annulled by a review of the discount rate underlying the calculation of this future liability. The final outcome was an aggravation of the Financial Result by R$ 8.6 million.

# TAPGER–Sociedade de Gestão e Serviços, S.A.



TAPGER is a public limited liability company based in Lisbon, created by TAP in 1997 for the purpose of achieving more direct and active management of the various complementary or collateral activities of the core business of air transport and maintenance, with a view to its development. The company's objective is the supervision of the management of its participated companies, particularly their respective financial and economic performance, and the provision of assistance and support to the companies Lojas Francas de Portugal S.A. and Cateringpor–Catering de Portugal, S.A., in specific areas, as established under the Joint Venture Agreement and Technical Service Agreement, respectively. In order to ensure this assistance and the entire administrative process in a more satisfactory manner, TAPGER maintains a service contract with TAP, S.A. (TAP Serviços).

During 2012, TAPGER monitored the activity developed by its participated companies and held the necessary general meetings for the approval of the respective accounts relative to the financial year of 2011.

At the general meeting of approval of the accounts of LFP–Lojas Francas de Portugal, S.A., a new Chairman was elected for the Board of the General Meeting, proposed by the shareholder Nuance, due to the former chairman, Peter Christopher Wood having resigned from the position.

During the second semester of 2012, TAPGER monitored and supervised the production of information and documentation, relative to the process of privatisation of TAP SGPS, S.A., issued by its participated companies.

The net income for 2012 grew by 13.4% in relation to 2011 (EUR 607.6 thousand more), having increased from 4.539 million to 5.146 million, an increase practically equal to that of the dividends received from the participated companies (EUR 614.7 thousand more).

### General Meeting Committee

Chairman
Alda Maria dos Santos Pato

Secretary
José Carlos Magalhães Ferreira

### Board of Directors

Chairman
Fernando Abs da Cruz Souza Pinto

Member
Mário Marmelo Castanheira Guilherme

Member
Michael Anthony Conolly

### Statutory Auditor

Permanent PricewaterhouseCoopers & Associados, SROC, Lda.

### Registered Office

Aeroporto de Lisboa
Reduto TAP, Edifício 25 – 8°
1704–801 Lisboa
Telef. +351 21 841 5978
Fax +351 21 841 6666

Share Capital EUR 2,500,000

Taxpayer 503 986 798

### Main Activity

Provision of commercial consulting and management services, studies and preparation of contracts and support to international trade operations.

## LFP–Lojas Francas de Portugal, S.A.

### General Meeting Committee

Chairman
Andreas Rudolf

Secretary
Anabela Gomes Lopes

### Board of Directors

Chairman
Luiz da Gama Mór

Chief Executive Officer
Nuno Filipe Martins do Amaral

Member
Alexander Angel Anson Esparza

Member
Andrea Belardini

Member
Luís António Domingos Fernandes Silvério Monteiro

### Audit Board

Chairman
José Vieira dos Reis

Member
Benjamin Harmstorf

Member
Maria de Fátima Castanheira Cortês Damásio Geada

### Chartered Accountant

PricewaterhouseCoopers & Associados, SROC, Lda.

### Registered Office

Aeroporto de Lisboa
Rua C, Edifício 10, Piso 0
1700–008 Lisboa
Telef. +351 21 841 5685
Fax +351 21 841 5373
Email: geral@lfp.pt
Website: www.lfp.pt

Share Capital EUR 550,000

Taxpayer 503 346 128

### Main Activity

Operation of Airport Shops and In-Flight Sales.

For LFP, 2012 was a year of expansion and growth. Although operating within an adverse macroeconomic environment, the company managed to achieve its best result ever, having obtained a net income of EUR 9,431 thousand, a value which reflects 11.2% growth in relation to 2011. In turn, revenue increased by 8.2%, to EUR 154,446 thousand.

The investments in new shops and concepts, primarily at Lisbon airport, showed clear results, confirming the business development strategy embarked on in 2009. This strategy, combined with growth of sales, like-for-like, as well as strong cost control, enabled the company to achieve the objectives it had proposed at the beginning of the year.

Although the results were positive, the company was not immune to the retraction of the economy, with various business areas having shown a heavy decline. However, there was an increase of sales at the principal hub, Lisbon, due to the investments made in new shops and concepts and, also, as a result of the stronger buoyancy of the emerging geographic areas (Brazil and Africa).

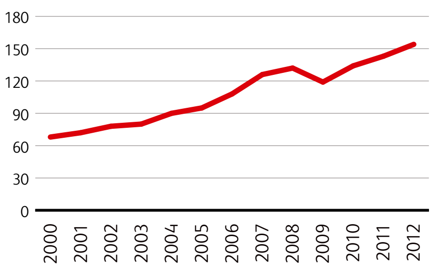
These investments in Lisbon, which involved the complete remodelling of the main shop, allowed for the introduction, for the first time in Portugal, of the *Walkthrough Duty Free* concept, inviting all passengers to enter the shop before going to the boarding gates. This new configuration of space, carried out in accordance with new and modern airport retail principles, also enabled introducing, for the first time in Portugal, the *Duty Free Store* concept, already used in other airports by the partner The Nuance Group. The Lisbon shops are now called *Duty Free Store–Just for Travellers*, with this opportunity also having been used to strengthen the commercial offer in categories that are critical for business, such as Perfumery and Cosmetics. Simultaneously with these alterations of the main shop, the offer has been strengthened in the area of fashion and accessories, with the introduction of new *shop-in-shops* of the brands Bulgari, Omega, Tag Heuer, Breitling, Longines, *Boutique dos Relógios* and Longchamp. Pursuing the expansion strategy, four new fashion and accessories shops have been opened in Lisbon: Polo Ralph Lauren, Salvatore Ferragamo, Ermenegildo Zegna and Montblanc.

It is also important to highlight that these investments, at a time of strong contraction of the economy, have enabled LFP to become a net job creator in working, on average over the year, with 397 employees compared to 374 in 2011, thus having generated 23 new jobs. The company has, consistently, over the last few years, reinforced its staff thus actively contributing to increasing the employment in Portugal, and generating value and wealth, not only for its shareholders but also for society in general.

It should also be noted, in particular, that the company was, for the 3rd time, distinguished by the prestigious magazine EXAME as the best company in the Retail sector operating in Portugal in 2011, thus beating other multinationals of major prestige and reputation. This distinction follows others, such as the company with the *Highest turnover per square metre* and the *Highest turnover per employee* amongst all the modern distribution companies in Portugal, according to information produced by the APED–Associação Portuguesa de Empresas de Distribuição (Portuguese Association of Distribution Companies).

Last, but not least, we highlight the decisive importance of the Employees in the company's success, where their competence, energy and commitment constitutes, without doubt, the greatest asset of LFP. To all, our gratitude for their loyalty and valuable contribution to the notable development recorded in 2012.

**Sales**
EUR million




## MEGASIS–Sociedade de Serviços e Engenharia Informática, S.A.

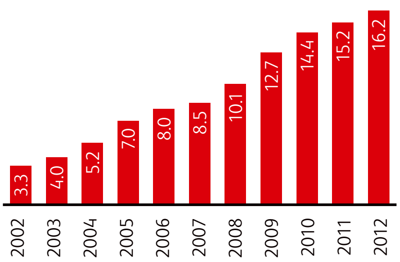
The activity of Megasis is naturally influenced by the objectives and decisions made by its shareholder and main Customer. The attention of the company remained, as a consequence, focused on providing support to TAP Group companies, where priority is given in its action to the provision of services with the necessary quality to pursue the strategic objectives of the Group. The continued effort undertaken by Megasis to maintain and expand the knowledge of the Industry and of the Commercial Aviation business, as well as of emerging technological needs, has greatly contributed to the maintenance of this strategic alignment. The company TAP, S.A. obtained, in 2012, very positive results, which reflect the continued efforts to improve efficiency, obtained through productivity gains and reduced consumptions. In this regard, TAP was obliged to maintain full compliance with the cost-cutting policies that have guided its activity, for which the efforts and support provided by Megasis, in the automation and integration of the company's business processes, have contributed greatly.

TAP does not, however, forget its commitments and obligations, in terms of security, the environment, social responsibility and quality of the service provided to its Customers, which surpassed the 10 million barrier in 2012. This continued growth of the TAP Group business poses new technological challenges, demanding adequate medium and long term responses. Megasis, in this context, in addition to the activities of provision of technological support services, agreed with the Business Units, continued the implementation of the previously drawn up strategic plan, basing the latter on three fundamental factors:

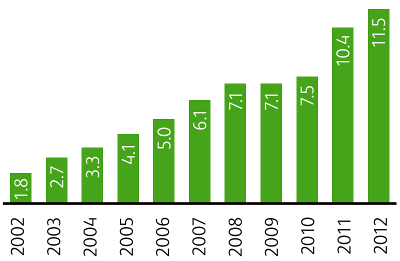
- Development of strategic processes aimed at defining a system architecture, with emphasis on the processes of information integration, definition of the architecture of services and integration of the application presentation layers;
- Development of technological assets of strategic value, resulting from the previous point, which facilitate and enable the construction and integration of information systems, according to the defined technological and application architectures. Due to their relevance today, within the Company's information technologies, it is important to mention the initiatives developed in the expansion of the integrated services structure, known as TAP Integration Platform, in the expansion of the corporate Data Warehouse, in the definition of the Operational Data Store and in the renewal and increase in the number and quality of services related to the technological infrastructure which supports the application architecture of the Group worldwide.
- Development of specific and value added products for the Group's Business Units, with emphasis in this context on the development of analytical capacities regarding the information of the customer loyalty programme in the ATHOS Business Intelligence system, the automation of the ticket reservation and issuing processes introduced in the system supporting the issuing of ticket benefits for employees (FlySTAFF), the implementation of a jet fuel management system in the central IT system integrating operational and financial information, the expansion of the integrated COSMOS maintenance system with the start of the implementation of the Genesis and GALAXY systems, which support, respectively, the activities of aircraft engine maintenance and the production of Key Performance Indicators on the Maintenance and Engineering business.

Particular note should also be made of the continued consolidation of the strategy involving the structuring of the relations between Megasis and Group companies, in business centres and functional areas with competences and know-how capable of contributing, in a very evident and proactive manner, to the improvement of the business processes and quality of the final service provided to Customers. To finalise, it should also be pointed out that Megasis has met its commitments to the shareholder, by boosting productivity based on the increased quality and quantity of the services offered and, concomitantly, maintaining the Company's level of competitiveness.

### Users of TAPNet services
thousand Users




### Service requests
thousand



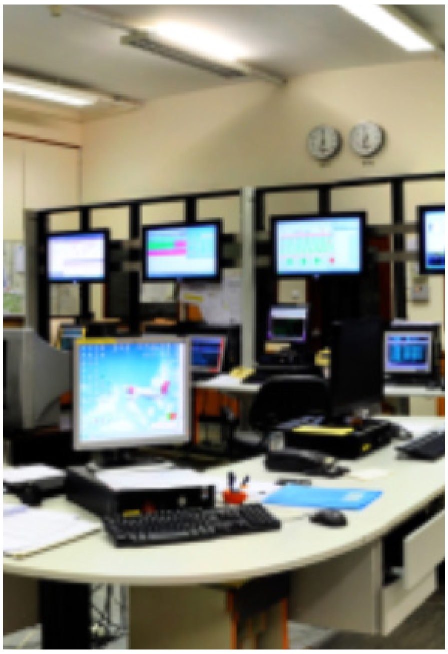

### General Meeting Committee
Chairman
Alda Maria dos Santos Pato
Secretary
José Carlos Magalhães Ferreira

### Board of Directors
Chairman
Michael Anthony Conolly
Chief Executive Officer
Eduardo Jorge Dias Rodrigues
Member
Maria dos Prazeres Nunes Ramalho Monteiro

### Statutory Auditor
Permanent PricewaterhouseCoopers & Associados, SROC, Lda.

### Registered Office
Aeroporto de Lisboa
Reduto TAP, Edifício 19
1704–801 Lisboa
Telef. +351 21 841 6888
Fax +351 21 841 6344
Email: servico.cliente.megasis@tap.pt
Website: www.megasis.pt
Share Capital EUR 500,000
Taxpayer 502 199 210

### Main Activity
Provision of services in the area of the development and maintenance of computer software.



## CATERINGPOR–Catering de Portugal, S.A.

### General Meeting Committee

Chairman
Alda Maria dos Santos Pato

Secretary
José Carlos Magalhães Ferreira

### Board of Directors

Chairman
Luiz da Gama Mór

Chief Executive Officer
Mário José Santos de Matos

Member
Sílvio Canettoly

### Audit Board

Chairman
Maria de Fátima Castanheira Cortês
Damásio Geada

Member
Miguel de Azeredo Perdigão

Member
PricewaterhouseCoopers & Associados, SROC, Lda.

### Registered Office

Aeroporto de Lisboa
Rua C, Edifício 59
1749–036 Lisboa
Telef. +351 21 854 7100
Fax +351 21 854 7199
Email: catering@cateringpor.pt
Website: www.cateringpor.pt

Share Capital EUR 3,500,000

Taxpayer 502 822 112

### Main Activity

Preparation and sale of In-Flight meals as well as provision of services and logistics support to aircraft.

The highest number ever in the total number of passengers transported by TAP, whose hub is located at Lisbon Airport, constituted a determinant element for the company's growth (+3% meals than in 2011), during a particularly difficult year for the economy and, consequently, for air transport.

This year of 2012 also witnessed the arrival of a new operator with In-Flight service of a traditional profile – the Emirates –, whose capture enabled us to expand our portfolio of Customers, both quantitatively and qualitatively. In this area, it is relevant to highlight that, amongst the various national airports, Lisbon is the only one where the *aviation catering* activity is exercised under competitive conditions, where it is with great satisfaction that we see the quality of the products supplied, services rendered and price applied recognised by our new Customers.

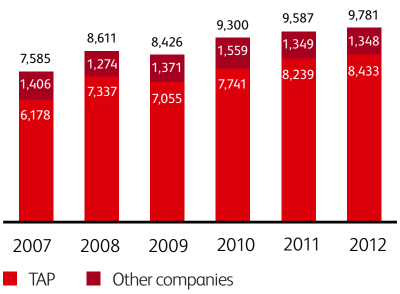
It was in this manner that the daily average production of 26,800 meals was thus achieved.

Likewise, during this year, in response to market demands, the capacity to produce *Halal* meals has been implemented. This involves food produced in conformity with the laws of the Islamic religion, which required the creation of autonomous and differentiated flows and records, that were subject to assessment and international certification.

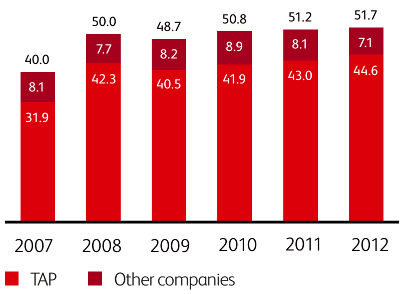
Under the internal modernisation and enhanced efficiency, a very significant effort has been made in the development of applications providing direct support to operational management, namely, *costing and budgeting of revenue*, *electronic support for selection of supplies* and *planning and control of production*, complementing the tools already implemented based on the computing platform.

| | 2012 | 2011 | Var. % | Var. Abs. |
|---|---|---|---|---|
| Number of meals | | | | |
| TAP | 8,432,997 | 8,238,533 | 2.4% | 194,464 |
| Other companies | 1,348,387 | 1,348,631 | 0.0% | -244 |
| **Total** | **9,781,384** | **9,587,164** | **2.0%** | **194,220** |
| Number of flights attended | | | | |
| TAP | 44,630 | 43,017 | 3.7% | 1,613 |
| Other companies | 7,058 | 8,138 | -13.3% | -1,080 |
| **Total** | **51,688** | **51,155** | **1.0%** | **533** |

### Number of meals
thousand




### Number of flights attended
thousand




# UCS–Cuidados Integrados de Saúde, S.A.

During 2012, the activity of UCS continued its strategic focus on TAP Group and on ensuring the continued compliance with national and international legal and regulatory requirements, with respect to Safety, Hygiene and Health, and Aviation Medicine.

Based on the four core areas of activity of UCS – Occupational Medicine, Hygiene and Safety, Aviation Medicine and General and Family Medicine –, the company increasingly benefits from the in-depth knowledge of the operational dynamics of TAP's various business areas, which consider UCS as a partner in their sphere of activity, responding to their needs in real time. In addition, and using the organisational structure of the company, of integration of care and the expertise of the respective professionals, the action of UCS is consolidated far beyond the direct provision of healthcare services to the various Group companies, intensifying the development of the area as risk manager, in multiple health-related components.

Summarising the activity during 2012, the following activities stand out as the most relevant:

## Health Promotion and Disease Prevention

- Increase (+8%) of the coverage rate of the health monitoring medical examinations;
- Campaign of prevention of barotrauma in flying crew and inclusion in respective regulatory training actions;
- Preparation of a video on the prevention of musculoskeletal diseases;
- Childbirth preparation course, for TAP employees and/or respective spouses;
- Coordination of the implementation of a Prevention and Control Programme relative to the consumption of alcohol, drugs and tobacco, by operationalising the regulation that already exists at TAP.

## Interventions in Workplaces

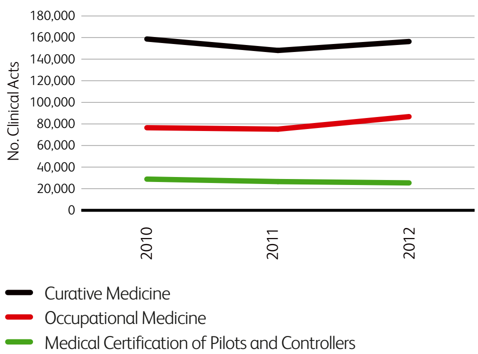
- Increase (+20%) of hygiene and safety assessments, within the scope of the management of risks associated to the professional activity;
- Continuation of the drafting of the Professional Risks and Personal Protection Equipment Manuals; reassessment of jobs (369).

## TAP Customers – Passengers

- Issuing of boarding authorisations for disabled TAP passengers (918), implying an aviation medical decision in real time, 24 hours per day and 365 days per year, thus complying with international regulations (IATA resolution, EC Regulation and DOT Regulation, USA);
- Maintenance of the programme for the monitoring of defibrillators on board aircraft, certified by the competent national authority (INEM).

In turn, and in line with the objectives and decisions of the shareholder and main customer, internal measures of optimisation of operating processes were consolidated, with a consequent gain in efficiency and with the support of integrated information systems, technical and financial performance was improved, as well as the rigour and safety of the company's main activities.

### Evolution of clinical activity




### General Meeting Committee

Chairman
Alda Maria dos Santos Pato

Secretary
José Carlos de Azevedo Magalhães Ferreira

### Board of Directors

Chairman
Michael Anthony Conolly

Chief Executive Officer
Maria Helena Arrobas do Carmo Paiva Peixoto

Member
Orlanda do Céu Silva Sampaio Pimenta d' Aguiar

### Statutory Auditor

Permanent PricewaterhouseCoopers & Associados, SROC, Lda.

### Registered Office

Aeroporto de Lisboa
Edifício 35
Apartado 8426
1804–001 Lisboa
Telef. +351 21 843 6300
Fax +351 21 843 6310
Email: ucs@ucs.pt
Website: www.ucs.pt

Share Capital EUR 500,000

Taxpayer 503 486 647

### Main Activity

Providing out-patient health-care (medical appointments, complementary diagnostic tests and treatment); implementation of safety, hygiene and health at work activities; medical certification of pilots and air traffic controllers; consultancy in the organisation and management of health-care services.

# Risk management

## The risk management process

The work that has been developed under Continuous Auditing focuses particularly on the risk management process, with the COSO (Committee of Sponsoring Organizations of the Treadway Commission) Model being the underlying instrument of application.

Risk Management may be perceived as a window which transforms risks into opportunities, by providing organisational and methodological skills to identify and control the risks to which the organisation is exposed in its different business areas, improving the overall internal control to which the core business and respective supporting activities are subject.

As illustrated in the diagram, the principal benefits to the organisation arising from the application of a risk management process are:

- *Assistance and support to the senior management*: Using risk management to make the most of opportunities emerging from the acceptance of risk; reduction of losses due to errors, fraud and non-ethical practices; effective management of resources, legal and government compliance, compliance with regulations, commitments and accountability of managers, cost control, stricter budgeting and stronger financial solidity;
- *Minimisation of risks in decision-taking*: Ensuring the strengthening of the organisation's sustainability; based on the systematic identification of organisational flaws, the needs of all involved, increased internal and external communication flows, protection of the brand;
- *Transparency of the information*: Clear vision of the objectives and results of the business, strengthening of the organisation's image and reputation, both internally and amongst the external public.

The COSO Model, evolving from version I to version II, currently enables stronger focus on corporate risk, in additional to the internal control traditionally covered by this Model. Thus, its action operates in various contexts, enabling the use of the Enterprise Risk Management model – COSO, namely in terms of detailed analysis with respect to the issues involved in the following aspects:


- *Internal environment*: definition of risk management (policies and culture); Corporate Governance; definition of corporate values;
- *Definition of the object of analysis*: definition of strategic objectives; measurement of appetite and tolerance to risk;
- *Identification of events and of inherent and residual risk*: impact analysis; methodology and techniques;
- *Risk assessment and management*: inherent and residual risk; impact analysis; methodology and techniques;
- *Response to risk*: identification of the type of response to risk; assessment and definition of response to each type of risk;
- *Control activities*: response to risk; definition of types of control activity; definition of activities; their application;
- *Information and communication*: integrated information; communication;
- *Monitoring*: One-off and continuous assessment.

## Risk factors and their management

### Operational risk (Safety)

Safety – Model of action whereby the possibility of damage, to people and goods, is minimised or eliminated, through a continuous process of identification of situations of potential danger and the management of the respective associated risk.

### Risks of economic and financial nature

Risk monitoring and control systems, and consequent impacts, arising from the behaviour of the financial markets and of the economy.

### Information technology risk

Systems used by organisations to identify weaknesses and threats.

### Fire risk–prevention

Risk management system for fire, explosion and spillage of chemical products. Includes the Internal Security Plans, continuous training of Employees, the manuals for protection against explosive atmospheres (ATEX Manuals), Simulation Drills based on risk scenarios, and an internal audit plan.

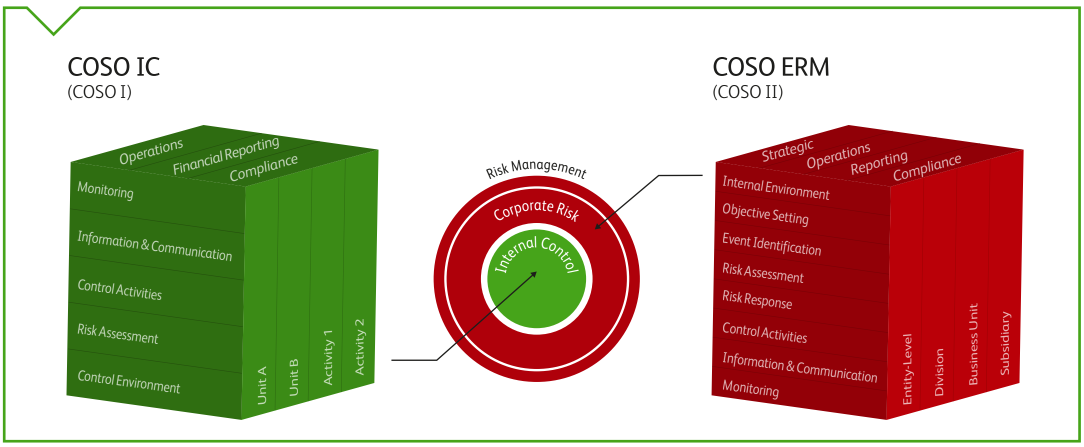
### Maintenance and Engineering risk

At TAP–Maintenance and Engineering, Risk Management is inherent and integrated in the responsibilities defined in the context of the aeronautical certifications and accreditations held[1] which are compulsory to guarantee the continuity of its activity.

[1] EASA Part 145 (Maintenance Organisations); EASA Part M (Continued Aeronavigability); NP EN ISO 9001:2008 (Quality Management Systems), among others.

### Health and safety at work risk

Risk management system linked to the professional activity, based on a systematic programme of identification and assessment of the risks to health and safety at work, their respective valuation, as well as the implementation of control measures, in order to improve health and safety at work in the Company.



# Management of the financial risk

## General aspects

The adverse European macroeconomic scenario not only continued during 2012 but worsened over the year, generating the economic recession in the European Union as a whole. This recession did not have the same intensity and seriousness of the economic downturn registered in 2008/2009. However, it indicates a recurring lack of structural dynamism of the European economy.

In Portugal, the economic contraction registered was much higher than the European average, in part arising from the underway financial readjustment and restructuring process negotiated with the international institutions.

In other continents, opposed to the context lived in Europe, positive growth rates were maintained, although with a significant difference between Asia, Africa and America. Must be noted that, while the African economies, namely those whose official language is Portuguese, registered high growth rates, the Brazilian economy registered a slowdown in GDP growth.

It was in this global context, connected with the historically high levels of energy prices, that the activities of the Group and its market risk and financial risk management policy took place, in pursuance of its objectives to protect and safeguard the financial equilibrium and resources of the Group companies.

## Price risk

The significant changes in the economies of the main markets in which the Group operates, in particular the strong recession in Portugal and the contraction in the majority of European markets, which together represents (air transport, maintenance and duty free shops) about two thirds of the Group's total sales, were once again a source of risks and threats to the sustainability and profitability of the Group.

Within a segmented and static perspective, particularly in the air transport business, the significant representativeness of the European markets, and the minor representativeness of America and Africa markets, might not be sufficient to counterbalance the fall in demand in Europe. However, the integrated structure of the network of existing destinations enables strong synergies between the medium-haul operation in Europe, including the regional network of Portugália, and the long-haul transatlantic and connection routes with Africa.

These synergies provide greater stability to the whole operation and greater sustainability to the air transport business, having enabled revenue to grow in 2012 countercyclically to the economic environment of the main markets. The set of other activities of the Group, particularly duty free sales, also grew in 2012.

It must be noted that during this economic crisis, there has been a greater capacity for resistance by the air transport industry to the decline in economic activity, be it due to the globalisation context in which we currently operate, be it due to the dynamism of the export sectors of the various countries, even those most affected by the crisis, which grants some sustainability to business traffic and creates the need to shift employees of companies with international projects. At the same time, the increase in purchasing and consumer power in countries such as Brazil or Angola continues to be a source of important tourist demand addressed to the European markets that the Group, with its transatlantic strategic positioning, benefits from.

During 2012 the Group maintained the level of air transport activity and the strategy of diversification of routes and consolidation of various destinations initiated in previous years. The beginning of the more than 10 routes during the previous year, whose annual and full impact was experimented in 2012, contributed decisively to the overall growth of income. In 2012 new destinations continued to be launched: Berlin, Turin and Bucharest also contributed to extend the range of destinations on offer.

The final effect resulting from the combination of the air transport growth strategy, the intensive work undertaken in the markets and the associated risk management, against the adversity of the recessionary factors in demand, was positive and reflected in the significant increase in the number of passenger kilometres used (RPK) accompanied by a moderate increase in yields. Furthermore, there was an improvement of the overall load factor.

This aggregate result, of course, varied. The domestic sector, with a limited representation in terms of RPK, was the only sector of the network to present a negative performance with a decline in RPK, yields and load factor, offset by the very positive performance of the international routes in general.

In Brazil, which represents about 40% of the activity, the indicators measured in terms of RPK were generally positive; Africa and Europe recorded substantial growth and the United States increased almost 20% as a result of the new Miami route. In which concerns to the sales by market, in contrast to the activity perspective, there was an increase in the sale of tickets in Brazil and a decrease in Portugal, with either of these markets representing a quarter of the total sales of tickets. Africa, Venezuela and the United States maintained very positive growth rates, as well as Europe, in particular Germany and the United Kingdom.

With respect to cargo and maintenance for third party customers, there were varying performances. Cargo revenue fell slightly, while the sales of maintenance services in Portugal grew comparing with the previous year. The maintenance company in Brazil continued its restructuring and recovery process. The global maintenance business, as a whole, represented an invoicing volume for third parties in the amount of about EUR 185 million. In terms of Group income, maintenance and cargo represent 7% and 5%, respectively, whereas the transport of passengers represents more than 80%. In absolute terms, the increase in ticket revenues relative to the previous year, in particular, came close to EUR 140 million.

## Fuel price risk

The aviation fuel price which replicates, almost exactly, the fuel price in international markets, continues to represent one of the most significant risk factors in the air transport business. In spite of the average of 2011 having exceeded the average levels of the record year of 2008, in 2012 an average jet fuel price slightly above that of the previous year was registered once again, as measured by the market reference prices of Platts. The maintenance of the high level of prices, the increase in activity in the year and the appreciation of the Dollar relative to the Euro resulted in an increase in the fuel invoice of approximately EUR 90 million in 2012 relative to 2011. The representativeness in Euros of fuel cost in the Group's turnover is, nowadays, slightly more than 30%, with this operating heading currently representing about 46% of the Group's total external supplies and services.

Analysing the air transport markets it comes that the gains achieved from the global improvement in sales were in part offset by a new increase in total fuel costs recorded in the current year. Given the present size of the Group's operations, the sensitivity of the results to the variations in the fuel price is significant. Specifically, for approximately 950 thousand tons of jet fuel consumed a variation of 10% in the current price of jet fuel will have an impact on results, at the Euro/dollar exchange rate of 1.30, of EUR 73 million.

The amount spent on fuel in 2012 increased relative to the previous year, as a result of the expansion of activity and the appreciation of the dollar, in average terms (the exchange rate devaluation of the Euro relative to the dollar was almost 10% in average terms in 2012), with no significant change in terms of the average price of fuel having taken place.

It should also be mentioned that the average cost of the contractual margins practised by the fuel supply companies can marginally affect the final fuel invoice. In this regard, the geographic mix of the activity is relevant, given that the additional costs of the oil companies can fluctuate significantly, particularly outside of Europe.

In witch concerns to the risk hedging policy, hedging operations of an amount corresponding to a third of annual consumption were undertaken, with a more significant impact in the second half of the year, leading to a positive contribution of more than 1.5% of total fuel costs.

Lastly, it is important to note that total fuel costs in 2012 were, for example, more than the double of the costs recorded in 2009, for a consumption of only 15% more.

## Exchange rate risk

The most significant exchange rate exposure in the Group's operations lies in the fuel costs since it is a cost that depends on the dollar exchange rate and because this cost currently represents, as previously mentioned, about 30% of the Group's turnover. In contrast, about 30% of total revenues are directly or indirectly indexed to the behaviour of the dollar. This pertains to the revenues of ticket sales in the United States, Brazil and Angola, whose fares are set in dollars, and to the sales of maintenance services in Portugal and in Brazil. The global disequilibrium that can exist between liability and asset exposure to the dollar arises, however, from the existence of various non-fuel costs, also denominated in Dollars, such as costs with maintenance materials, navigation taxes and airport taxes, lease payments and operating leasing maintenance reserves, financing costs and respective repayments (financings whose proportion of debt is 12%).

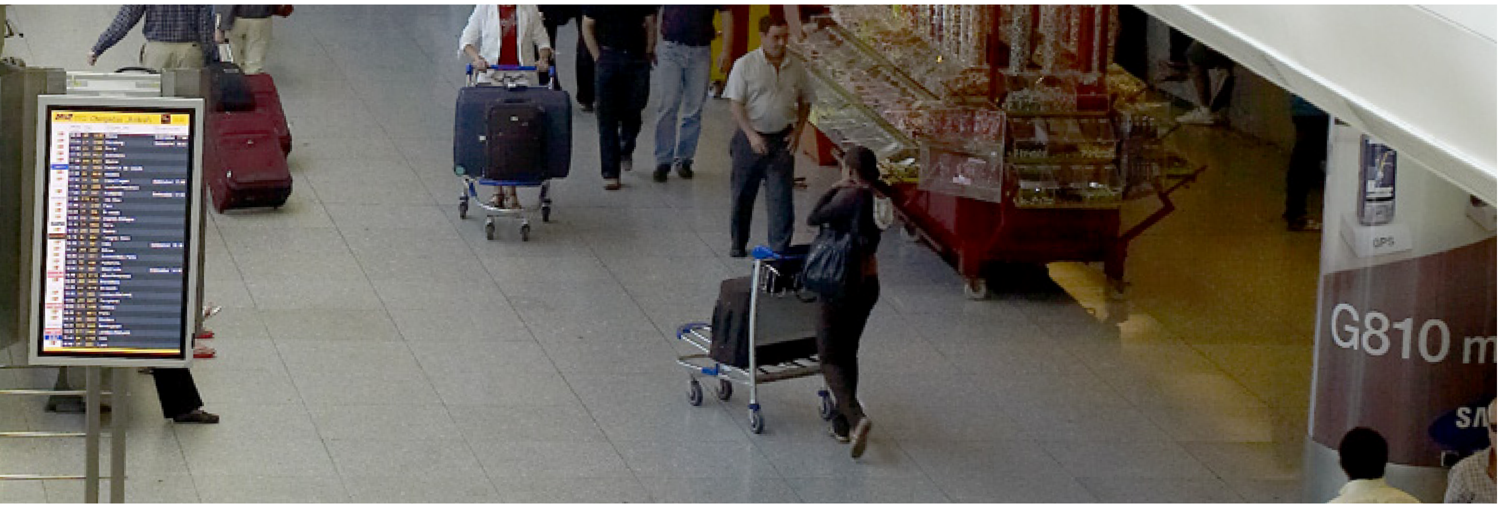
The exchange rate risk relative to the Brazilian Real, in spite of not arising from a significant direct exposure concerning ticket sales, given the role of the Dollar in tariff construction in the Brazilian market, is however indirectly present considering the elasticity of demand relative to price variations in Reais resulting from very significant oscillations in the Real-Dollar exchange rate.

The main source of exposure to the Real has been, however, that which results from the investment of the Group in Brazilian subsidiaries which has an impact on the balance sheet, as well as on operations, resulting from significant fluctuations of the Real relative to the Euro and the corresponding accounting adjustments.

Due the vast geographic coverage of the Group's activity, there is still some exchange rate exposure resulting from the significant diversity of revenues denominated in other currencies that do not have a fixed parity to the Euro or the Dollar. Among these are, in Europe the Pound, the Swiss Franc, the Nordic currencies and those from Eastern Europe, and outside Europe, currencies such as the Metical or Bolivar, for example. It should be noted, however, that the level of exchange rate stability of the Group's revenue is significant, since the group of markets whose currencies are denominated in Euros or currencies with fixed parities to this currency represent a percentage slightly above 50% of the total and even higher, if we consider the revenues generated in currencies without a fixed parity but largely influenced by the Euro.

## Interest rate risk

In 2012, the international financial context continued to condition the normal financing of the national economies in many countries, among which Portugal, as well as the financial management of their companies. In fact, strong restrictions on credit concession continued and the banking system only very gradually managed to release resources for companies. The sovereign debt crisis registered a progressive respite and the fears of a breakup of the Euro subsided, although in a context of further deterioration of the real economy in Europe, and of a slowdown in the United States.



The obvious difficulties in relaunching the main Western economies resulted in the maintenance of the key central bank interest rates at minimum levels, in both Europe and the United States. Both the European Central Bank and the Federal Reserve also reinforced their proactive quantitative stimulus policies, increasing their intervention in securities markets – public debt markets in particular. The actions of the monetary authorities involving the injection of liquidity, combined with austere budgetary consolidation policies undertaken by the governments of the most indebted countries, enabled the persistent tensions in bond markets to gradually ease, moderating investors' fears concerning future defaults of those countries. These actions resulted in a general decrease of both long term and short term interest rates. For example, in terms of Portuguese public debt, ten year yields fell over the course of the year to half, from 13% to 6.5%. Long term swap rates, in Euros, continued at historical lows, with the 10-year swap falling to 1.6% and the 5-year swap falling to less than 1%. The 3-month Euribor rate fell about 1% during the year to below 0.2% at the end of 2012.

The favourable effects arising from the lower interest rates were not fully felt due to the maintenance of the tighter credit standards by national banks and as a result of the persistent distrust of the large international banks relative to companies of countries that have received financial assistance, such as Portugal. These limitations continued to lead into high margins applied to the concession or renewal of both medium and long term loans and short-term credit lines.

The Group was affected by the impact of the various trends mentioned, benefitting on the one hand from the pronounced fall in and historically low levels of interest rates, relative to past debt indexed to floating rates, but suffering the negative effects of the high margins in the renewal of loans and of the difficulties to get new credits. Moreover, the actual privatisation process underway in the second half of the year resulted in the suspension of negotiations and in the procurement of new financing operations.

The financing costs of the Group increased overall. The weighted average interest rate of the debt increased marginally relative to the previous year due to the combined effects of the increase of margins in renewable short term operations, partially compensated by the decline of the Euribor, reference rate used for almost all financings and leasings at variable rates. The weighted average rate of operations at fixed interest rates, representing 60% of debt, remained stable.

On the other hand, the outstanding amounts decreased in 2012, as a result of the contractual scheduling of the existing financing and financial leasing repayments, and due to the fact that no new relevant operations were contracted.

In the future, the scheduled amortisations for the next few years are uniformly distributed and the sensitivity to interest rate increases is controlled through the higher proportion of fixed rate debt. The exchange rate risk is also limited as a result of the low percentage of debt in Dollars as a proportion of total debt.

## Credit and liquidity risk

During all the year the treasury management, remained conditioned by the adverse factors mentioned, in particular the non-contracting of new significant operations and the impacts of fuel costs. These various obstacles were essentially overcome through the solid performance of revenues and, in particular, the good results got by air transport.

The credit risks of the Group correspond to normal levels of exposure giving the activity developed and the size of the Group. In witch concerns with the operations with derivatives, fuel in particular, there is a natural dispersion and diversification of transactions with various counterparts, ensuring, in any event, their credit quality. Other credit risks, associated to amounts deposited in various countries where the Group operates, are reduced as much as possible through a prudent policy of funds repatriation, within the limits imposed by the authorities of each country.

# TAP Group economic and financial performance

## Changes to Group structure

As at 31 December 2012, the following subsidiary companies were included in the financial statements:

- TAP–Transportes Aéreos Portugueses, SGPS, S.A.
  - Transportes Aéreos Portugueses, S.A. (TAP, S.A.)
  - TAPGER–Sociedade de Gestão e Serviços, S.A. and subsidiary companies:
    - CATERINGPOR–Catering de Portugal, S.A.
    - L.F.P.–Lojas Franca s de Portugal, S.A.
    - U.C.S.–Cuidados Integrados de Saúde, S.A.
    - MEGASIS–Sociedade de Serviços e Engenharia Informática, S.A.
  - PORTUGÁLIA–Companhia Portuguesa de Transportes Aéreos, S.A. (PORTUGÁLIA)
  - AEROPAR, Participações, S.A. (AEROPAR) and subsidiary company:
    - TAP–Maintenance and Engineering Brazil, S.A. (ex-VEM)

Subsidiaries are all the entities over which the Group has decision-making power in relation to financial and operating policies, generally represented by over half of voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in the evaluation of whether the Group has control over another entity. The equity and net income of these subsidiary companies corresponding to third party shareholdings are presented under the minority interests headings, respectively, in the consolidated financial position under a separate heading of equity and in the consolidated profit and loss statement.

The purchase method is used to record the acquisition of subsidiary companies. The cost of an acquisition is measured at the fair value of the assets delivered, equity instruments issued and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the acquisition date, regardless of the existence of any non-controlling interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets and liabilities acquired is recorded as goodwill. Subsidiaries are consolidated by the full integration method, as of the date when control is transferred to the Group. If the acquisition cost is less than the fair value of the net assets of the acquired subsidiary (negative goodwill), the difference is recorded directly in the profit and loss statement as *Other income and gains*. Internal transactions, balances, unrealised gains in transactions and dividends distributed among Group companies are eliminated. Unrealised losses are also eliminated, unless the transaction reveals evidence of impairment of a transferred asset.

Associates are defined as all entities over which the Group has significant influence but not control, generally with investments of between 20% to 50% of voting rights.

The following entity was classified as an associate:
- SPdH–Serviços Portugueses de Handling, S.A. (SPdH)

In 2011, SPdH was classified as an associate due to the imposition by the Competition Authority ("AdC") that, until its sale, the management of the Company should be undertaken by a trustee, acting on behalf of the Competition Authority, administering SPdH independently from TAP Group. On 18 June 2012, a purchase and sale contract was celebrated between, on the one hand, TAP S.A., TAP SGPS, Portugália and SPdH and, on the other hand, Urbanos Grupo, SGPS, S.A. for the acquisition, by the latter, of 50.1% of the capital of SPdH, which shall take effect from 20 July 2012, date of the deliberation of the AdC regarding the decision of non-opposition to the said operation. In the interim, on 17 October 2012, Pasogal SGPS, S.A. took over from Urbanos Group, SGPS, S.A. all the rights and obligations that emerged from said contract and Shareholders' Agreement.

Investments in associates are accounted for using the equity method. In accordance with the equity method, shareholdings are recorded by their acquisition cost, adjusted by the value corresponding to the Group's shareholding in the variations of associates' equity (including net income) and dividends received. The differences between the acquisition cost and the fair value of the identifiable assets, liabilities and contingent liabilities of the associate on the acquisition date are recognised, if positive, as Goodwill and maintained under the respective heading. If these differences are negative they are recorded as revenue for the period under the heading *Gains and Losses in associated companies*. An assessment of the interests in associates is carried out when there are indications that the asset may be impaired, with any impairment losses that also exist also being recorded as a cost, under that heading. When impairment losses recognised in previous years cease to exist, they are reversed. The accounting policies of associates are changed whenever necessary, so as to guarantee consistency with the policies adopted by the Group.

These consolidated financial statements of the Group were prepared in conformity with the International Standards on Financial Reporting adopted by the European Union (ISFR – previously designated as International Accounting Standards - IAS), issued by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC), in force at the date of preparation of the said financial statements.

## Economic Situation

### Consolidated net income of TAP Group

For the Air Transport Industry, at an overall level, in spite of the negative economic context, which dominated a significant part of the last twelve months, passenger traffic demand increased markedly in 2012, a fact that clearly demonstrates that global air transport is now an integrated part of our current interconnected world. In turn, the demand for air cargo remained anaemic for most of 2012, having shown some signs of recovery at the end of the year. In Europe, however, the weak business confidence indices and the unemployment rates, at maximum levels, prevented a climate of positive contagion as regards air transport, with European airline companies, hard hit by recession in their home markets, registering the worst performance at a global level, while at the same time some regional air carriers downsized and reduced the level of capacity offered. In the interim, in a climate of continuing economic slowdown, the permanently high fuel prices throughout the year reflecting, to a large extent, disturbances on the supply side, continued to have a negative impact on the Industry's profitability.

**Consolidated net income of TAP Group**
EUR million

| | 2012 | 2011 |
|---|---|---|
| Operating Revenues and Gains | 2,682.4 | 2,478.6 |
| Pre-tax earnings | (17.2) | (64.5) |
| Net Income of shareholders of the parent company | (30.8) | (76.8) |
| Net Income for the year of minority interests | 5.4 | 4.6 |

Regarding the companies of the TAP holding, which follow TAP's strategic guidelines, efforts were made to promote the increased profitability of the activities of the respective sphere of intervention, with this objective being pursued in the ongoing improvement of the quality associated to the different aspects of the services provided, in the differentiation of the products offered, in the adoption of best practices and in the strengthening of the simplification of processes, as well as in the continuous increase in productivity levels. On the other hand, there was consistent action on all costs possible, with the implementation of a suitable cost-cutting programme which included a diversified series of measures, to be enforced until 2012, with transversal effects on all the companies of TAP Group.

However, within the context described above, the consolidated performance at the aggregate level of all the Group's companies was negative, with TAP SGPS having ended 2012 with a net income of shareholders of the parent company of the value of EUR -30.8 million, which nevertheless, represents an improvement of EUR 46.0 million relative to the EUR -76.8 million recorded in 2011.

Contributing to this result was the net income calculated for the companies Groundforce, with EUR -1.5 million and AEROPAR – the company owning 47.64% of the share capital of TAP–Maintenance and Engineering Brazil, with EUR -24.1 million, while the company TAP, S.A. recorded a positive result of the value of EUR 21.4 million. Pre-tax earnings came to EUR -17.2 million, representing an improvement of EUR 47.3 million, compared to the EUR -64.5 million recorded in 2011.

## Operating Revenues and Gains
2012

- 84.0 % Sales and services rendered – Air Transport
- 6.9 % Sales and services rendered – – Maintenance and Engineering
- 6.7 % Other sales and services rendered
- 2.2 % Other
- 0.2 % Operating subsidies

## Operating Costs and Losses
2012

- 45.9 % Cost of goods sold and materials consumed and External supplies and services, except fuel
- 32.1 % Fuel
- 20.3 % Staff costs
- 1.7 % Other

## Net Operating Income

At the operating level (before interest and taxes), the Company recorded EUR 34.4 million, representing EUR 52.5 million more than in 2011.

It is important to note the behaviour of fuel prices, with a relevant impact on results, which remained permanently high over the entire year. It should be further noted that Fuel costs, which in the period between 2001 and 2003 varied between EUR 140 million and EUR 150 million, registered in 2012 a value in the order of EUR 811.5 million for the company TAP, S.A., corresponding to 13.2% more than in 2011, with this evolution being equivalent to EUR 94.6 million, of which EUR 65.0 million (corresponding to 9.1% more than in 2011) is attributable to the price effect, mainly due to the exchange rate devaluation of the euro relative to the USD.

Net operating costs and losses, not including depreciation, amortisation and leasing of aircraft and spare parts stood at EUR 2,474.0 million, EUR 153.3 million or 6.6% more than in 2011. Excluding Fuel costs, this variation stood at 3.7%.

Total operating income and gains reached EUR 2,682.4 million, which compares to the EUR 2,478.6 million of the previous year, corresponding to an increase of 8.2%. Total sales and services rendered increased by EUR 179.2 million, 7.3% more than the value achieved last year.

### Fuel Costs TAP, S.A.
EUR million

| | 2012 | 2011 | var. (abs.) |
|---|---|---|---|
| Total | 811.5 (*) | 716.9 | 94.6 |
| Price Effect | | | 65.0 |
| Quantity Effect | | | 25.2 |
| Acquisition of the $CO_2$ Emission Allowances | | | 4.3 |

(*) Includes charges relative to the acquisition of the $CO_2$ Emission Allowances

This result was mainly due to the behaviour of the income generated by Air Transport which increased by EUR 131.4 million (+6.2%). The income generated by Maintenance and Engineering increased by EUR 30.4 million (+19.6%), with the other services rendered, arising from activities complementary to the Company's core business also having presented a positive performance, with an increase of EUR 17.4 million (+10.7%).

Total gains and losses in associates stood at EUR 4.1 million, mainly corresponding to the net effect of: reinforcement of the provision for financial investments; reversal of 50.1% of the existing provision, following the sale of 50.1% of the stake in SPdH; as well as the value of the sale of 50.1% of the stake in this associated company of TAP Group.

Regarding costs, the headings related to the acquisition of consumed materials and services, excluding fuel, increased by EUR 43.1 million, 3.9% more than in 2011. Total staff costs reached EUR 513.2 million, that is, EUR 10.8 million less than in the previous year, reflecting the variations in all of the respective items, namely staff remunerations and social charges.

### Financial Results

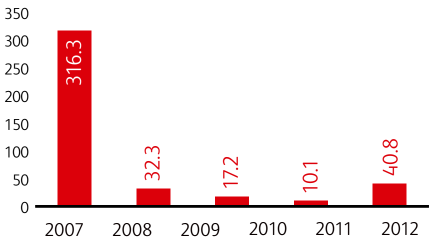
Net financial expenses stood at EUR 51.7 million, reflecting an increase in the order of EUR 5.2 million in relation to the result of 2011. The performance of the financial function was mainly influenced by the increase in interest paid.

### EBITDAR

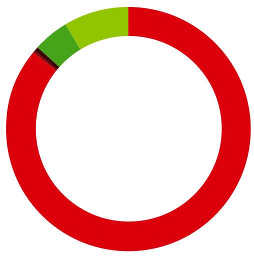
Net working capital to deal with financial and investment costs, measured by EBITDAR (Earnings Before Interest, Taxes, Depreciation and Rent derived from fleet leasing) reached EUR 208.1 million, corresponding to EUR 49.9 million more than in 2011.

## Gross Fixed Capital Formation

EUR million




2012



- 86.0 % Basic Equip. (Aircraft + Spare Engines + Misc. Machinery and Equipment)
- 0.2 % Buildings and Other Constructions
- 0.7 % Transport Equipment
- 4.7 % Administrative Equipment
- 8.4 % Other (Other + Intangible Assets + Assets in Progress + Tools and Dies)

## Financial Situation

The Consolidated Total Assets of TAP, SGPS, S.A. reached EUR 1,651 million, while the degree of use of the Assets, expressed through the ratio between the Company's Turnover and Total Assets reached 1.59.

In 2012, for the TAP Group, total Gross Fixed Capital Formation reached EUR 40.8 million. This amount is essentially related to investments in the acquisition of spare parts, rotary engines and engine equipment for the aircraft fleets, as well as the acquisition of the A319/320 simulator, and maintenance, catering, transport and administrative equipment. It should also be noted that the above value includes investment in data processing equipment and equipment for duty free stores and for Cateringpor kitchens.

The analysis of the economic and financial indicators shows the Net Worth of the Company stands at EUR -380.8 million, reflecting an aggravation of EUR 37.6 million relative to 2011. Reference should also be made to the existence of non-controlling interests to the value of EUR 8.6 million, relative to the companies LFP–Lojas Francas de Portugal and Cateringpor.

The share capital of TAP, SGPS, S.A. is composed of 1,500,000 nominative shares, with the value of EUR 10 each, totally held by Parpública–Participações Públicas, SGPS, S.A., a company 100% owned by the Portuguese State.

Total Liabilities of TAP, SGPS, S.A. stood at EUR 2,031.5 million, with EUR 980.4 million being relative to Non-current Liabilities and EUR 1,051.1 million relative to Current Liabilities, which currently represents 51.7% of total Liabilities, 9.1 percentage points more than in 2011.

Regarding debt structure, bank loans and financial leasing, by the end of 2012 the total reached EUR 1,034.1 million. Liabilities relative to the current remunerated debt of EUR 258.7 million represented 25.0% of the total, corresponding to 5.1 p.p. more than in 2011.

## Consolidated Net Operating Income of TAP Group

EUR million

| | 2012 | 2011 |
|---|---|---|
| Operating Revenues and Gains | 2,682.4 | 2,478.6 |
| Sales and services rendered | 2,618.0 | 2,438.9 |
| Air Transport | 2,253.3 | 2,121.9 |
| Maintenance and Engineering | 185.2 | 154.8 |
| Other sales and services rendered | 179.5 | 162.2 |
| Operating subsidies | 4.3 | 3.3 |
| Gains and losses in associated companies | 4.1 | (11.1) |
| Other revenues and gains | 56.0 | 47.6 |
| Operating Costs and Losses | (2,528.2) | (2,372.2) |
| Cost of goods sold and materials consumed | (205.0) | (188.3) |
| External supplies and services. except fuel | (956.6) | (930.2) |
| Fuel | (811.5) | (716.9) |
| Staff costs | (513.2) | (524.0) |
| Other | 0.5 | 19.1 |
| Other costs and losses | (42.4) | (31.9) |
| Depreciation and amortisation costs/reversals | (119.8) | (122.2) |
| Impairment of assets subject to depreciation/amortisation (losses/reversals) | – | (2.4) |
| Net operating income (earnings before interest and taxes) | 34.4 | (18.1) |

# Outlook for 2013

Following an increase of 3.2% in 2012, the forecasts for the world economy, considering a scenario characterised by the persistence of factors underlying the development of a fragile economic activity, point towards the maintenance of similar levels of growth in 2013, of around 3.5%. Underlying this slowdown of the world economy, the weaknesses present in the major developed economies are particularly noteworthy, most of which, mainly in Europe, are characterised by a vicious cycle of high unemployment, a weak financial sector, high sovereign risk, and fiscal austerity and low growth.

Hence, the political decisions in the eurozone and in the USA enabled the risks of scenarios of extreme crisis to be mitigated. However, in the case of the eurozone, the expectations surrounding the recovery of economic activity continue to be postponed, with this region being the main downside risk to global economic activity. In the interim, in Japan, whose economy has slipped into recession, the application of stimulus measures are expected to have a positive impact on growth in the short term. In turn, in emerging market economies, while in some there has been a return to moderate growth, following the application of political actions, in others there is a persistent struggle between weak foreign demand and the asphyxiation of the domestic economy.

Similarly, in the USA, a GDP growth of 2% is expected, after having reached 2.3% in 2012, in a scenario of uncertainty regarding developments in fiscal policy. In the eurozone, following a more marked contraction in the fourth quarter of 2012, the growth of economic activity is expected to come to -0.5% (-0.4% in 2012) in 2013, following some stabilisation at the start of the year, which is expected to be followed by a gradual recovery. Underlying this behaviour, weak foreign demand and the adverse impact on domestic demand brought about by the deterioration in economic sentiment, arising from tensions in financial markets, the budgetary consolidation measures, the high prices of raw materials and the reduction of debt in the private sector, are noteworthy.

Regarding the Portuguese economy, the prospects remain marked by the adjustment process of the structural macroeconomic disequilibriums, namely the immediate impact of the budgetary consolidation measures, as well as the restrictive financing conditions, within the framework of the gradual deleveraging process of the banking sector. Following the impact of these adjustments, particularly challenging within an international framework marked by lower levels of growth of the world economy, in 2013 Portugal is expected to remain in recession, as in the previous two years, resulting in a significant decline in domestic demand, extensive to all its components, and accompanied by a marked slowdown of exports, within a framework of stagnating foreign demand. Hence, a contraction of economic activity of 1.9% is expected (following a decline of 3.2% in 2012), implying an accumulated reduction of 7.4% over the period 2009-2013, and also based on, in accumulated terms, a reduction in domestic demand of 17%.

It is important to mention, in the current process of adjustment of the external imbalance of the Portuguese economy, the fast reduction of the external borrowing requirements, which, measured by the combined balance of the current and capital accounts, is expected to reach a surplus of 3.1% in 2013. The promotion of the economic development of the Country, within the context of a new institutional framework, determined by structural reforms to promote a more efficient allocation of resources, and an increase in productivity, remains a major challenge.

Regarding the Air Transport Sector, the forecasts for 2013, pointing to a marked divergence of the financial performance between the various regions, continue to emphasise the European companies as those expected to be hardest hit by the recession of their domestic markets, continuing to present the worst performance, in spite of the downsizing efforts and cuts in capacity offered, whereas for North American carriers the continued improvement of their profitability is expected, sustained by the slight recovery of the US economy and by the efficiency measures implemented by the companies of the region undergoing a restructuring and consolidation process.

On the other hand, in terms of costs, continued pressure on the profitability of airline companies is foreseeable, following a new increase in fuel prices arising from an increase in geostrategic tensions, and the maintenance of the price of jet fuel at high levels, which represented for TAP, S.A., in 2012, 35.5% of the company's total operating costs, 1.7 p.p. more than in 2011 and 15 p.p. more than in 2009.

In the interim, the European Union, interrupting its unilateral plans for ETS (Emissions Trading System), created a space for the development, by ICAO, of a global framework of market-based measures regarding climatic issues, to be established through a political agreement with the various states. This entity has already managed to achieve significant progress in the technical requirements of these measures, with the signature of the agreement expected at the General Meeting of ICAO in 2013.

Airline companies transport about 3 billion people per year, and more than a third of the value of all goods commercialised internationally is transported by air. Getting people and goods to their destinations in the most efficient manner improves competitiveness. It is therefore of the utmost importance that countries adopt a strategic vision of the Air Transport Industry, which recognises its importance as a driving force for economic growth. Investments in infrastructures that enable aircraft operations with a minimum of delay, more efficient use of fuel and less carbon emissions, through better routes, represent important contributions on the path to achieving the full economic benefits of aviation and, in this way, promote sustainable growth of the global economy.

For TAP, within the perspective of an economic scenario characterised by higher unemployment, intensification of social pressures and lower purchasing power, in addition to the permanently high fuel prices, the Company reaffirms, in 2013, its continued commitment to the main objective of sustainable growth of TAP Group's results, facing all challenges and maintaining a long term vision in the construction of its future. Thus, its main objective has been defined as the maximisation of profitability in its businesses, so as to enable, in a sustainable way, the restoration of its trajectory of positive net income and value creation consolidation. 2013 promises to be another year of difficult challenges, with higher levels of competition within the scope of the Group's main businesses – Air Transport of Passengers and Cargo and Aircraft Maintenance –, in addition to the adoption of strategies that enable quick adjustments to sudden changes in markets, such as a growing sophistication in the commercial plan, the diversification of revenues, the development of robust segments or a progressive effort of scale, based on exploiting of new opportunities.

It is thus seen as necessary to continue the consolidation strategy followed by the Company, in a context of limited growth and promoting the optimisation and increased flexibility of its organisational and cost structure. In this regard, TAP, evolving from the *Cost-Cutting Programme* to an equally ambitious programme, characterised by a broader spectrum – the *Continuous Improvement Programme* –, proposes to continue with incisive action directed at actions/projects centred on the evaluation of processes which, without losing the continuity and quality already reached, can focus, namely, on efficiency, Customer satisfaction and increased revenues, among other objectives. Particular attention will also be paid to the growth consolidation strategy which has been undertaken in recent years, continuing the effort to stimulate the load factor, with intensified commercial aggressiveness. In this regard, with the exploitation of markets representing a fundamental tool for the consolidation of the Company at an international level, it is worth mentioning, as an objective for 2013, the consolidation of the operations initiated recently and the reinforcement of existing routes – in an effort centred on the exploration of specific market niches –, promoting Lisbon as a turntable and extending the visibility of TAP as the first company connecting the air traffic between Europe, Brazil and Africa.

Moreover, considering that the quality of the service provided to passengers is inseparable from the future of TAP, the Company's main objective for 2013 is to continue its improvement supported by technological innovation, promoting, at the same time, the efficient and effective use of existing resources. Along the same lines, the Company will remain committed to continuing to pursue efforts to improve its positioning, namely, through its new positioning, new image and new slogan, as well as by intensifying permanent communication with the Customer, in particular, via online, allowing the latter to participate and feel heard. In turn, in an effort to reinforce TAP's role as the global showcase of Portuguese products, in

areas such as culture, gastronomy or oenology, the gastronomic creations will continue to be included in the In-Flight service of aircraft in 2013, reinterpreting typical Portuguese cuisine, through a combination of tradition and modernity.

In the context of the constitution of the fleets, 2013 is expected to be a year of consolidation, with no structural changes being foreseen, at the moment, in the TAP or PGA fleets. Notwithstanding, a study on the reinforcement of the long-haul operation is underway, which involves the addition of three wide body aircrafts to the current fleet over the three-year period 2013-2015. In the event of this long-haul future reinforcement, there will be a need to increase the medium-haul fleet capacity.

With the modification of the last aircraft (CS-TOA) of the long-haul fleet, the project involving the upgrade of the IFE (In-Flight Entertainment) system and of the economic class chairs of the A340 aircraft is expected to be concluded in May, an initiative that aims to meet the commercial requirements of improved comfort and In-Flight entertainment services provided to Customers in this fleet.

Regarding TAP–Maintenance and Engineering Portugal, in the commercial context, the prospects for 2013 are markedly positive, with a set of negotiations underway with European operators and lessors within the scope of Aircraft (Airframe) Maintenance, which, if concluded, will result in the full occupation of the capacities available for large aircraft maintenance in Lisbon. In 2013, it is also expected that TAP– Maintenance and Engineering Portugal will assume the maintenance of the landing gear of the E-3 AWACS fleet of NATO, under the NATO Industrial Benefits programme, to be enforced until 2021. Regarding the aircraft maintenance activity, negotiations are being held, with a view to penetrating the maintenance market of the CF6-80C2 engine and increase the market share in the maintenance of the CFM56 family, in different geographic areas, such as the Middle East, South America, Russia and Eastern Europe.

From the operational viewpoint, the increased use of composite materials in the manufacture of the A350 and the new concept of e-Operations will pose important challenges to TAP–Maintenance and Engineering, since new functions are introduced and the operation of various systems undergoes changes relative to the reality of the current A330 fleet. These innovations will require the adaptation to new reparation techniques, the use of new tools and the organisational transformation of some areas. Hence, TAP– Maintenance and Engineering continues to follow the development of the A350 in Toulouse, integrating, since March 2011, the Airline Office (AIO) created by Airbus. The objective of the manufacturer consists of collecting feedback from future operators and maintaining their teams focused on the final customer, in a permanent manner. In addition, with this initiative, it will be able to provide cost savings, by identifying as early as possible aspects that may affect the operation of the airline companies, preventing any modifications, following the aircraft delivery.

In the Components area, the development of in-house reparation capabilities is foreseen, essentially with respect to electronic units and also, the restart of the overhaul of Boeing 707 landing gear, arising from the future new contract with IAMCO/NATO. Regarding the Cost Reduction programme, the development of a project to extend RFID technology to the management of tools and of Ground Support Equipment is foreseen. In addition, in the Engine area, a project aimed at the Reduction of TAT of the shop visits of CFM56-5B, with the objective of reducing the need to make additional reservations, is foreseen to provide savings of EUR 1.3 million, in 2013.

Finally, within the scope of SMS, of TAP–Maintenance and Engineering, the year of 2013 shall be marked by the start of new phases in its implementation, within the context of Safety Assurance, namely, Audit (Safety Audit), the IEP (Internal Evaluation Programme), Management of Change and the Adaptation of the Internal Audits Programme, as well as a Management Risk-based philosophy. An integrated Risk Management IT platform is also expected to be implemented at TAP–Maintenance and Engineering over the course of this year.

In the Maintenance and Engineering business in Brazil, the year of 2013 will be the third year of the 5-year Restructuring Plan that started in 2011 and, as a result should speed up the improvement of Results that was registered in the two previous years. The company shall continue, with custom adjustments, focused on the following three key pillars: i) improvement of the productive capacity and efficiency, which has been evident in the customer satisfaction reports and in the success of the most recent audits (among which the audit of Lufthansa is noteworthy); ii) improvement of the commercial capacity, which based on the previous point, has enabled the confidence of new and important customers to be conquered; iii) economic / financial rehabilitation, which has allowed, among others, greater success in the treatment of tax and labour proceedings that still weigh substantially on the activity and condition its progress.

For the ground handling services provision company SPdH, the year of 2013 will be the first complete year of the new majority privately owned shareholder structure, following the conclusion over recent months of the transfer of management control after the sale of the majority shareholder position. No significant change is, however, expected in the strategy that has served the company so well over the last few years, with a focus on: i) operational excellence which has enabled an improvement in the indicators of service to all its airline company customers and ii) permanent review of its cost structure, namely, the total implementation of the new Corporate Agreement concluded in 2012 which, with the total commitment of the Unions and Management, enabled the sale to be concluded and to accommodate the unfavourable macroeconomic impacts on the company. The main uncertainties in 2013 will continue in that area with the expected continued reduction in the activity of airline companies, including TAP, that operate in Portugal. In addition, one should consider the international public tender process for the attribution of new handling licenses in the airports of Portugal, launched at the end of 2011 by the regulator INAC, whose definition is expected to occur this year.

Also noteworthy is the continued effort of the Company to fulfil its Social Responsibility, Preservation of the Environment and Ecological Responsibility commitments, through the development of a multiplicity of initiatives in these areas.

In addition, within a strategic perspective, the role of TAP, continuously chosen by the Company's Management, is important as a stimulator of national Tourism, promoting the image of Portugal and consequent economic development. In this regard, it is also important to emphasise that over two thirds of the revenue generated by TAP are obtained abroad, a fact of significant importance, with direct impact on the creation of employment and wealth for the Country.

To summarise, the objective is to continue the transformation of TAP into a solid company within the European space, equipped to make the most of all the opportunities presented in the market niche in which it operates, and to differentiate itself due to its operating efficiency and aggregate value of the services provided.

# History of TAP

## The creation of Transportes Aéreos Portugueses (TAP)

### 1945

14th March

Transportes Aéreos Portugueses is created as a section of the Civil Aeronautics Secretariat. Recruitment of technical staff from the Military and Naval Aeronautical Schools begins, and a group of 11 pilots receives specialised training at BOAC (British Overseas Airways Corporation).

The first two 21-passenger DC-3 Dakota aircraft are purchased.

### 1946

The first General Pilots' Course is given in Portugal and, on 19th September, the first commercial route is launched: Lisbon-Madrid.

On 31st December, the Lisbon-Luanda-Lourenço Marques route is launched, known as the Imperial Air Route. With 12 stopovers and taking 15 days (return), it is the longest route in the world, operated using a DC-3.

### 1948

TAP becomes a definitive member of IATA. The Paris and Seville routes are launched.

A new image is adopted and the first ticket office is opened.

### 1950

Maintenance and Engineering begins to provide technical assistance, at the Lisbon and Porto airports, to foreign companies without the means to maintain their own aircraft.

## Transformation into a private company

### 1953

1st June

Transportes Aéreos Portugueses achieves the status of a private company (S.A.R.L.) with mixed capital, majority-owned by the State.

### 1955

The Company's route network now includes a total of eight destinations and its first four engine aircraft, a Lockheed L-1049G Super-Constellation enters into service, operating on the Africa route and substantially reducing flight time.

### 1960

The inaugural flight of the Lisbon-Goa route which lasts close to 19 hours is performed and the Friendship Flight is launched between Lisbon and Rio de Janeiro.

### 1962

In July, TAP receives the first of its three Caravelle VI-R aircraft, bringing it into the jet era.

## The first European company to operate exclusively with jets

### 1967

The first B727 arrives at the Company, and the last Super-Constellation is decommissioned. TAP thus becomes the first European company to operate exclusively with jets.

### 1968

Maintenance and Engineering infrastructures are expanded, with the opening of the Aircraft Engine Revision and Testing Centre, endowed with the most modern technological equipment of the time.

### 1971

The Company's services are transferred to new premises at Lisbon airport, and new maintenance facilities are opened, including Hangar 6.

### 1972

The first two of four Boeing 747-200 become part of the Company's fleet.

TAP takes a 50% stake in the Azorean company SATA, holding the chairing position at its Board of Directors.

### 1974

TAP's network includes over 40 destinations located on four continents, operated by a fleet of 32 technologically-advanced aircraft.

Start-up of the computerised booking, load control and check-in service with the TAPMATIC System.

TAP becomes the first European company to carry out major complete overhauls of the B747 JT9-D engines.

## Nationalisation of TAP

### 1975

16th April

TAP becomes a State-owned company through Decree-Law number 205-E/75.

### 1978

Maintenance and Engineering is distinguished by the international magazine Air Transport World, with the *Technical Management Award*.

### 1979

The Company's modernisation programme is implemented, which also changes the corporate name to TAP–Air Portugal.

The computer cargo booking system (CARGOMATIC) begins operating.

## Strengthening of TAP's fleet

### 1983

The first Boeing B737-200 aircraft arrives at the Company for medium-haul routes and the Lockheed L1011-500 Tristar for long-haul.

Maintenance and Engineering is awarded, for the first time, by the Federal Aviation Administration of the USA (FAA), with the *Repair Station* certificate, endowing TAP with the most extensive licence to repair aircraft and their components. TAP wins the international tender for major inspections of 35 B727-100 aircraft owned by the Federal Express Corporation (FEC).

### 1987

Maintenance and Engineering goes ahead with an extensive programme of structural modifications in Douglas DC-10 aircraft of the FEC, which is the first time this has happened anywhere in the world.

### 1988

The first A310-300 begins operating.

### 1989

TAP is the first airline to establish land-air links by satellite and the first pilots' course entirely held in Portugal takes place.

### 1991

17th August

TAP becomes a public limited company (TAP S.A.), with capital majority-owned by the State through Decree-Law number 312/91.

## TAP enters into the Airbus era

### 1992

The first A320 are delivered, equipped with the most advanced technology: fly-by-wire controls.

### 1994

The first two A340-300s become part of the fleet, and the Strategic Plan for Economic and Financial Restructuring (PESEF) is launched.

### 1996

TAP launches its own website and the decision is taken to renew the medium-haul fleet.

Airbus distinguishes TAP with the *Award for Operational Excellence*, for the best operating performance worldwide for the A340 fleet.

### 1997

The first two A319 become part of the TAP fleet, and the cutting edge technology of Electronic Ticketing (ET) is introduced for domestic flights.

A strategic alliance agreement is signed with SAirGroup.

### 1998

TAP becomes a founding-member of the Qualiflyer Group.

The US Federal Aviation Administration (FAA) renews the certification of the Maintenance and Engineering Business Unit as a *Repair Station*.

### 1999

The first cooperation agreement is established with the company *Oficinas Gerais de Material Aeronáutico* (OGMA).

# TAP's recovery

## 2000

The QTC–Quick Transfer Centre is created, which is a system for fast links for transit passengers at Lisbon airport.

Airbus distinguished TAP with the *Award for Operational Excellence*, for the best operating performance worldwide for the A319 fleet.

The *Maintenance and Engineering Quality* system is awarded its first certification from APCER in conformity with NP EN ISO 9002 Standard, as a company for the Maintenance of Aircraft, Engines and Components.

## 2001

A *hub strategy* is adopted, with Lisbon airport as the centre for operations.

Due to internal problems, the SAirGroup is forced to abandon its intention to acquire a 34% stake in TAP.

Consortium Contract signed for cooperation in the area of extensive maintenance of Airbus aircraft in the A320 family, at OGMA's facilities in Alverca.

## 2003

26th April

The TAP Group is created through the incorporation of a holding company, TAP, SGPS, following a corporate restructuring process, which also involved the creation of the company SPdH–Serviços Portugueses de Handling, S.A., through Decree-Law number 87/2003.

Airbus distinguishes TAP with the *Award for Operational Excellence*, for best operating performance worldwide for the A310 fleet, which also receives the *Highest Daily Utilization Award*.

APCER and IQNet certify the Maintenance and Engineering Quality System in compliance with ISO 9001:2000 Standard.

## 2004

The strategy adopted by TAP is considered as a case-study, in an academic context, by Harvard University.

TAP–Maintenance and Engineering and Federal Express celebrate 20 years of technical cooperation.

## 2005

The Company's new corporate image is presented (TAP Portugal).

TAP joins the world's largest airline alliance, as a company-member of the STAR Alliance.

TAP–Maintenance and Engineering joins the Airbus MRO Network and wins the tender for the total maintenance of two French Air Force Airbus A340.

Airbus distinguishes TAP with the *Award for Operational Excellence*, for the best operating performance worldwide for the A310 fleet.

## 2006

Renewal of the long-haul route fleet, composed of A310 and A340 aircraft, with the first Airbus 330-200 arriving for the operation of the Brazil, USA and Africa routes.

TAP–Maintenance and Engineering and Air France Industries celebrate 10 years of technical cooperation and renew their contract.

The TAP Group and the OMNI Group sign a contract to sell all the shares of White–Airways, S.A..

## 2007

TAP–Maintenance and Engineering obtains the DOA–Design Organisation Approval certification from EASA–European Aviation Safety Agency following a complex certification process.

After the Competition Authority had issued its decision of non-opposition to the operation, TAP acquired the entire share capital of Portugália–Companhia Portuguesa de Transportes Aéreos, S.A, with Gertiserv–Sociedade de Gestão e Serviços, S.A. having been the intermediary, and specifically incorporated for this purpose.

IATA, International Air Transport Association, announces, in Canada, that Fernando Pinto, CEO of TAP, begins a one year term as Chairman of the Governing Board of the Association, electing the environment and operational safety as priorities.

TAP signs a contract for the acquisition of twelve A350 XWB aircraft with Airbus, in Toulouse, with the option of three additional aircraft, including a letter of intention for a further eight aircraft of the A320 family.

# 2008

The inaugural flight to Belo Horizonte is carried out, bringing the operation's total number of destinations between Europe and Brazil to eight and the operation between Lisbon and Casablanca is inaugurated.

TAP's fleet is reinforced, with the new medium-haul A319 airplane.

TAP issue tickets 100% in electronic format.

TAP launches the Freedom of Choice Campaign. 1 Flight, 5 Ways to Travel.

At Lisbon Airport, the new Premium Area (Premium Customer Centre) is inaugurated and the new lounge is opened.

The 9th A330-220 airplane is included in TAP's fleet, received directly from Airbus.

The stake of Globália in SPdH (50.1%) is acquired by three financial institutions, Banco de Investimento Global BIG (19.94%), Banco de Investimento, S.A. BANIF (15.1%) and Banco Invest, S.A. (15.1%).

The company GERTISERV, S.A. is extinguished by merger between the latter and the company Portugália.

# 2009

The first of six new Airbus A320-214 airplanes is received.

TAP's Engine Maintenance activity receives the environmental license relative to the Integrated Prevention and Control of Pollution (PCIP Diploma).

TAP is the first airline company in the world to launch the $CO_2$ Emissions Compensation Programme.

Expansion of the Network in Europe, with the operations to Moscow, Warsaw, Helsinky and Valencia.

TAP continues its efforts to sell the stake that it was forced to reacquire, the majority of the share capital of SPdH, with the corresponding shares having been delivered to an independent entity, EUROPARTNERS, which holds an active role in the realization of AdC decision-making.

# 2010

The company Lojas Francas de Portugal opens a new shop, integrated in the new concept *Just for Travellers*, at Lisbon airport.

TAP is the first Portuguese company, in the Tourism sector, to have created an official channel on YouTube.

The migration of the booking and inventory system to the AMADEUS Altéa platform is implemented and the process of migration of the Departure Control system is initiated.

TAP–Maintenance and Engineering Brazil receives the qualification, attributed by the manufacturer Embraer, as a service centre authorised in Brazil (Embraer Authorised Service Centre – EASC).

TAP carried out the return flight to Rome of His Holiness Pope Benedict XVI, on the occasion of his Apostolic Journey to Portugal.

Start of the operations to Algiers, Marrakech and the Airport of Viracopos, in Campinas (State of Sao Paulo).

# 2011

The *Safety Policy* of TAP–Maintenance and Engineering is published.

TAP launches the new campaign and Company slogan *With Arms Wide Open*.

Direct operations to Dusseldorf, Bordeaux, Vienna, Athens, Manchester and Dubrovnik are inaugurated, consolidating the positioning of the Company in the European continent.

New routes are launched to Miami (USA), Bamako (Mali), Porto Alegre (Brazil), S. Vicente (Cape Verde) and Accra (Ghana), in an effort to reinforce the strategic importance of the Lisbon hub.

Cut-over of the new cargo booking system – Cargospot.

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## Consolidated Financial Statements

31 December 2012

# Consolidated Statement of the Financial Position

31 December 2012 and 2011
Values in thousand Euros

| ASSETS | Note | 2012 | 2011 |
|---|---|---|---|
| Non-current assets | | | |
| Tangible fixed assets | 5 | 838,250 | 952,332 |
| Investment properties | 6 | 4,274 | 2,862 |
| Goodwill | 7 | 200,895 | 206,395 |
| Other intangible assets | 8 | 1,313 | 1,424 |
| Other financial assets | 13 | 2,848 | 3,258 |
| Deferred tax assets | 15 | 24,109 | 23,758 |
| Other accounts receivable | 18 | 47,591 | 34,398 |
| | | 1,119,280 | 1,224,427 |
| Current assets | | | |
| Inventories | 20 | 125,115 | 142,429 |
| Customers | 21 | 231,574 | 250,482 |
| Advances to suppliers | 16 | 5,378 | 11,221 |
| State and other public entities | 17 | 17,836 | 18,620 |
| Other accounts receivable | 18 | 56,572 | 156,615 |
| Deferrals | 19 | 9,597 | 10,805 |
| Cash and bank deposits | 22 | 85,353 | 167,365 |
| | | 531,425 | 757,537 |
| Total assets | | 1,650,705 | 1,981,964 |

| EQUITY AND LIABILITIES | Note | 2012 | 2011 |
|---|---|---|---|
| Equity | | | |
| Share capital | 24 | 15,000 | 15,000 |
| Legal reserves | 24 | 3,000 | 3,000 |
| Currency conversion reserves | 24 | (13,579) | (6,867) |
| Fair value reserves | 24 | (1,680) | (1,236) |
| Adjustment of holdings | | (2,260) | (2,260) |
| Retained earnings | 24 | (359,091) | (281,876) |
| Net income for the year | 24 | (30,794) | (76,807) |
| Total equity of the Group | | (389,404) | (351,046) |
| Non-controlling interests | 25 | 8,599 | 7,801 |
| Total equity | | (380,805) | (343,245) |
| Non-current liabilities | | | |
| Provisions | 26 | 30,838 | 158,086 |
| Loans received | 27 | 775,390 | 985,709 |
| Liabilities related to post-employment benefits | 28 | 71,026 | 78,540 |
| Deferred tax liabilities | 15 | 24,239 | 23,933 |
| State and other public entities | 17 | 76,557 | 84,868 |
| Other accounts payable | 31 | 2,380 | 1,958 |
| | | 980,430 | 1,333,094 |
| Current liabilities | | | |
| Suppliers | 30 | 116,029 | 165,081 |
| Advances from customers | 29 | 1,047 | 1,202 |
| State and other public entities | 17 | 29,727 | 29,087 |
| Shareholders | 14 | 50,000 | – |
| Loans received | 27 | 258,674 | 245,209 |
| Other accounts payable | 31 | 263,585 | 222,633 |
| Advances from customers - tickets to be used | 32 | 278,658 | 263,510 |
| Deferrals | 19 | 53,360 | 65,393 |
| | | 1,051,080 | 992,115 |
| Total liabilities | | 2,031,510 | 2,325,209 |
| Total equity and liabilities | | 1,650,705 | 1,981,964 |

The notes are an integral part of the Consolidated statement of the financial position as at 31 December 2012.

# Consolidated Profit and Loss Statement

31 December 2012 and 2011
Values in thousand Euros

| | Note | 2012 | 2011 |
|---|---|---|---|
| Sales and services rendered | 35 | 2,618,049 | 2,438,880 |
| Operating grants | 36 | 4,312 | 3,253 |
| Gains and losses in associates | 37 | 4,110 | (11,124) |
| Variation in production inventories | 38 | (7,887) | 10,512 |
| Own work capitalised | 39 | 1,144 | 950 |
| Cost of goods sold and materials consumed | 40 | (205,028) | (188,272) |
| External supplies and services | 41 | (1,768,063) | (1,647,060) |
| Staff costs | 42 | (513,201) | (523,970) |
| Inventory adjustments (losses/reversals) | 43 | (1,964) | (2,448) |
| Impairment of debts receivable (losses/reversals) | 44 | 3,323 | 588 |
| Provisions (increases/decreases) | 45 | 3,687 | 12,603 |
| Impairment of assets not subject to depreciation/amortisation (losses/reversals) | 46 | – | (3,400) |
| Fair value increases/reductions | 47 | 2,210 | 255 |
| Other revenue and gains | 48 | 55,972 | 47,638 |
| Other costs and losses | 49 | (42,443) | (31,932) |
| Earnings before interest, taxes, depreciation and amortisation | | 154,221 | 106,473 |
| Depreciation and amortisation costs/reversals | 50 | (119,776) | (122,190) |
| Impairment of assets subject to depreciation/amortisation (losses/reversals) | 46 | – | (2,350) |
| Net operating income (earnings before interest and taxes) | | 34,445 | (18,067) |
| Interest and similar revenue | 51 | 5,696 | 8,596 |
| Interest and similar costs | 51 | (57,371) | (55,032) |
| Pre-tax earnings | | (17,230) | (64,503) |
| Corporate income tax for the year | 52 | (8,185) | (7,700) |
| Net income for the year | | (25,415) | (72,203) |
| | | | |
| Net income of shareholders of the parent company | 24 | (30,794) | (76,807) |
| Net income of non-controlling interests | 53 | 5,379 | 4,604 |
| | | | |
| Basic and diluted earnings per share (euros) | 24 | (21) | (51) |

The notes are an integral part of the Consolidated profit and loss statement as at 31 December 2012.

# Consolidated Comprehensive Income Statement

31 December 2012 and 2011
Values in thousand Euros

| | Note | 2012 | 2011 |
|---|---|---|---|
| Net income | | (25,415) | (72,203) |
| Other comprehensive income | | | |
| Currency conversion gains and losses (Note 24) | 24 | (6,712) | (1,843) |
| Gains and losses in cash flow hedging instruments (Note 24) | 24 | (444) | (230) |
| Other gains and losses | 15 | (408) | – |
| Income recorded directly in equity | | (7,564) | (2,073) |
| Comprehensive income | | (32,979) | (74,276) |
| Attributable to: | | | |
| TAP SGPS Shareholders | | (38,358) | (78,880) |
| Non-controlling interests (Note 53) | 53 | 5,379 | 4,604 |
| Total income and costs recognised in the year | | (32,979) | (74,276) |

The notes are an integral part of the Consolidated comprehensive income statement as at 31 December 2012.

# Consolidated Statement of Changes in Equity

31 December 2012 and 2011
Values in thousand Euros

| | Share capital | Legal reserves | Currency conversion reserves (Note 24) | Fair value reserves (Note 24) | Adjustment of shareholdings | Retained earnings | Net income for the year | Subtotal | Non-controlling interests (Notes 25 and 53) | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Financial position as at 01-Jan-2011 | 15,000 | 3,000 | (5,024) | (1,006) | (2,260) | (224,773) | (57,103) | (272,166) | 7,355 | (264,811) |
| Transactions with shareholders in 2011 | – | – | – | – | – | (57,103) | 57,103 | – | (4,158) | (4,158) |
| Application of results and distribution of profit and reserves | – | – | – | – | – | (57,103) | 57,103 | – | – | – |
| Distribution of dividends to non-controlling interests | – | – | – | – | – | – | – | – | (4,158) | (4,158) |
| Comprehensive income in 2011 | – | – | (1,843) | (230) | – | – | (76,807) | (78,880) | 4,604 | (74,276) |
| Net income for the year | – | – | – | – | – | – | (76,807) | (76,807) | 4,604 | (72,203) |
| Other comprehensive income | – | – | (1,843) | (230) | – | – | – | (2,073) | – | (2,073) |
| Financial position as at 31-Dec-2011 | 15,000 | 3,000 | (6,867) | (1,236) | (2,260) | (281,876) | (76,807) | (351,046) | 7,801 | (343,245) |
| Transactions with shareholders in 2012 | – | – | – | – | – | (76,807) | 76,807 | – | (4,581) | (4,581) |
| Application of results and distribution of profit and reserves | – | – | – | – | – | (76,807) | 76,807 | – | – | – |
| Distribution of dividends to non-controlling interests | – | – | – | – | – | – | – | – | (4,581) | (4,581) |
| Comprehensive income in 2012 | – | – | (6,712) | (444) | – | (408) | (30,794) | (38,358) | 5,379 | (32,979) |
| Net income for the year | – | – | – | – | – | – | (30,794) | (30,794) | 5,379 | (25,415) |
| Other comprehensive income | – | – | (6,712) | (444) | – | (408) | – | (7,564) | – | (7,564) |
| Financial position as at 31-Dec-2012 | 15,000 | 3,000 | (13,579) | (1,680) | (2,260) | (359,091) | (30,794) | (389,404) | 8,599 | (380,805) |

The notes are an integral part of the Consolidated statement of changes in equity as at 31 December 2012.

# Consolidated Cash Flow Statement

December 2012 and 2011
Values in thousand Euros

| | Note | 2012 | 2011 |
|---|---|---|---|
| Operating activities: | | | |
| Receipts from customers | | 2,778,853 | 2,564,215 |
| Payments to suppliers | | (2,163,497) | (1,861,259) |
| Payments to staff | | (405,438) | (425,419) |
| Payment/receipt of corporate income tax | | (5,521) | (13,042) |
| Other receipts/payments relative to operating activity | | (93,684) | (166,341) |
| Cash flow from operating activities | | 110,713 | 98,154 |
| Investment activities: | | | |
| Receipts from: | | | |
| Other tangible fixed assets | | 40,894 | 217 |
| Financial investments | | 336 | 157 |
| Interest and similar income | | 4,383 | 8,531 |
| Loans granted | | 2,500 | 77,000 |
| Dividends | | 410 | – |
| | | 48,523 | 85,905 |
| Payments relative to: | | | |
| Other tangible fixed assets | | (36,530) | (16,685) |
| Interest and similar costs | | (93) | – |
| Loans granted | | (7,819) | (118,660) |
| | | (44,442) | (135,345) |
| Cash flow from investment activities | | 4,081 | (49,440) |
| Financing activities: | | | |
| Receipts from: | | | |
| Loans received | | 71,243 | 143,210 |
| | | 71,243 | 143,210 |
| Payments relative to: | | | |
| Loans received | | (84,546) | (125,520) |
| Financial leasing contracts | | (132,506) | (106,720) |
| Interest and similar costs | | (43,049) | (44,366) |
| Dividends | | (4,600) | (4,160) |
| | | (264,701) | (280,766) |
| Cash flow from financing activities | | (193,458) | (137,556) |
| Variations in cash and cash equivalents | | (78,664) | (88,842) |
| Effect of currency conversion differences | | (3,329) | 6,103 |
| Cash and cash equivalents at the beginning of the year | | 125,015 | 207,754 |
| Cash and cash equivalents at the end of the year | 22 | 43,022 | 125,015 |

The notes are an integral part of the Consolidated cash flow statement as at 31 December 2012.

# Notes to the Financial Statements

## 1. Economic activity of Grupo TAP

The Grupo TAP, composed by TAP – Transportes Aéreos Portugueses, SGPS, S.A. ("TAP SGPS") and its subsidiaries ("Grupo TAP" or the "Group") has its head office at Lisbon Airport and is dedicated to passengers cargo and air mail air transport maintenance and engineering works, handling in airports, management of commercial areas in airports - duty free shops and catering for aviation.

TAP – Transportes Aéreos Portugueses, SGPS, S.A. was incorporated on 25 June 2003 under Decree-Law no. 87/2003, of 26 April, and its share capital was fully underwritten and paid-up in kind by Parpública – Participações Públicas, SGPS, S.A. ("Parpública"), through the entry of shares representing the total share capital of the company Transportes Aéreos Portugueses, S.A. ("TAP S.A.").

The main activity of Grupo TAP consists in the air transport of passengers, cargo and mail, operating scheduled flights on the Portuguese mainland and in the Autonomous Regions of Madeira and the Azores, as well as across Europe, Africa, North Atlantic, Mid-Atlantic and South Atlantic. It has 20 representative offices in foreign countries and 4 representative offices in Portugal. In addition, TAP also carries out maintenance and engineering work for its fleet and third parties.

| | |
|---|---|
| Head office | Lisbon Airport, Edifício 25 |
| Share Capital | Euros 15,000,000 |
| Taxpayer Number: | 506 623 602 |

The consolidated financial statements reported herein were approved in the meeting of the Executive Board of Directors held on 22 March 2013.

The members of the Executive Board of Directors that have signed this report declare that, to the best of their knowledge, the information provided herein was drafted according the applicable Accounting Standards, presenting a true and adequate picture of the assets and liabilities, the financial situation and the results of the companies included in the Group's consolidation perimeter.

## 2. Accounting policies and valuation criteria

The main accounting policies applied in the preparation of these consolidated financial statements are described below.

### 2.1. Basis of presentation

The present consolidated financial statements of the Group were prepared according the International Financial Reporting Standards adopted by the European Union (IFRS – formerly called the International Accounting Standards – IAS) issued by the International Accounting Standards Board ("IASB") and with the interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") or by the former Standing Interpretations Committee ("SIC"), in force on the date of preparation of the said financial statements.

The consolidated financial statements attached herewith were prepared under the assumption of business continuity, using the accounting ledgers and records of the companies included in the consolidation (Note 2.3.1), and based on historical cost, with the exception of derivative financial instruments, assets available for sale, investment properties and customer loyalty programmes, which are recorded at fair value.

The preparation of the financial statements requires the use of relevant estimates and judgements in the application of the Group's accounting policies. The main assertions that involve a higher level of judgement or complexity, or more significant assumptions and estimates for the preparation of the said financial statements, are disclosed in Note 2.30.

### 2.2. Comparability

The figures presented in the consolidated financial statements for the financial year ended on 31 December 2012 are comparable in all significant aspects with the 2011 financial year figures.

### 2.3. Basis of consolidation

#### 2.3.1. Subsidiaries

Subsidiaries are all the entities in which the Group has power to decide on financial and operating policies, usually represented by over half of the voting rights. The existence and the effects of potential voting rights that are currently exercisable or convertible are considered in the evaluation of whether the Group has control over another entity.

The equity and net income of these subsidiary companies corresponding to third party holdings are presented under the non-controlling interests headings, respectively, in the consolidated financial position under a specific heading of equity and in the consolidated profit and loss statement. The companies included in the consolidated financial statements are listed below:

| Corporate name | Head office | Main activity | Shareholders | % share capital held 2012 | % share capital held 2011 |
|---|---|---|---|---|---|
| TAP–Transportes Aéreos Portugueses, SGPS, S.A. | Lisbon | Management and administration of holdings | Parpública | 100.00% | 100.00% |
| Transportes Aéreos Portugueses, S.A. | Lisbon | Aeronautical activities | TAP SGPS | 100.00% | 100.00% |
| TAPGER–Sociedade de Gestão e Serviços, S.A. ("TAPGER") | Lisbon | Management of complementary activities | TAP SGPS | 100.00% | 100.00% |
| Portugália–Companhia Portuguesa de Transportes Aéreos, S.A. ("Portugália") | Lisbon | Aeronautical activities | TAP SGPS | 100.00% | 100.00% |
| Cateringpor–Catering de Portugal, S.A. ("Cateringpor") | Lisbon | Catering | TAPGER | 51.00% | 51.00% |
| L.F.P.–Lojas Francas de Portugal, S.A. ("LFP") | Lisbon | Duty free shop operation | TAPGER | 51.00% | 51.00% |
| Megasis–Soc. de Serviços e Engenharia Informática, S.A. ("Megasis") | Lisbon | Engineering and provision of IT services | TAPGER | 100.00% | 100.00% |
| U.C.S.–Cuidados Integrados de Saúde, S.A. ("UCS") | Lisbon | Healthcare services | TAPGER | 100.00% | 100.00% |
| Aeropar, Participações, S.A. ("Aeropar") | Brazil | Management and administration of holdings | TAP SGPS | 99.00% | 99.00% |
| | | | Portugália | 1.00% | 1.00% |
| TAP–Manutenção e Engenharia Brasil, S.A. (ex-VEM) ("TAP ME Brasil") | Brazil | Maintenance and aeronautical engineering | Aeropar | 47.64% | 47.64% |
| | | | TAP SGPS | 51.00% | 51.00% |

The purchase method is used to record the acquisition of subsidiary companies. The cost of an acquisition is measured at the fair value of the assets delivered, equity instruments issued and liabilities incurred or assumed at the date of acquisition.

For acquisitions after 1 January 2010, the costs directly attributable to the acquisition are recorded in net income for the year.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the acquisition date, independently of the existence of any non-controlling interests. The excess of the acquisition cost over the fair value of the Group's share of the identifiable assets and liabilities acquired is recorded as goodwill, which is detailed in Note 7.

Subsidiaries are consolidated by the full integration method, as of the date when control is transferred to the Group.

If the acquisition cost is less than the fair value of the net assets of the acquired subsidiary (negative goodwill), the difference is recorded directly in the profit and loss statement as "Other income and gains".

Internal transactions, balances, unrealised gains in transactions and dividends distributed among Group companies are eliminated. Unrealised losses are also eliminated, unless the transaction shows an impairment of a transferred asset.

When, at the date of acquisition of control, Grupo TAP already has a previously acquired stake, the fair value of that stake contributes to the determination of goodwill or negative goodwill.

When the acquisition of control is carried out for a percentage of less than 100%, in the application of the purchase method, the non-controlling interests can be measured at fair value or at the proportion of fair value of the acquired assets and liabilities, with that option being defined in each transaction.

Subsequent transactions involving the disposal or acquisition of non-controlling interests shareholdings which do not imply the loss of control, do not result in gains, losses or goodwill, being recorded in the equity any difference between the transaction value and the book value of the shareholding transacted.

The accounting policies of subsidiaries were changed whenever necessary, to guarantee consistency with the policies adopted by the Group.

### 2.3.2. Associates

Associates are all entities over which the Group has significant influence but not control, usually related with investments representing 20% to 50% of voting rights. Investments in associates are accounted using the equity method.

In accordance with the equity method, financial holdings are recorded at their acquisition cost, adjusted by the value corresponding to the Group's holding in the variations of the equity (including net income) of the associates, and by dividends received.

The differences between the acquisition cost and fair value of the identifiable assets, liabilities and contingent liabilities of the associate on the acquisition date are recognised as goodwill when positive, and maintained under the respective heading. If these differences are negative, they are recorded as gains for the financial year as "Gains and losses in associated companies".

An assessment of the interests in associates is carried out when there are indications that the asset may be impaired, with any impairment losses that also exist in this item being recorded as costs. When impairment losses recognised in previous years cease to exist, they are reversed.

The accounting policies of associates are changed whenever necessary, to guarantee consistency with the policies adopted by the Group.

The following entity qualifies as an associate:

| Corporate name | Head office | Main activity | Shareholders | % share capital held 2012 | % share capital held 2011 |
|---|---|---|---|---|---|
| SPdH–Serviços Portugueses de Handling, S.A. ("SPdH") | Lisbon | Handling | TAP SGPS | 43.90% | 43.90% |
| | | | Portugália | 6.00% | 6.00% |
| | | | TAP, S.A. | – | 50.10% |

In 2011, SPdH was classified as an associate due to the imposition by the Competition Authority ("AdC") that, until its sale, the management of the Company should be undertaken by a trustee, acting on behalf of the AdC, managing SPdH independently from Grupo TAP.

On 18 June 2012, a purchase and sale contract was celebrated between, on the one hand, TAP S.A., TAP SGPS, Portugália and SPdH and, on the other hand, Urbanos Grupo, SGPS, S.A. for the acquisition, by the latter, of 50.1% of the capital of SPdH, which shall effectively from 20 July 2012, date of the deliberation of the AdC related with the decision of non-opposition to the said operation. On 17 October 2012, Pasogal SGPS, S.A. took over from Urbanos Group, SGPS, S.A. all the rights and obligations that emerged from said contract and Shareholders' Agreement.

The investments in associates are presented in detail in Notes 10 and 26.

## 2.4. Segmental reporting

The Group presents its operating segments based on the management information produced internally. Indeed the operating segments are reported consistently with the internal management information model, provided to the senior manager responsible for the entity operational decisions namely the allocation of resources in the segment and assessment of its performance as well as the taking of strategic decisions.

Business segment is a set of assets and operations of the Group that are subject to different risks and returns than those of other business segments, being reported consistently with the management internal reporting.

Five business segments have been identified: air transport, maintenance and engineering, duty free shop, catering and others.

The accounting policies for segmental reporting are those ones used consistently within the Group. All inter-segment income is valued at market prices and eliminated in the consolidation. The information related with the identified segments is presented in Note 55.

## 2.5. Currency conversion

### 2.5.1. Functional and reporting currency

The elements included in the financial statements for each Group entity are measured using the currency of the economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in thousand Euros, which is the Group's functional and reporting currency.

### 2.5.2. Balances and transactions expressed in foreign currency

All Group assets and liabilities expressed in foreign currency were converted into Euros using the exchange rates in force on the date of the financial position.

Currency conversion differences, favourable and unfavourable, arising from differences between the exchange rates in force on the date of the transactions and those applicable on the collection, payment or financial position date, were recorded as income and costs in the consolidated profit and loss statement for the year.

### 2.5.3. Group companies

The results and financial position of all Group entities which use a functional currency that is different from its reporting currency are converted into the reporting currency as follows:

- (i) The assets and liabilities of each financial position are converted at the exchange rate in force on the date of the consolidated financial statements. Any resulting currency conversion differences are recognised as a separate item in equity, as "Currency conversion reserves".

- (ii) The income and costs of each income statement are converted at the average exchange rate of the reporting year, unless the average rate is not a reasonable approximation of the cumulative effect of the rates in force on the dates of the transactions. In this case, the income and costs are converted at the exchange rates in force on the dates of the transactions.

Any resulting currency conversion differences of a monetary item that is part of the net investment in a foreign operating unit are recognised in a separate item of equity and stated through profit or loss at the time of the disposal of the net investment or settlement of these amounts.

The exchange rates used in the conversion of the financial statements expressed in a currency other than the Euro or to update balances expressed in a foreign currency were as follows:

| Currency | 2012 | 2011 |
|---|---|---|
| BRL | 2.7036 | 2.4159 |
| USD | 1.3194 | 1.2939 |

For the Brazilian subsidiaries, the monthly balances were converted at the rate of the last day of each month, as follows:

| Month | 2012 | 2011 |
|---|---|---|
| January | 2.2893 | 2.2962 |
| February | 2.2872 | 2.2932 |
| March | 2.4323 | 2.3058 |
| April | 2.4920 | 2.3464 |
| May | 2.4935 | 2.2758 |
| June | 2.5788 | 2.2601 |
| July | 2.5117 | 2.2431 |
| August | 2.5804 | 2.3135 |
| September | 2.6232 | 2.5067 |
| October | 2.6389 | 2.3647 |
| November | 2.7391 | 2.4341 |
| December | 2.7036 | 2.4159 |

## 2.6. Intangible Assets

Intangible assets are recorded at acquisition cost minus depreciation and impairment losses, using the straight line method over a period that varies between 3 and 10 years.

## 2.7. Goodwill

Goodwill represents the excess of acquisition cost over the fair value of the assets, liabilities and identifiable contingent liabilities of the subsidiaries on the acquisition date.

Goodwill is not amortised and is subject to impairment tests, at least once a year. Impairment losses relative to goodwill cannot be reversed. Gains or losses arising from the sale of the control of an entity include the value of the corresponding goodwill.

## 2.8. Tangible fixed assets

Tangible fixed assets acquired before January 1st 2004 (IFRS transition date) are recorded at acquisition cost, or revalued acquisition cost in accordance with the accounting principles generally accepted in Portugal until that date, minus depreciation and accumulated impairment losses.

Furthermore, on the transition date, the subsidiary TAP, S.A. applied the exception foreseen in IFRS 1 - First-time Application of International Financial Reporting Standards, through which the fair value of some categories of assets may be considered at deemed cost, reported on the transition date (1 January 2004).

Thus, effective of 1 January 2004, the buildings of the said subsidiary were revalued at their corresponding fair value on that date. The fair value of these tangible fixed assets items was determined through an asset valuation study conducted by an independent specialised entity (Colliers P&I), which also determined the remaining useful life of these assets, on the transition date.

Tangible fixed assets acquired after the transition date are presented at acquisition cost minus depreciation and impairment losses. The acquisition cost includes all expenditure directly attributable to the acquisition of the assets.

Subsequent costs are included in the acquisition cost of the asset or recognised as separate assets, as appropriate, only when it is probable that future economic benefits will flow to the Group and the respective cost can be measured reliably. Any other expenditure related to repairs and maintenance is recognised as a cost for the financial year when it is incurred.

Depreciation is calculated based on acquisition cost, using the straight line method by twelfths and the rates that best reflect estimated useful life, as follows:

| | Years of useful life | Final salvage value |
|---|---|---|
| Buildings and other constructions | 20 - 50 | – |
| Basic equipment: | | |
| Flight equipment: | | |
| Aircraft | 16 | 10% |
| Aircraft under financial leasing | 16 | 10% |
| Spare engines and spare parts | 16 | 10% |
| Spare engines under financial leasing | 16 | 10% |
| Other basic equipment | 7 - 16 | 0 - 10% |
| Transport equipment | 4 - 10 | – |
| Tools and utensils | 8 - 16 | 0 - 10% |
| Administrative equipment | 5 - 16 | – |
| Other tangible fixed assets | 10 | – |

The residual values of the assets and respective useful lives are reviewed and adjusted, if necessary, on the reporting date. If the book value is higher than the recoverable value of the asset, it is readjusted to its estimated recoverable value through the recording of impairment losses (Note 2.10).

Gains or losses arising from a write-off or disposal are determined by the difference between the proceeds of the disposals minus transaction costs and the book value of the assets, and are recognised in the income statement as operating income and gains or costs and losses.

## 2.9. Investment properties

Investment properties are real estate assets (land, buildings or parts of buildings) held with the objective of capital appreciation, receipt of rents, or both. The investment properties were initially measured at fair value on the IFRS transition date, and valued subsequently in accordance with the fair value model, which is applied to all assets classified as investment properties.

The fair value of the investment properties is determined based on valuations conducted by external valuators considering the conditions of their use or best use, according to whether they are rented or not.

## 2.10. Impairment of non-current assets

Non-current assets that do not have a defined useful life are not subject to depreciation or amortisation, but are subject to annual impairment tests. Assets subject to amortisation/depreciation are reviewed for impairment whenever events or changes in circumstances indicate that their book value might not be recoverable.

An impairment loss is recognised by the amount of the excess book value of the asset in relation to its recoverable value. The recoverable amount is the highest value between the fair value of an asset, minus its selling costs, and its value in use.

In order to carry out impairment tests, assets are grouped at the lowest level at which it is possible to separately identify cash flows (cash generating units to which the asset belongs), when it is not possible to do so on an individual basis, for each asset.

Impairment losses, recognised in previous periods, are reversed when it is concluded that the recognised impairment losses no longer exist or have diminished (with the exception of goodwill impairment losses – see Note 2.7).

The reversal of impairment losses is recognised in the income statement as “Impairment of assets not subject to depreciation/amortisation” and “Impairment of assets subject to depreciation/amortisation”, unless the asset has been revalued, in which case the reversal will correspond to a revaluation increase. However, an impairment loss is reversed up to the limit of the amount that would be recognised (net of amortisation or depreciation) if the impairment loss had not been recorded in previous financial years.

## 2.11. Financial investments

The Group classifies its investments under the following categories: loans granted and accounts receivable, financial assets at fair value through profit or loss, investments held to maturity and financial assets available for sale. The classification depends on the purpose for which the investment was acquired. Classification is determined at the time of the initial recognition of the investments, and revalued on each reporting date.

All acquisitions and disposals of these investments are recognised on the date of signing the respective purchase and sale contracts, regardless of the financial settlement date.

Investments are initially recorded at their acquisition value, with their fair value being equivalent to the price paid and payable, including transaction costs, except for financial assets at fair value through profit or loss. Thereafter, measurement depends on the category into which the investment is classified, as follows:

### Loans granted and accounts receivable

Loans granted or accounts receivable are non-derivative financial assets with fixed or determinable payments and which are not listed on an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of negotiating the debt.

They are included in current assets, except when the assets have maturities above 12 months after the date of the financial position, in which case they are classified as non-current assets.

Loans granted and accounts receivable are measured initially at fair value and subsequently at amortised cost.

Loans granted and accounts receivable are included in the statement of the financial position as "Other accounts receivable".

### Financial assets at fair value through profit or loss

A financial asset is classified under this category if acquired mainly for selling in the short term or if so designated by the management. Assets in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the reporting date. These investments are measured at fair value through the income statement.

### Investments held to maturity

Investments held to maturity are non-derivative financial assets, with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. Investments in this category are recorded at amortised cost using the effective interest rate method.

### Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are either designated in this category or not classified under any other category. They are included in non-current assets, unless the management intends to dispose of the investment within 12 months after the reporting date. These financial investments are recognised at market value, defined as the respective stock market price on the date of the financial position.

If there is no active market, the Group establishes fair value through valuation techniques, which include the use of recent commercial transactions, reference to other instruments with similar characteristics, discounted cash flow analysis and option pricing models modified to reflect the issuer's specific circumstances.

Potential gains and losses arising in this way are recorded directly in the fair value reserve, unless there is impairment, until the financial investment is sold, received, or disposed of in any way, at which time the accumulated gain or loss, formerly recognised in the fair value reserve, is included in net income for the year.

If there is no market value or if it is not possible to determine one, the said investments are maintained at acquisition cost. Any loss of value is recognised as an impairment loss when justified.

The Group assesses, on each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is a prolonged decline in the fair value of the financial assets available for sale, the cumulative loss – measured as the difference between acquisition cost and current fair value, minus any impairment loss in that financial asset previously recognised through profit or loss - is annulled through equity and recognised through profit or loss for the year.

A recognised impairment loss, relative to financial assets available for sale, is reversed if the loss has been caused by specific external events of an exceptional nature that are not expected to recur, but which subsequent external events have reversed. Under these circumstances, the reversal does not affect the profit and loss statement, whereas the reversal of impairment loss of a debt instrument, classified as available for sale, must be recognised through profit or loss for the year.

## 2.12. Derivative financial instruments

The Group uses derivatives in order to manage the financial and operating risks to which it is exposed. Whenever expectations of changes in interest rates or jet fuel prices justify this, the Group seeks to hedge against adverse movements through derivative instruments, such as interest rate swaps ("IRS"), swaps and options.

The selection of derivative financial instruments is essentially driven by their economic properties. Derivative financial instruments are recorded in the statement of the financial position at their fair value.

Since they are considered effective hedges (cash flow hedges), changes in fair value are initially recorded having the equity as the counterpart and subsequently recorded through net operating income for jet fuel instruments, and net financial results for interest rate instruments, on their settlement date.

Accordingly, in net terms, the costs associated to hedged loans are accrued at the rate inherent to the contracted hedging operation. Gains or losses arising from the premature rescission of this type of instrument are recorded through profit or loss, when the hedged operation also affects net income.

Whenever possible, the fair value of derivatives is estimated based on listed instruments. In the absence of market prices, the fair value of derivatives is estimated through the discounted cash-flow method and option valuation models, in accordance with prevailing market assumptions.

The fair value of derivative financial instruments is included, essentially, as other current accounts receivable and other current and non-current accounts payable.

## 2.13. Income tax

Income tax includes current and deferred tax. Current income tax is determined based on net income, adjusted in accordance with the tax law in force on the reporting date.

Deferred tax is calculated based on the balance sheet liability, on temporary differences between the book value of assets and liabilities and the respective tax base. To determine the deferred tax, the tax rate used is the one expected to be in force during the period when the temporary differences will be reversed.

Deferred tax assets are recognised as assets whenever there is reasonable assurance that future profit will be generated, versus which they can be used. Deferred tax assets are reviewed periodically and revised downwards whenever it no longer appears probable that they can be used.

Deferred taxes are recorded as costs or revenue for the period, unless they arise from values recorded directly under equity, in which case the deferred tax is also recorded under the same heading.

## 2.14. Inventories

Inventories are valued according to the following criteria:

### Goods and raw materials

Goods, raw materials and consumables are valued at the lower of acquisition cost and net realisable value. Acquisition cost includes expenses incurred up to arrival of goods at the warehouse, using the weighted average cost as the costing method.

Material recovered internally is valued at cost.

### Products and work in progress

Products and work in progress are valued at the lower of production cost (which includes the cost of incorporated raw materials, labour and general manufacturing costs, based on the normal production level) and the net realisable value.

The net realisable value corresponds to the estimated selling price minus estimated finishing and marketing costs. Differences between cost and net realisable value, if lower, are recorded as "Inventory adjustments".

## 2.15. Current receivables

The balances of customers and other current receivables are recorded initially at fair value and recognised subsequently at amortised cost, minus any impairment losses required to place them at their expected net realisable value (Notes 18 and 21).

Impairment losses are recorded when there is objective evidence that the Group will not receive all amounts owed in accordance with the original conditions of the accounts receivable.

## 2.16. Cash and cash equivalents

The cash and cash equivalents heading includes cash, bank deposits and other short term investments with original maturities up to 3 months, which can be mobilised immediately without any significant risk of fluctuations in value. On the cash flow statement, this heading also includes bank overdrafts, which are presented in the statement of the financial position, in current liabilities, under the heading "Loans received".

## 2.17. Share capital and own shares

Ordinary shares are classified as equity (Note 24).

Costs directly attributed to the issuance of new shares or other equity instruments are presented as a deduction, net of tax, from the value received as a result of the issuance.

Costs directly imputable to the issuance of new shares or options, for the acquisition of a business are included in the acquisition cost, as part of the purchase value.

Own shares are recorded at their acquisition value, as a reduction of equity, under the heading "Own shares", with any gains or losses inherent to their disposal being recorded as other reserves. Pursuant to the applicable commercial legislation, while own shares are held by the company, a reserve of an amount equal to their acquisition cost is unavailable.

## 2.18. Loans received / remunerated liabilities

Remunerated liabilities are recognised initially at fair value, net of transaction costs incurred, and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the repayment value is recognised in the income statement over the period of the debt, using the effective interest rate method.

Remunerated liabilities are classified as current liabilities, unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the date of the financial position (Note 27).

## 2.19. Financial costs related to loans

Financial costs related to loans are usually recognised as financial costs, in accordance with the accrual principle.

Financial costs on loans directly related to the acquisition, construction (if the period of construction or development exceeds one year) or fixed assets production, are capitalised, being part of the asset's cost.

Capitalisation of these charges begins once preparations are initiated for the construction or development of the asset and is suspended after its utilisation begins or when the respective project is suspended or substantially concluded.

## 2.20. Provisions

Provisions are recognised whenever the Group has a present legal, contractual or constructive obligation, as a result of past events, it is likely an outflow and/or resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions for current lawsuits are constituted in accordance with the risk assessments carried out by the Group and its legal advisors, based on historical success rates by type of legal action and probability of unfavourable outcomes for the Group.

Provisions for future operating losses are not recognised. The provisions are reviewed on the reporting date and adjusted to reflect the best estimate on that date (Note 26).

## 2.21. Post-employment benefits

Some Group subsidiaries have undertaken to make monetary payments to their employees for retirement pension supplements, health care and seniority bonuses.

As mentioned in Note 28, the Group has set up autonomous Pension Funds to finance part of its liabilities with payments. Pursuant to IAS 19, companies which attribute post-employment benefits recognise their costs as and when these services are provided by the employed beneficiaries. In this way, the Group's total liability is estimated separately for each plan on an annual basis, by a specialised and independent entity in accordance with the projected unit credit method.

The liabilities calculated in this way are stated in the statement of the financial position, minus the market value of the funds set up, as "Liabilities related to post-employment benefits", in non-current liabilities.

The actuarial variances arising from differences between the assumptions used for the liabilities calculation and those which effectively occurred (as well as of changes made to them and the difference between the expected return on the assets of the funds and their actual yield) are recognised through profit or loss for the year.

The gains and losses generated by a curtailment or settlement of a defined benefit pension plan are recognised through profit or loss of the year when the curtailment or settlement occurs. A curtailment occurs when there is a material reduction in the number of employees or when the plan is modified in a way that the benefits are materially reduced.

The costs related to past liabilities coming from the implementation of a new plan or increases in the benefits attributed are recognised immediately through the Group's profit or loss.

## 2.22. Current payables

The balances of "suppliers" and "current payables" are stated initially at fair value and subsequently measured at amortised cost (Notes 30 and 31).

## 2.23. Grants

State grants are recognised only after there is reasonable assurance that the Group will comply with the respective conditions and that the grants will be received.

Operating grants, received to compensate the Group for costs incurred, are recorded systematically in the income statement during the periods when the costs that these grants seek to cover are recognised.

Investment grants received by the Group to compensate fixed asset investments are included under the heading "Other current accounts payable" and recognised through profit or loss, during the estimated useful life of the respective subsidised asset, through deduction of the depreciation.

## 2.24. Leases

Tangible fixed assets acquired under financial leasing contracts as well as the corresponding liabilities are accounted by the financial method.

According to this method, the asset cost is recorded as tangible fixed assets, the corresponding liability is recorded as liabilities under the heading of loans received, the interest component of lease payments and depreciation of the asset, calculated as described in Note 2.8, are recognised as costs in the profit and loss statement of the year over the lease period.

Leases where a significant portion of the risks and benefits of ownership are retained by the lessor, with the Group being lessee, are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are recorded in the income statement over the lease period.

## 2.25. Distribution of dividends

The distribution of dividends to shareholders is recognised as a liability in the Group's financial statements for the year when the dividends are approved by the shareholders and up to the date of their payment.

## 2.26. Revenue recognition and the accrual basis

Income from sales is recognised in the consolidated income statement when the risks and benefits inherent to the possession of the respective assets are transferred to the buyer and the income can be quantified reasonably.

Revenue from the sale of passenger and cargo transport is recorded as a liability when the sale is made, under the heading "Advances from customers - tickets to be used". When the ticket is used or cancelled, its amount is transferred from this heading to income for the year or to an account payable, depending on whether the transport has been: i) carried out by the Group or the ticket has been cancelled and is not subject to reimbursement ii) made by another airline carrier or the ticket has been cancelled but is subject to reimbursement, respectively, by an amount which is usually different from that recorded when sold. From time to time, the balance of "Advances from customers - tickets to be used" is analysed to adjust the balance of tickets sold checking for those that have already been used or are no longer valid and thus not suitable for flight or reimbursement.

Commissions attributed by the Group on ticket sales are deferred and recorded as costs for the year, according to the distribution trough the periods of the respective transport revenue.

For the "TAP Victoria" frequent flyer programme, the Group follows the procedure, under defined conditions and based on flights carried out, of granting free air miles to customers who join the said loyalty scheme, which may subsequently be used for flights with favourable conditions, such as reduced fares. Based on the number of miles attributed and not used or expired at the end of each year and on the unit value attributed, at fair value, the Group defers the revenue corresponding to the estimate of the value perceived by the customer in the attribution of miles.

The complete work method has been adopted for the recognition of revenue from maintenance contracts. According to this method, the income directly related to work in progress is recognised in the profit and loss statement up to the point at which it is probable that the costs incurred in the contract will be recoverable.

The contract costs are recognised as a cost for the year when they occur. When it is probable that total costs of the contract will exceed the total revenue of the contract, the expected loss is recognised as a cost.

The provisional invoicing of maintenance work for third parties that were still underway as at 31 December 2012 is recorded under the deferrals heading.

Sales are recognised net of taxes, discounts and other costs inherent to their completion, at the fair value of the sum received or receivable.

Group companies record their income and costs as they are generated, pursuant to the accrual principle, independently of when they are paid or received.

The differences between amounts received and paid and the corresponding costs and income are stated under the headings of deferrals, current accounts receivable and current accounts payable (Notes 19, 18 and 31, respectively).

## 2.27. Contingent assets and liabilities

Contingent liabilities are not recognised in the consolidated financial statement if it is only possible that an outflow of funds affects future economic benefits; they are disclosed in the notes, unless the possibility of an actual outflow of funds affecting future economic benefits is remote, in which case they are not disclosed.

Provisions for liabilities which meet the conditions established in Note 2.20 are recognised.

Contingent assets are not recognised in the consolidated financial statements, but are disclosed in the notes when a future economic benefit is probable.

## 2.28. Subsequent events

Events subsequent to the reporting date that provide additional information on conditions which existed on that date are reflected in the consolidated financial statements.

Events subsequent to the reporting date that provide information on conditions which arise after this date are disclosed in the notes to the consolidated financial statement, if material.

## 2.29. New standards, amendments and interpretations of existing standards

New standards and interpretations which are mandatory as at 31 December 2012:

The interpretations and amendments of existing standards issued by the IASB, identified below, are of mandatory application for financial years that begin on 1 January 2012:

| New standards in force | Date of application * |
|---|---|
| IFRS 7 (amendment) - Financial instruments: disclosures | 1 January 2012 |

* Financial years beginning on or after

Furthermore, as part of the process to review the consistency of the practical application of the IAS/IFRS, the IASB decided to improve the standards so as to clarify some of the identified inconsistencies.

The introduction of these interpretations and amendments of the standards referred to above did not have any relevant impact on the Group's financial statements.

New standards and interpretations whose application is not mandatory as at 31 December 2012:

There are new standards, amendments and interpretations of existing standards, which, although they have already been published, are only mandatory for annual financial years which begin on or after 1 July 2012, regarding which the Group has decided against their early adoption for this financial year, as follows:

| New Standards approved by the European Commission | Date of application * |
|---|---|
| IAS 1 (amendment) - Presentation of financial statements | 1 July 2012 |
| IAS 12 (amendment) - Taxes | 1 January 2013 |
| IAS 19 (revised 2011) - Employee benefits | 1 January 2013 |
| IFRS 1 (amendment) - First-time adoption of IFRS | 1 January 2013 |
| IFRS 10 (new) - Consolidated financial statements | 1 January 2014 |
| IFRS 11 (new) - Joint arrangements | 1 January 2014 |
| IFRS 12 (new) - Disclosure of interests in other entities | 1 January 2014 |
| IAS 27 (amendment) - Separate financial statements | 1 January 2014 |
| IAS 28 (amendment) - Investments in associates and joint ventures | 1 January 2014 |
| IFRS 13 (new) - Fair value | 1 January 2013 |
| IAS 32 (amendment) - Financial instruments: presentation | 1 January 2014 |
| IFRS 7 (amendment) - Financial instruments: disclosure | 1 January 2013 |
| IFRIC 20 (new) - Stripping costs in the production phase of a surface mine | 1 January 2013 |

* Financial years beginning on or after

| New Standards not approved by the European Commission | Date of application * |
|---|---|
| Improvement to standards 2009 – 2011 | 1 January 2013 |
| Changes IFRS 10,11 and 12 | 1 January 2013 and 2014 |
| IFRS 9 (amendment) – Financial instruments | 1 January 2015 |

* Financial years beginning on or after

The Group has not yet completed the calculation of all the impacts resulting from the application of the abovementioned standards, and, therefore, has decided against their early adoption. However, the Group does not expect they will have materially relevant impacts on its net worth and results.

The estimated impact of the revised IAS 19, with reference to the financial year ended on 31 December 2012, results in an increase in net income for the year (reduction of staff costs) and a reduction in retained earnings, totalizing 951 thousand Euros.

## 2.30. Relevant accounting estimates and judgements

The preparation of the consolidated financial statements requires that the Group's management make judgements and estimates which affect the amounts of the income, costs, assets, liabilities and disclosures on the reporting date.

These estimates are determined by judgements of the Group's management, based: (i) on the best information and knowledge of present events, supplemented, in some cases, by reports prepared by independent experts, and (ii) on the actions the Group considers it may develop in the future. However, on the execution date of the operations, their results may be different from these estimates.

The estimates and assumptions that present a significant risk of leading to a material adjustment in the book value of the assets and liabilities in the following financial year are presented below:

### Goodwill impairment

The Group conducts an annual impairment test to the goodwill recorded in the statement of the financial position, pursuant to the accounting policy indicated in Note 2.7. The recoverable values of the cash generating units are determined based on the calculation of use values. This calculation requires the application of estimates.

### Income tax

The Group recognises liabilities for additional tax payments that may result from reviews carried out by the tax authorities. When the final outcome of these situations is different from the initially recorded values, the differences will have an impact on income tax and provisions for taxes, in the financial year in which these differences are observed.

### Actuarial assumptions

The liabilities related with employee benefit plans with defined benefits are calculated based on specific actuarial assumptions. Changes in these assumptions can have a relevant impact on these liabilities.

### Recognition of provisions and adjustments

The Group is involved in several on-going lawsuits for which, based on the opinion of its legal consultants, it makes a judgement to determine whether a provision for these contingencies should be recorded.

The adjustments of accounts receivable are calculated, namely, based on the aging of the accounts receivable, the risk profile of customers and their financial situation.

Inventory adjustments are calculated based on criteria pertaining to the nature, purpose of use, age and turnover of materials.

### Customer loyalty programme

The Group defers the revenue, under the customer loyalty programme "TAP Victoria", based on the unit value of the mile, at the fair value perceived by the customer. Changes in the assumptions used by the Group coming from calculation of this estimate can have a significant impact.

### Tangible and intangible assets

The settlement of the useful life of assets and their residual value, as well as the method of depreciation/amortisation, is essential to determine the amount of depreciation/amortisation to be recorded in the consolidated profit and loss statement for each financial year.

These two parameters are defined in accordance with the best judgement of the Executive Board of Directors for the tangible and intangible assets, also considering the practices adopted by business at international level.

### 2.31. Fair value of financial assets and liabilities

To calculate the fair value of a financial asset or liability, if there is an active liquid market, the market quotation at the reporting reference date is applied. This is level 1 of the fair value hierarchy as defined by IFRS 7.

If there is no active market, evaluation models, whose main inputs are observable on the market, are used. This is level 2 of the fair value hierarchy as defined by IFRS 7.

For some complex derivatives, more advanced valuation models containing assumptions and data that are not directly observable in the market are used. In these cases, the Group uses internal estimates and assumptions. This is level 3 of the fair value hierarchy as defined by IFRS 7.

## 3. Financial risk management policies

The adverse European macroeconomic scenario not only continued during 2012 but worsened over the year, generating the economic recession in the European Union as a whole. This recession did not have the same intensity and seriousness of the economic downturn registered in 2008/2009. However, it indicates a recurring lack of structural dynamism of the European economy.

In Portugal, the economic contraction registered was much higher than the European average, in part arising from the underway financial readjustment and restructuring process negotiated with the international institutions.

In other continents, opposed to the context lived in Europe, positive growth rates were maintained, although with a significant difference between Asia, Africa and America. Must be noted that, while the African economies, namely those whose official language is Portuguese, registered high growth rates, the Brazilian economy registered a slowdown in GDP growth.

It was in this global context, connected with the historically high levels of energy prices, that the activities of the Group and its market risk and financial risk management policy took place, in pursuance of its objectives to protect and safeguard the financial equilibrium and resources of the Group companies.

### Price risk

The significant changes in the economies of the main markets in which the Group operates, in particular the strong recession in Portugal and the contraction in the majority of European markets, which together represents, (air transport, maintenance and duty free shops) about two thirds of the Group's total sales, were once again a source of risks and threats to the sustainability and profitability of the Group.

Within a segmented and static perspective, particularly in the air transport business, the significant representativeness of the European markets, and the minor representativeness of America and Africa markets, might not be sufficient to counterbalance the fall in demand in Europe. However, the integrated structure of the network of existing destinations enables strong synergies between the medium haul operation in Europe, including the regional network of Portugália, and the long haul transatlantic and connection routes with Africa.

These synergies provide greater stability to the whole operation and greater sustainability to the air transport business, having enabled revenue to grow in 2012 countercyclically to the economic environment of the main markets. The set of other activities of the Group, particularly duty free sales, also grew in 2012.

It must be noted that during this economic crisis, there has been a greater capacity for resistance by the air transport industry to the decline in economic activity, be it due to the globalisation context in which we currently operate, be it due to the dynamism of the export sectors of the various countries, even those most affected by the crisis, which grants some sustainability to business traffic and creates the need to shift employees of companies with international projects. At the same time, the increase in purchasing and consumer power in countries such as Brazil or Angola continues to be a source of important tourist demand addressed to the European markets that the Group, with its transatlantic strategic positioning, benefits from.

During 2012 the Group maintained the level of air transport activity and the strategy of diversification of routes and consolidation of various destinations initiated in previous years. The beginning of the more than 10 routes during the previous year, whose annual and full impact was experimented in 2012, contributed decisively to the overall growth of income. In 2012 new destinations continued to be launched: Berlin, Turin and Bucharest also contributed to extend the range of destinations on offer.

The final effect resulting from the combination of the air transport growth strategy, the intensive work undertaken in the markets and the associated risk management, against the adversity of the recessionary factors in demand, was positive and reflected in the significant increase in the number of passenger kilometres used ("PKUs") accompanied by a moderate increase in yields. Furthermore, there was an improvement of the overall load factor.

This aggregate result, of course, varied. The domestic sector, with a limited representation in terms of PKUs, was the only sector of the network to present a negative performance with a decline in PKUs, yields and load factor, offset by the very positive performance of the international routes in general.

In Brazil, which represents about 40% of the activity, the indicators measured in terms of PKUs were generally positive; Africa and Europe recorded substantial growth and the United States increased almost 20% as a result of the new Miami route. In which concerns to the sales by market, in contrast to the activity perspective, there was an increase in the sale of tickets in Brazil and a decrease in Portugal, with either of these markets representing a quarter of the total sales of tickets. Africa, Venezuela and the United States maintained very positive growth rates, as well as Europe, in particular Germany and the United Kingdom.

With respect to cargo and maintenance for third parties, there were varying performances. Cargo revenue fell slightly, while the sales of maintenance services in Portugal grew comparing with the previous year. The maintenance company in Brazil continued its restructuring and recovery process. The global maintenance business, as a whole, represented an invoicing volume for third parties in the amount of about 185 million Euros. In terms of Group income, maintenance and cargo represent 7% and 5%, respectively, whereas the transport of passengers represents more than 80%. In absolute terms, the increase in ticket revenues relative to the previous year, in particular, came close to 140 million Euros.

## Fuel price risk

The aviation fuel price which replicates, almost exactly, the fuel price in international markets, continues to represent one of the most significant risk factors in the air transport business. In spite of the average of 2011 having exceeded the average levels of the record year of 2008, in 2012 an average jet fuel price slightly above that of the previous year was registered once again, as measured by the market reference prices of Platts. The maintenance of the high level of prices, the increase in activity in the year and the appreciation of the Dollar relative to the Euro resulted in an increase in the fuel invoice of approximately 90 million Euros in 2012 relative to 2011. The representativeness in Euros of fuel cost in the Group's turnover is, nowadays, slightly more than 30%, with this operating heading currently representing about 46% of the Group's total external supplies and services.

Analysing the air transport markets it comes that the gains achieved from the global improvement in sales were in part offset by a new increase in total fuel costs recorded in the current year. Given the present size of the Group's operations, the sensitivity of the results to the variations in the fuel price is significant. Specifically, for approximately 950 thousand tons of jet fuel consumed a variation of 10% in the current price of jet fuel will have an impact on results, at the Euro/dollar exchange rate of 1.30, of 73 million Euros.

The amount spent on fuel in 2012 increased relative to the previous year, as a result of the expansion of activity and the appreciation of the dollar, in average terms (the exchange rate devaluation of the Euro relative to the Dollar was almost 10% in average terms in 2012), with no significant change in terms of the average price of fuel having taken place.

It should also be mentioned that the average cost of the contractual margins practised by the fuel supply companies can marginally affect the final fuel invoice. In this regard, the geographic mix of the activity is relevant, given that the additional costs of the oil companies can fluctuate significantly, particularly outside of Europe.

In witch concerns to the risk hedging policy, hedging operations of an amount corresponding to a third of annual consumption were undertaken, with a more significant impact in the second half of the year, leading to a positive contribution of more than 1.5% of total fuel costs.

Lastly, it is important to note that total fuel costs in 2012 were, for example, more than the double of the costs recorded in 2009, for a consumption of only 15% more.

## Exchange rate risk

The most significant exchange rate exposure in the Group's operations lies in the fuel costs since it is a cost that depends on the dollar exchange rate and because this cost currently represents, as previously mentioned, about 30% of the Group's turnover. In contrast, about 30% of total revenues are directly or indirectly indexed to the behaviour of the dollar. This pertains to the revenues of ticket sales in the United States, Brazil and Angola, whose fares are set in dollars, and to the sales of maintenance services in Portugal and in Brazil. The global disequilibrium that can exist between liability and asset exposure to the dollar arises, however, from the existence of various non-fuel costs, also denominated in Dollars, such as costs with maintenance materials, navigation taxes and airport taxes, lease payments and operating leasing maintenance reserves, financing costs and respective repayments (financings whose proportion of debt is 12%).

The exchange rate risk relative to the Brazilian Real, in spite of not arising from a significant direct exposure concerning ticket sales, given the role of the Dollar in tariff construction in the Brazilian market, is however indirectly present considering the elasticity of demand relative to price variations in Reais resulting from very significant oscillations in the Real-Dollar exchange rate.

The main source of exposure to the Real has been, however, that which results from the investment of the Group in Brazilian subsidiaries which has an impact on the balance sheet, as well as on operations, resulting from significant fluctuations of the Real relative to the Euro and the corresponding accounting adjustments.

Due the vast geographic coverage of the Group's activity, there is still some exchange rate exposure resulting from the significant diversity of revenues denominated in other currencies that do not have a fixed parity to the Euro or the Dollar. Among these are, in Europe the Pound, the Swiss Franc, the Nordic currencies and those from Eastern Europe, and outside Europe, currencies such as the Metical or Bolivar, for example. It should be noted, however, that the level of exchange rate stability of the Group's revenue is significant, since the group of markets whose currencies are denominated in Euros or currencies with fixed parities to this currency represent a percentage slightly above 50% of the total and even higher, if we consider the revenues generated in currencies without a fixed parity but largely influenced by the Euro.

The Group's exposure to exchange rate risk as at 31 December 2012 and 2011, based on the amounts of the Group's statement of the financial position, financial assets and liabilities converted into Euros at the exchange rates in force on the reporting date, is presented below:

| 2012 | USD | BRL | OTHER | TOTAL |
|---|---|---|---|---|
| Assets | | | | |
| Cash and cash equivalents | 13,960 | 3,423 | 43,870 | 61,253 |
| Accounts receivable – customers | 34,732 | 94,875 | 19,177 | 148,784 |
| Accounts receivable – other | 29,533 | 22,108 | 2,556 | 54,197 |
| | 78,225 | 120,406 | 65,603 | 264,234 |
| Liabilities | | | | |
| Loans received (Note 27) | 124,301 | 21 | – | 124,322 |
| Accounts payable – suppliers | 15,638 | 13,022 | 5,491 | 34,151 |
| Accounts payable – other | 5,215 | 10,731 | 1,773 | 17,719 |
| | 145,154 | 23,774 | 7,264 | 176,192 |

| 2011 | USD | BRL | OTHER | TOTAL |
|---|---|---|---|---|
| Assets | | | | |
| Cash and cash equivalents | 11,435 | 6,741 | 31,548 | 49,724 |
| Accounts receivable – customers | 54,782 | 89,468 | 14,864 | 159,114 |
| Accounts receivable – other | 24,010 | 24,032 | 2,825 | 50,867 |
| | 90,227 | 120,241 | 49,237 | 259,705 |
| Liabilities | | | | |
| Loans received (Note 27) | 155,083 | – | – | 155,083 |
| Accounts payable – suppliers | 24,040 | 15,602 | 5,147 | 44,789 |
| Accounts payable – other | 8,451 | 4,043 | 725 | 13,219 |
| | 187,574 | 19,645 | 5,872 | 213,091 |

As at 31 December 2012, a 10% variation (positive or negative) of all the exchange rates relative to the Euro would result in an impact on net income for the year of approximately 8,804 thousand Euros.

## Interest rate risk

In 2012, the international financial context continued to condition the normal financing of the national economies in many countries, among which Portugal, as well as the financial management of their companies. In fact, strong restrictions on credit concession continued and the banking system only very gradually managed to release resources for companies. The sovereign debt crisis registered a progressive respite and the fears of a breakup of the Euro subsided, although in a context of further deterioration of the real economy in Europe, and of a slowdown in the United States.

The obvious difficulties in relaunching the main Western economies resulted in the maintenance of the key central bank interest rates at minimum levels, in both Europe and the United States. Both the European Central Bank and the Federal Reserve also reinforced their proactive quantitative stimulus policies, increasing their intervention in securities markets - public debt markets in particular. The actions of the monetary authorities involving the injection of liquidity, combined with austere budgetary consolidation policies undertaken by the governments of the most indebted countries, enabled the persistent tensions in bond markets to gradually ease, moderating investors' fears concerning future defaults of those countries. These actions resulted in a general decrease of both long term and short term interest rates. For example, in terms of Portuguese public debt, ten year yields fell over the course of the year to half, from 13% to 6.5%. Long term swap rates, in Euros, continued at historical lows, with the 10-year swap falling to 1.6% and the 5-year swap falling to less than 1%. The 3-month Euribor rate fell about 1% during the year to below 0.2% at the end of 2012.

The favourable effects arising from the lower interest rates were not fully felt due to the maintenance of the tighter credit standards by national banks and as a result of the persistent distrust of the large international banks relative to companies of countries that have received financial assistance, such as Portugal. These limitations continued to lead into high margins applied to the concession or renewal of both medium and long term loans and short-term credit lines.

The Group was affected by the impact of the various trends mentioned, benefitting on the one hand from the pronounced fall in and historically low levels of interest rates, relative to past debt indexed to floating rates, but suffering the negative effects of the high margins in the renewal of loans and of the difficulties to get new credits. Moreover, the actual privatisation process underway in the second half of the year resulted in the suspension of negotiations and in the procurement of new financing operations.

The financing costs of the Group increased overall. The weighted average interest rate of the debt increased marginally relative to the previous year due to the combined effects of the increase of margins in renewable short term operations, partially compensated by the decline of the Euribor, reference rate used for almost all financings and leasings at variable rates. The weighted average rate of operations at fixed interest rates, representing 60% of debt, remained stable.

On the other hand, the outstanding amounts decreased in 2012, as a result of the contractual scheduling of the existing financing and financial leasing repayments, and due to the fact that no new relevant operations were contracted.

In the future, the scheduled amortisations for the next few years are uniformly distributed and the sensitivity to interest rate increases is controlled through the higher proportion of fixed rate debt. The exchange rate risk is also limited as a result of the low percentage of debt in Dollars as a proportion of total debt.

The table of remunerated liabilities presented below, which includes principal and interest, is based on the following assumptions relative to market interest rates and the Euro/USD exchange rate: 3% for the Euribor, 1.75% for the Dollar Libor, and 1.3194 for the Eurodollar (2011: 1.2939 for the Eurodollar). The liability amounts show the amounts payable within the respective deadlines, including the evaluation of all the contracted cash flow with capital and interest, not discounted, until the maturity of the loans. A simplifying assumption of a linear intra-annual amortisation rate to calculate future interest rates was considered:

| 2012 | < 1 year | 1 - 2 years | 3 - 5 years | 6 - 10 years | Total |
|---|---|---|---|---|---|
| Loans | 166,160 | 86,701 | 273,367 | 391 | 526,619 |
| Financial leasing | 128,720 | 105,179 | 318,824 | 67,327 | 620,050 |
| **Total** | **294,880** | **191,880** | **592,191** | **67,718** | **1,146,669** |
| Loans - fixed rate | 51,648 | 51,676 | 200,514 | – | 303,838 |
| Financial leasing - fixed rate | 66,856 | 65,723 | 212,838 | 50,451 | 395,868 |
| **Total - fixed rate** | **118,504** | **117,399** | **413,352** | **50,451** | **699,706** |

| 2011 | < 1 year | 1 - 2 years | 3 - 5 years | 6 - 10 years | Total |
|---|---|---|---|---|---|
| Loans | 151,328 | 96,471 | 310,254 | 50,204 | 608,257 |
| Financial leasing | 137,371 | 133,065 | 324,397 | 189,238 | 784,071 |
| **Total** | **288,699** | **229,536** | **634,651** | **239,442** | **1,392,328** |
| Loans - fixed rate | 51,747 | 51,648 | 203,143 | 49,047 | 355,585 |
| Financial leasing - fixed rate | 67,168 | 67,212 | 193,499 | 137,717 | 465,596 |
| **Total - fixed rate** | **118,915** | **118,860** | **396,642** | **186,764** | **821,181** |

Grupo TAP uses a sensitivity analysis technique which figures out the estimated changes on the net income of an immediate increase or decrease in market interest rates, keeping fixed all the other variables.This analysis is for illustrative purposes only, since, in practice, market interest rates rarely change in isolation.

The sensitivity analysis is based on the following assumptions:
- Changes in the market interest rates affect the yields or interest costs of variable financial instruments;
- Changes in the market interest rates affect only the yields and interest costs of financial instruments with fixed interest if the instruments are recognised at fair value.

Under these assumptions, a 0.5% increase or decrease in market interest rates, for all currencies in which the Group has loans, as at 31 December 2012, would result in a decrease or increase in the amount of interest due of approximately 4,122 thousand Euros.

The Note 27 presents the details of the remunerated bank debt with indication of the financing entity and respective reference rate.

## Credit and liquidity risk

During all the year the treasury management, remained conditioned by the adverse factors mentioned, in particular the non-contracting of new significant operations and the impacts of fuel costs. These various obstacles were essentially overcome through the solid performance of revenues and, in particular, the good results got by air transport.

The credit risks of the Group correspond to normal levels of exposure giving the activity developed and the size of the Group. In witch concerns with the operations with derivatives, fuel in particular, there is a natural dispersion and diversification of transactions with various counterparts, ensuring, in any event, their credit quality. Other credit risks, associated to amounts deposited in various countries where the Group operates, are reduced as much as possible through a prudent policy of funds repatriation, within the limits imposed by the authorities of each country.

By the end of 2012 and 2011, and after the changes in debt all over the year, the short term remunerated liabilities, including the estimate of all contractual cash flow related to amortisation and interest, not discounted, present the values in the table below:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | 1st Semester | 2nd Semester | 1st Semester | 2nd Semester |
| Amortisation | | | | |
| Loans | 35,035 | 112,252 | 95,714 | 34,123 |
| Financial leasing | 64,076 | 42,824 | 49,244 | 60,822 |
| Total | 99,111 | 155,076 | 144,958 | 94,945 |
| | | | | |
| Interest | | | | |
| Loans | 9,768 | 9,105 | 11,955 | 9,536 |
| Financial leasing | 11,561 | 10,259 | 13,299 | 14,006 |
| Total | 21,329 | 19,364 | 25,254 | 23,542 |

In addition to short and long term financial management and cash management, in working capital management there was also a rigorous monitoring of customers' positions and the repercussions of the effects of the economic crisis on their credit quality, being possible to limit the aggravation, for example, of the adjustments to a negligible value as to the extent of the activity.

The following table presents details related with the Group's liquidity position as at 31 December 2012 and 2011, as well as balances of accounts receivable, which reflect the credit risk on these dates:

| | 2012 | 2011 |
|---|---|---|
| Non-current assets | | |
| Judicial deposits – Brazil (Note 18) | 20,429 | 22,221 |
| Other non-current assets | 30,010 | 15,435 |
| Current assets | | |
| Cash and cash equivalents | 85,353 | 167,365 |
| Accounts receivable – customers | 231,574 | 250,482 |
| Other current assets | 61,950 | 167,836 |
| | 429,316 | 623,339 |
| Exposure to off-balance sheet credit risk | | |
| Guarantees provided (Note 60) | 49,602 | 44,414 |
| Other commitments (Notes 27) | 245,068 | 218,876 |
| | 294,670 | 263,290 |

The Group's quality of credit risk and liquidity, as at 31 December 2012 and 2011, relative to financial assets (cash and cash equivalents and derivative financial instruments), whose counterparts are financial institutions, are detailed as follows:

| Rating | 2012 | 2011 |
|---|---|---|
| AA- | 264 | 1,107 |
| A+ | 2,033 | 81 |
| A | 20,678 | 15,765 |
| BBB | 3,029 | 4,087 |
| BBB- | 230 | 32,339 |
| BB+ | – | 1,088 |
| BB | 5,401 | 52,773 |
| BB- | 5,949 | 25,050 |
| B+ | 2,720 | – |
| Other | 45,615 | 35,289 |
| | 85,919 | 167,579 |
| Derivative financial instruments (Notes 24 and 58) | 700 | 429 |
| Bank deposits (Note 22) | 85,219 | 167,150 |
| | 85,919 | 167,579 |

The item "Other" refers to values related to various international institutions, for which it was not possible to obtain their rating.

As at 31 December 2012 and 2011, the balances receivable from customers showed the following aging structure, considering the maturity date as reference:

| | 2012 | 2011 |
|---|---|---|
| Outstanding values | 136,171 | 180,782 |
| 1 to 90 days | 37,491 | 44,810 |
| 91 to 180 days | 21,774 | 7,407 |
| 181 to 270 days | 18,339 | 10,982 |
| 271 to 365 days | 17,224 | 1,330 |
| over 366 days | 63,261 | 73,908 |
| | 294,260 | 319,219 |
| Impairments (Note 21) | (62,686) | (68,737) |
| Net balance (Note 21) | 231,574 | 250,482 |

The figures correspond to the amounts owed, after the contracted maturity periods. Although there are delays in the settlement of some amounts in relation to these maturity periods, this does not result in the identification of impairments apart from those considered through the corresponding losses.

The recognised impairments refer, essentially, to debts over 366 days.

On the customer's accounts receivables amounts, the balances of airline companies and travel agencies, as identified in Note 21, are settled, mainly, through the IATA Clearing House system, which substantially minimises the credit risk of Grupo TAP.

### Capital management

In 2012, the financing of the Group was ensured, as mentioned, internally and almost entirely through the funds generated by the operating activity and without significant use of new loans. This liquidity generation enabled meeting the total debt service and funding the investments of the year.

In the future, the normal financial management processes shall be resumed and short and medium term operations to reinforce cash flow that were not undertaken in the year shall also be recommenced. The utilization of assets, namely aircraft, already available for new financings or which will be disposed of due to the termination of operations at the end of useful life should facilitate the successful return of the Group to the capital markets.

On the other hand, the needed recapitalisation of the Group may occur via the combination of external factors, if a new privatisation process ensues and takes place, and of internal factors, such as the continued improvement of results in air transport activity, the effort to restructure and reorganise the global maintenance activity and the economic and financial return arising from the process, already undertaken, involving the sale and restructuring of the handling activity.

## 4. Employees

During 2012 and 2011, the average number of employees working for the company and all its subsidiaries was 10,923 and 11,066, respectively.

| 2012 | Air Transport | Maintenance | Duty Free Shop | Catering | Other | Total |
|---|---|---|---|---|---|---|
| Portugal | 4,545 | 1,891 | 397 | 792 | 729 | 8,354 |
| Brazil | 124 | 2,040 | – | – | – | 2,164 |
| Other | 393 | 12 | – | – | – | 405 |
| | 5,062 | 3,943 | 397 | 792 | 729 | 10,923 |

| 2011 | Air Transport | Maintenance | Duty Free Shop | Catering | Other | Total |
|---|---|---|---|---|---|---|
| Portugal | 4,573 | 1,905 | 374 | 787 | 786 | 8,425 |
| Brazil | 127 | 2,091 | – | – | – | 2,218 |
| Other | 410 | 13 | – | – | – | 423 |
| | 5,110 | 4,009 | 374 | 787 | 786 | 11,066 |

## 5. Tangible fixed assets

During the years ended on 31 December 2012 and 2011, the movement in the tangible fixed assets and their respective accumulated depreciation was as follows:

| 2012 | Land and natural resources | Buildings and other constructions | Basic equipment | Transport equipment | Tools and utensils | Administrative equipment | Other tangible fixed assets | Other assets in progress | Down-payments on tangible fixed assets | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Gross Assets | | | | | | | | | | |
| Opening balance | 42,179 | 349,831 | 2,127,791 | 5,172 | 32,683 | 66,680 | 22,688 | 8,753 | 7,140 | 2,662,917 |
| Additions | – | 63 | 30,419 | 301 | 1,030 | 1,856 | 1,528 | 4,688 | 40 | 39,925 |
| Disposals | – | – | (50,337) | (12) | (1,714) | (11) | (4) | – | – | (52,078) |
| Other transfers / write-offs | (27) | (110) | (5,364) | (16) | 162 | (811) | (979) | (5,896) | (138) | (13,179) |
| Currency conversion differences | (95) | (602) | (1,966) | (12) | (1,169) | (506) | – | (286) | – | (4,636) |
| Closing balance | 42,057 | 349,182 | 2,100,543 | 5,433 | 30,992 | 67,208 | 23,233 | 7,259 | 7,042 | 2,632,949 |
| Accumulated Depreciation | | | | | | | | | | |
| Opening balance | – | 230,913 | 1,375,163 | 4,960 | 19,268 | 62,311 | 17,970 | – | – | 1,710,585 |
| Allocations (Note 50) | – | 5,981 | 107,128 | 255 | 2,006 | 2,148 | 1,614 | – | – | 119,132 |
| Disposals | – | – | (21,627) | (12) | (1,508) | – | (4) | – | – | (23,151) |
| Other transfers / write-offs | – | (58) | (7,376) | (16) | (13) | (979) | (684) | – | – | (9,126) |
| Currency conversion differences | – | (156) | (1,612) | (9) | (513) | (451) | – | – | – | (2,741) |
| Closing balance | – | 236,680 | 1,451,676 | 5,178 | 19,240 | 63,029 | 18,896 | – | – | 1,794,699 |
| Net value | 42,057 | 112,502 | 648,867 | 255 | 11,752 | 4,179 | 4,337 | 7,259 | 7,042 | 838,250 |

| 2011 | Land and natural resources | Buildings and other constructions | Basic equipment | Transport equipment | Tools and utensils | Administrative equipment | Other tangible fixed assets | Other assets in progress | Down-payments on tangible fixed assets | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Gross Assets | | | | | | | | | | |
| Opening balance | 46,042 | 348,599 | 2,146,151 | 5,232 | 32,069 | 71,488 | 20,092 | 4,252 | 6,802 | 2,680,727 |
| Additions | – | – | 7,980 | 96 | 1,063 | 1,521 | 2,698 | 6,675 | 338 | 20,371 |
| Recognised impairment losses (Note 46) | (3,400) | – | (2,350) | – | – | – | – | – | – | (5,750) |
| Disposals | – | – | (15,604) | (53) | (1) | – | (2) | – | – | (15,660) |
| Other transfers / write-offs | (351) | 1,592 | (6,750) | (95) | 446 | (5,919) | (100) | (1,880) | – | (13,057) |
| Currency conversion differences | (112) | (360) | (1,636) | (8) | (894) | (410) | – | (294) | – | (3,714) |
| Closing balance | 42,179 | 349,831 | 2,127,791 | 5,172 | 32,683 | 66,680 | 22,688 | 8,753 | 7,140 | 2,662,917 |
| Accumulated Depreciation | | | | | | | | | | |
| Opening balance | – | 224,971 | 1,282,908 | 4,874 | 17,850 | 66,488 | 17,292 | – | – | 1,614,383 |
| Allocations (Note 50) | – | 6,016 | 110,931 | 233 | 1,762 | 1,959 | 780 | – | – | 121,681 |
| Disposals | – | – | (11,746) | (45) | (1) | – | (2) | – | – | (11,794) |
| Other transfers / write-offs | – | 30 | (5,690) | (95) | (33) | (5,775) | (100) | – | – | (11,663) |
| Currency conversion differences | – | (104) | (1,240) | (7) | (310) | (361) | – | – | – | (2,022) |
| Closing balance | – | 230,913 | 1,375,163 | 4,960 | 19,268 | 62,311 | 17,970 | – | – | 1,710,585 |
| Net value | 42,179 | 118,918 | 752,628 | 212 | 13,415 | 4,369 | 4,718 | 8,753 | 7,140 | 952,332 |

The following movements concur to the changes in "Basic equipment":

- Additions, totalizing 30,419 thousand Euros, relative essentially to the acquisition of engines, spare parts, modifications and simulators of 17,899 thousand Euros, 3,839 thousand Euros, 4,812 thousand Euros and 2,401 thousand Euros, respectively;
- Sales, totalizing 50,337 thousand Euros, with emphasis on the sale of engines, with a net book value of 28,510 thousand Euros, which generated a gain of 2,275 thousand Euros;
- Transfers and write-offs of spare parts as scrap and other miscellaneous maintenance equipment.

As at 31 December 2012 and 2011,"Basic equipment" is detailed as follows:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Gross value | Accumulated depreciation | Net value | Gross value | Accumulated depreciation | Net value |
| Flight equipment | | | | | | |
| Aircraft | 413,932 | (357,708) | 56,224 | 375,691 | (332,456) | 43,235 |
| Spare engines | 23,480 | (19,401) | 4,079 | 47,075 | (26,782) | 20,293 |
| Spare parts | 132,786 | (96,841) | 35,945 | 148,462 | (111,438) | 37,024 |
| | 570,198 | (473,950) | 96,248 | 571,228 | (470,676) | 100,552 |
| Flight equipment under financial leasing | | | | | | |
| Aircraft | 1,401,653 | (877,232) | 524,421 | 1,435,916 | (808,920) | 626,996 |
| Spare engines | 6,867 | (2,511) | 4,356 | 6,867 | (2,124) | 4,743 |
| | 1,408,520 | (879,743) | 528,777 | 1,442,783 | (811,044) | 631,739 |
| Machines and misc. equipment | 121,825 | (97,983) | 23,842 | 113,780 | (93,443) | 20,337 |
| | 2,100,543 | (1,451,676) | 648,867 | 2,127,791 | (1,375,163) | 752,628 |

As at 31 December 2012 and 2011, the Group's aircraft fleet is detailed as follows:

| | 2012 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Owned by Grupo TAP | Financial leasing | Operating | Total | Owned by Grupo TAP | Financial leasing | Operating | Total |
| Airbus A340 | 4 | – | – | 4 | 4 | – | – | 4 |
| Airbus A330 | – | 11 | 1 | 12 | – | 11 | 1 | 12 |
| Airbus A319 | – | 15 | 4 | 19 | – | 15 | 4 | 19 |
| Airbus A320 | – | 5 | 12 | 17 | – | 5 | 12 | 17 |
| Airbus A321 | 1 | 1 | 1 | 3 | – | 2 | 1 | 3 |
| Fokker 100 | – | 6 | – | 6 | – | 6 | – | 6 |
| Embraer 145 | – | 8 | – | 8 | – | 8 | – | 8 |
| | 5 | 46 | 18 | 69 | 4 | 47 | 18 | 69 |

The increase recorded in "Other assets under construction", of 4,688 thousand Euros, refers mainly to modifications carried out in the fleet.

The item "Down-payments on tangible fixed assets" includes down-payments for the future aircraft acquisition.

## 6. Investment properties

As at 31 December 2012, the "Investment properties" refers to the value assigned to: i) a property in Maputo (Mozambique), ii) a building in Rio de Janeiro (Brazil) which was transferred from tangible fixed assets due to its undetermined use and iii) two apartments in Sacavém.

The movement occurred in this item was as follows:

| | 2012 | 2011 |
|---|---|---|
| Opening balance | 2,862 | 2,607 |
| Fair value adjustments - net gains and losses (Note 47) | 2,210 | 255 |
| Disposals | (834) | – |
| Transfers | 36 | |
| Closing balance | 4,274 | 2,862 |

The fair value of the investment properties was stated by an independent expert with recognised professional qualification, with the methods and significant assumptions applied in the determination of the fair value of the properties being supported by market evidence.

The amounts recognised through profit or loss of the year, related with income from rents and direct operating costs, are immaterial in the Group's financial statements.

# 7. Goodwill

During 2012 and 2011, the movement in the "Goodwill" was as follows:

| | 2012 | | |
|---|---|---|---|
| | Opening balance | Exchange rate variation | Closing balance |
| Air Transport | 63,099 | – | 63,099 |
| Maintenance and Engineering Brazil | 143,296 | (5,500) | 137,796 |
| | 206,395 | (5,500) | 200,895 |

| | 2011 | | |
|---|---|---|---|
| | Opening balance | Exchange rate variation | Closing balance |
| Air Transport | 63,099 | – | 63,099 |
| Maintenance and Engineering Brazil | 147,916 | (4,620) | 143,296 |
| | 211,015 | (4,620) | 206,395 |

The amount of 5,500 thousand Euros refers to the currency conversion variation of part of the goodwill of Manutenção e Engenharia Brasil, which is denominated in Reais (124,880,960 Reais).

As stipulated in IAS 36, goodwill is subject to impairment tests carried out on an annual basis, pursuant to the accounting policy described in Note 2.7.

Goodwill is attributed to the Group's cash generating units (CGUs), identified in accordance with the business segment and country of the operation, as follows:

| | 2012 | | |
|---|---|---|---|
| | Air Transport | Maintenance | Total |
| Portugal | 63,099 | – | 63,099 |
| Brazil | – | 137,796 | 137,796 |
| | 63,099 | 137,796 | 200,895 |

| | 2011 | | |
|---|---|---|---|
| | Air Transport | Maintenance | Total |
| Portugal | 63,099 | – | 63,099 |
| Brazil | – | 143,296 | 143,296 |
| | 63,099 | 143,296 | 206,395 |

For the impairment tests, the recoverable value of the CGUs is calculated based on the value in use, in accordance with the discounted cash flow method. The calculations are based on historical performance and expectations of business development with the current productive structure, where the budget for the following year and estimated cash flow for the next 4 years are usually used.

For the business unit of TAP-Manutenção e Engenharia Brasil, a budget for the following year was used and an estimate for the subsequent period of 9 years which included, namely, the recovery of the existing tax losses in the cash flow estimate.

As a result of the impairment tests conducted to the different CGUs, no impairment losses in goodwill were identified.

The main assumptions used for the impairment tests were the following:

| 31 December 2012 | Portugal | Brazil |
|---|---|---|
| Discount rate* | 10.00% | 14.50% |
| CAGR of revenue** | 6.50% | 13.60% |
| Perpetuity growth | 0.00% | 4.00% |
| Tax rate | 26.50% | 34.00% |

| 31 December 2011 | Portugal | Brazil |
|---|---|---|
| Discount rate* | 8.90% | 14.50% |
| CAGR of revenue** | 8.30% | 14.20% |
| Perpetuity growth | 0.00% | 4.00% |
| Tax rate | 26.50% | 34.00% |

* Discount rate net of taxes
** Compound Annual Growth Rate of revenue: year-on-year growth rate of an investment over a given period of time

The impairment tests carried out in 2012 sustain the recoverability of the book value of the abovementioned cash generating units. As at 31 December 2012, the book value of the air transport unit stands at 142,965 thousand Euros, and the book value of the maintenance unit in Brazil is negative by 196,334 thousand Euros.

## 8. Intangible assets

During 2012 and 2011, the movement in "Other intangible assets" was as follows:

| | Development expenses | Industrial property and other rights | Computer programmes | Assets in progress | Total |
|---|---|---|---|---|---|
| Acquisition cost | | | | | |
| Balance as at 1 January 2011 | 20,053 | 11,952 | – | – | 32,005 |
| Acquisitions | – | – | – | 248 | 248 |
| Adjustments, transfers and write-offs | – | – | 769 | – | 769 |
| Balance as at 31 December 2011 | 20,053 | 11,952 | 769 | 248 | 33,022 |
| Acquisitions | – | – | 351 | 20 | 371 |
| Adjustments, transfers and write-offs | (20,053) | – | 1,228 | (248) | (19,073) |
| Balance as at 31 December 2012 | – | 11,952 | 2,348 | 20 | 14,320 |
| Accumulated amort. and impairment losses | | | | | |
| Balance as at 1 January 2011 | (20,053) | (10,505) | – | – | (30,558) |
| Amortisations and impairment losses (Note 50) | – | (404) | (105) | – | (509) |
| Adjustments, transfers and write-offs | – | – | (531) | – | (531) |
| Balance as at 31 December 2011 | (20,053) | (10,909) | (636) | – | (31,598) |
| Amortisations and impairment losses (Note 50) | – | (404) | (240) | – | (644) |
| Adjustments, transfers and write-offs | 20,053 | – | (818) | – | 19,235 |
| Balance as at 31 December 2012 | – | (11,313) | (1,694) | – | (13,007) |
| Net value as at 1 January 2011 | – | 1,447 | – | – | 1,447 |
| Net value as at 31 December 2011 | – | 1,043 | 133 | 248 | 1,424 |
| Net value as at 31 December 2012 | – | 639 | 654 | 20 | 1,313 |

The "Industrial property and other rights", of the net value of 639 thousand Euros, refers to a maintenance license granted by CFM International, S.A. ("CFMI"), of 5,000 thousand Euros, for a period of 10 years. This license enables the Group to provide third parties with technical information and support related to engines that TAP S.A. does not currently operate, and is depreciated through the straight line method over that period.

## 10. Financial holdings - equity method

As at 31 December 2012 and 2011, Grupo TAP did not have any assets classified as financial holdings recorded through the equity method (see “Provisions for financial investments” in Note 26).

## 13. Other financial assets

As at 31 December 2012 and 2011, the other financial assets were detailed as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Loans granted and accounts receivable | – | 2,848 | – | 3,258 |
| | – | 2,848 | – | 3,258 |

As at 31 December 2012 and 2011, the other non-current financial assets were detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Loan Salvor Hotéis Moçambique | 1,454 | 1,853 |
| SITA Group Foundation | 666 | 666 |
| Bank deposits in Mozambique | 531 | 541 |
| Other | 197 | 198 |
| | 2,848 | 3,258 |

The loan to Salvor Hotéis Moçambique came out from funds owned by TAP SA in 1997 which could only be used for investment in Mozambique. As at 31 December 2008, the said amounts were totally adjusted due to the restrictions on the transfer of funds abroad. In 2010, TAP S.A. received 3,250 thousand USD, with an agreement having been signed for the repayment of the outstanding balance as well as issued a promissory note for the same amount. The entire adjustment was thus reversed.

The amount of SITA Group Foundation refers essentially to 519,778 certificates (non-listed securities) of the same company, which was founded by Société International de Télécommunications Aéronautiques.

The movement on this item during 2012 and 2011 was as follows:

| | 2012 | 2011 |
|---|---|---|
| Opening balance | 3,258 | 2,966 |
| Reductions | (373) | (157) |
| Exchange rate variation | (37) | 67 |
| Other movements | – | 382 |
| Closing balance | 2,848 | 3,258 |

## 14. Shareholders

As at 31 December 2012 and 2011, the balance of the “Shareholders” item was as follows:

| | 2012 | 2011 |
|---|---|---|
| Shareholders (Note 56) | 50,000 | – |
| | 50,000 | – |

This balance, recorded as current liabilities, refers to the loan granted by Parpública, of 50 million Euros, remunerated at a fixed interest rate, with a defined maturity until June 2013. It should be noted that the contract figures out a maximum amount of 100 million Euros.

## 15. Deferred tax assets and liabilities

The Grupo TAP records in its financial statements the tax effect of the temporary differences between assets and liabilities for accounting and tax purposes, which was calculated based on the following aggregate tax rates: 25% for deferred tax assets relative to reported tax losses, and 29.5% for other deferred tax assets and liabilities.

However, although the temporary assets differences are significantly higher than those for liabilities, the Grupo TAP has only recorded temporary assets differences up to the amount of the temporary liabilities differences, as there is no real expectation of sufficient future tax profits to use them beyond those amounts. Thus, on the date of each financial position, a re-appraisal is made of the temporary differences underlying the deferred tax assets, in order to identify deferred tax assets that were not previously recorded because they did not meet the conditions for statement and/or to reduce the amount of deferred tax assets recorded based on the current expectation of their future recovery.

The main temporary differences between accounting and taxable amounts as at 31 December 2012 and 2011, the corresponding deferred tax assets and liabilities and the respective effect on net income for 2012 and 2011 are as follows:

| | 2012 | | | |
|---|---|---|---|---|
| | Opening balance | Variations with effects on net income (Note 52) | Variations with effects on equity | Closing balance |
| Deferred tax assets | | | | |
| Reported tax losses | 2,082 | (699) | – | 1,383 |
| Liabilities related to retirement benefits | 15,456 | (1,318) | – | 14,138 |
| Impairment losses in inventories | 6,220 | 1,199 | – | 7,419 |
| Land | – | 1,106 | – | 1,106 |
| Other provisions and adjustments not accepted for tax purposes | – | 63 | – | 63 |
| | 23,758 | 351 | – | 24,109 |
| Deferred tax liabilities | | | | |
| Revaluation carried out | 23,933 | (102) | 408 | 24,239 |
| | 23,933 | (102) | 408 | 24,239 |
| | | 453 | (408) | |

| | 2011 | | | |
|---|---|---|---|---|
| | Opening balance | Variations with effects on net income (Note 52) | Variations with effects on equity | Closing balance |
| Deferred tax assets | | | | |
| Reported tax losses | 2,790 | (708) | – | 2,082 |
| Liabilities related to retirement benefits | 17,044 | (1,588) | – | 15,456 |
| Impairment losses in inventories | 4,625 | 1,595 | – | 6,220 |
| | 24,459 | (701) | – | 23,758 |
| Deferred tax liabilities | | | | |
| Revaluation carried out | 24,683 | (750) | – | 23,933 |
| | 24,683 | (750) | – | 23,933 |
| | | 49 | – | |

### Reported tax losses without deferred tax assets

Under current tax legislation in Portugal, tax losses are deductible up to a five-year period after their occurrence (six years after their occurrence until 31 December 2009 and four years after their occurrence for the financial years of 2010 and 2011) and may thus be subtracted from taxable profits generated over this period.

The deduction of tax losses may not exceed the amount corresponding to 75% of calculated taxable income in each period of taxation.

As at 31 December 2012 the fiscal losses on which the Group considers, that there is uncertainty on the possibility of deduction from future taxable profits, and therefore will have no deferred tax assets, are detailed as follows:

| 1 January 2012 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | Total |
|---|---|---|---|---|---|---|---|---|
| TAP SGPS | 4,085 | 2,331 | 1,765 | 1,454 | 14,204 | 2,358 | n/a | 26,197 |
| TAP S.A. | – | – | 151,739 | – | – | – | n/a | 151,739 |
| Portugália | 39,313 | 27,979 | 156 | – | 3,238 | 1,917 | n/a | 72,603 |
| TAPGER | – | – | – | – | 42 | – | n/a | 42 |
| UCS | – | – | – | – | 195 | – | n/a | 195 |
| TAP ME Brasil | – | – | 1,327 | 98,174 | 43,055 | 14,618 | n/a | 157,174 |
| | 43,398 | 30,310 | 154,987 | 99,628 | 60,734 | 18,893 | n/a | 407,950 |

| Use of reported tax losses in 2012 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | Total |
|---|---|---|---|---|---|---|---|---|
| TAP SGPS | – | – | – | – | – | – | n/a | – |
| TAP S.A. | – | – | (14,581) | – | – | – | n/a | (14,581) |
| Portugália | (2,163) | – | – | – | – | – | n/a | (2,163) |
| TAPGER | – | – | – | – | (42) | – | n/a | (42) |
| UCS | – | – | – | – | – | – | n/a | – |
| TAP ME Brasil | – | – | – | – | – | – | n/a | – |
| | (2,163) | – | (14,581) | – | (42) | – | n/a | (16,786) |

| 31 December 2012 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 (Provisório) | Total |
|---|---|---|---|---|---|---|---|---|
| TAP SGPS | n/a | 2,331 | 1,765 | 1,454 | 14,204 | 2,358 | 8,331 | 30,443 |
| TAP S.A. | n/a | – | 137,158 | – | – | – | – | 137,158 |
| Portugália | n/a | 27,979 | 156 | – | 3,238 | 1,917 | – | 33,290 |
| TAPGER | n/a | – | – | – | – | – | – | – |
| UCS | n/a | – | – | – | 195 | – | 18 | 213 |
| TAP ME Brasil | n/a | – | 1,327 | 98,174 | 43,055 | 14,618 | 39,226 | 196,400 |
| | n/a | 30,310 | 140,406 | 99,628 | 60,692 | 18,893 | 47,575 | 397,504 |
| Deduction Deadline | n/a | 2013 | 2014 | 2015 | 2014 | 2015 | 2017 | |

During 2006, the subsidiary TAP S.A. carried out, under Decree-Law number 453/99, of 5 November, an operation for the securitisation of future credit, where Deutsche Bank acted as the lead manager and the future loans were acquired by Tagus – Sociedade de Titularização de Créditos, S.A.

As a result of this operation, and due to no. 1 of Article 2 of Decree-Law No. 219/2001, of 4 August, the amount of 230,000 thousand Euros was added for the calculation of TAP's taxable income for 2006. It should be noted that the losses reported for the 2000, 2001 and 2002 financial years were deducted from the calculated taxable income.

The liabilities recorded by TAP S.A., which correspond to the amount received from the sale of the future credit, of 230,000,000 Euros, net of operating expenses of 779 thousand Euros, are being repaid until December 2016, as the credit assigned to the credit securitisation company is handed over. The financial cost associated to the liability created with the sale of these receivables is in line with market rates.

The report prepared by the Tax Authorities in 2009, presents a divergent interpretation from that of the Group, based essentially on the non-applicability of Decree-Law number 219/2001, of 4 August. The Tax Authorities consider that the said operation constitutes a financial liability, thus not resulting, on its own, in a calculation of any taxable corporate income or profit, concluding that there is no justification for any tax adjustment for the year of the securitisation operation.

The Board of Directors, supported in its decision by its lawyers and tax consultants, has the opinion that the procedure adopted was correct and as such will exercise its legitimate right to object.

It should be emphasised that the reported tax losses presented above have been adjusted for the corrected referred to above.

Pursuant to the legislation in force in Brazil, namely Law 11.941 of 2009, it is possible to use reported tax losses through the consolidation of the special subdivision of various tax debits. Thus, for the financial year of 2011, TAP ME Brasil decided to use its losses, through the deduction of the debt's interest by 34% (tax aliquot), which resulted in the elimination of reported tax losses of 149,527 thousand Euros.

## 16. Advances to suppliers

| | 2012 | 2011 |
|---|---|---|
| Current account | 5,378 | 11,221 |
| | 5,378 | 11,221 |

The value recorded in this heading as at 31 December 2012 and 2011 refers to the following entities:

| | 2012 | 2011 |
|---|---|---|
| Airbus | 759 | 996 |
| Marshall Aerospace | 617 | 181 |
| SITA | 507 | 496 |
| Aero Systems Engineering | 415 | – |
| Schenck Rotec | 403 | – |
| Taylor Hobson | 240 | – |
| Vinhas e Pessôa Advogados Associados | 180 | 25 |
| Honeywell Intellectual Properties | 130 | 145 |
| FRB Serviços de Alimentação Ltda. | 101 | 113 |
| INAC - Inst. Nacional de Aviação Civil | 9 | 236 |
| SR Technics | – | 3,988 |
| Eurocontrol - EU | – | 1,573 |
| GE Aviation Cts | – | 1,288 |
| Chapman Freeborn Airchartering | – | 230 |
| Other | 2,017 | 1,950 |
| | 5,378 | 11,221 |

## 17. State and other public entities

The balances with the State and other public entities are detailed as follows:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Current | Non-current | Total | Current | Non-current | Total |
| Assets | | | | | | |
| Income tax receivable | 382 | – | 382 | 1,986 | – | 1,986 |
| Other | 17,454 | – | 17,454 | 16,634 | – | 16,634 |
| | 17,836 | – | 17,836 | 18,620 | – | 18,620 |
| Liabilities | | | | | | |
| Income tax payable | 3,358 | – | 3,358 | 1,245 | – | 1,245 |
| Other | 26,369 | 76,557 | 102,926 | 27,842 | 84,868 | 112,710 |
| | 29,727 | 76,557 | 106,284 | 29,087 | 84,868 | 113,955 |

The 2012 and 2011 amounts are detailed as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Debtor | Creditor | Debtor | Creditor |
| State - grants receivable: | | | | |
| Compensatory indemnities | 6,554 | – | 6,864 | – |
| State and Other Public Entities: | | | | |
| IRC (corporate income tax) | 382 | 3,358 | 1,986 | 1,245 |
| IRS (personal income tax) | – | 5,823 | – | 6,134 |
| VAT (value added tax) | 6,846 | 608 | 5,108 | 466 |
| Social Security | – | 8,196 | – | 7,984 |
| State - Brazil | 3,046 | 88,163 | 3,525 | 98,002 |
| Other | 1,008 | 136 | 1,137 | 124 |
| | **17,836** | **106,284** | **18,620** | **113,955** |

As at 31 December 2012, the amount recorded as “Compensatory Indemnities” includes the portion of the fare subsidised by the State for the routes to the Autonomous Region of the Azores for the financial year of 2012, totalizing 4,268 thousand Euros. These amounts correspond to tickets sold by TAP S.A. which may be used on TAP S.A. or other airline flights. This heading also includes the amount receivable from the State of 2,286 thousand Euros relative to flights between the islands of the Autonomous Region of the Azores.

The figures for 2012 have not yet been audited by the Tax Authorities or approved by the Government; however, no significant corrections to figures recorded by TAP are expected.

The VAT debit balance refers to the request for reimbursement of the months of September, October, November and December 2012, which have not yet been received.

As at 31 December 2012 and 2011, the heading “State - Brazil” is detailed as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Debtor | Creditor | Debtor | Creditor |
| Current: | | | | |
| REFIS | – | 7,956 | – | 7,395 |
| Other | 3,046 | 3,650 | 3,525 | 5,739 |
| Non-current: | | | | |
| REFIS | – | 76,013 | – | 84,868 |
| Other | – | 544 | – | – |
| | **3,046** | **88,163** | **3,525** | **98,002** |

In 2009 the subsidiary TAP ME Brasil joined the tax refinancing programme, called REFIS, through which it compensated part of the interest and contingency fines related to rent tax and deferred social security contributions, over total tax losses and negative social security contribution base, having reduced its debt by 49,448 thousand Euros.

Decree-Law number 258/98 of 17 August revoked the tax exemptions which TAP S.A. had benefited, and had been set out on the XII base attached to Decree-Law number 39.188 of 25 April 1953 and on Decree-Law number 39.673 of 22 May 1954, number 41.000 of 12 February 1957 and number 44.373 of 29 May 1962, which implied that TAP S.A. is no longer exempt from the payment of tax and other contributions to the State.

Pursuant to the current legislation, tax returns of companies based in Portugal included in the consolidation are subject to review and corrections by the tax authorities for a period of four years (five years for Social Security), except when there have been tax losses, when tax benefits have been granted or when inspections, claims or objections are in course, whose deadlines may be extended or suspended, depending on the circumstances. The Group’s Executive Board of Directors considers that any corrections arising from reviews/inspections by the tax authorities to these tax returns will not have a significant impact on the financial statements as at 31 December 2012.

## 18. Other accounts receivable

As at 31 December 2012 and 2011, the “Other accounts receivable” is detailed as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Related entities (Note 56) | 5,073 | 3,700 | 119,922 | 3,700 |
| Staff | 8,606 | – | 8,661 | – |
| Accrued gains | 14,739 | 256 | 5,048 | – |
| Other | 32,285 | 45,556 | 27,561 | 32,619 |
| Adjustments due to impairment of other debtors | (4,131) | (1,921) | (4,577) | (1,921) |
| | 56,572 | 47,591 | 156,615 | 34,398 |

The “Related entities - non-current”, of 3,700 thousand Euros, refers to the additional paid-in capital granted to SPdH (Notes 26 and 56).

The decrease recorded in “Related entities - current”, as at 31 December 2012, is related to the sale agreement of 50.1% of the capital of SPdH, having the total of 119,379 thousand Euros been converted into additional paid-in capital to cover losses, through decision of the General Meeting held on 31 January 2012 (Note 26).

As at 31 December 2012 and 2011, the amount recorded as “Accrued gains” is detailed as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Work for aviation companies | 2,838 | – | – | – |
| Sale of miles to partners | 1,778 | – | 2,471 | – |
| Fuel hedging (Note 24) | 1,535 | 256 | 429 | – |
| Advertising | 1,520 | – | 1,017 | – |
| Sale of scrap materials | 1,402 | – | – | – |
| Terminal taxes | 542 | – | – | – |
| Interest receivable | 33 | – | 701 | – |
| Other | 5,091 | – | 430 | – |
| | 14,739 | 256 | 5,048 | – |

The amount of “Fuel hedging”, as at 31 December 2012 and 2011, is detailed as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Accrual-based gain for the year | 1,091 | – | – | – |
| Fair value of jet fuel swaps (Note 24) | 444 | 256 | 429 | – |
| | 1,535 | 256 | 429 | – |

As at 31 December 2012 and 2011, the amount of “Other - non-current” corresponds to:

| | 2012 | 2011 |
|---|---|---|
| Judicial deposits – Brazil | 20,429 | 22,221 |
| Retained deposits | 5,615 | 4,556 |
| Security deposits (Note 27) | 8,043 | 3,550 |
| Pasogal SGPS, S.A. (Nota 37) | 3,000 | – |
| SITA – Société Internationale de Télécommunications Aéronautiques | 352 | 356 |
| Other | 8,117 | 1,936 |
| | 45,556 | 32,619 |

The retained deposits refer to the guarantee for future maintenance services to the French Air Force aircraft.

The security deposits are carried out by TAP S.A. under the operating lease contracts for aircraft and engines, and will be returned, without interest, when the airplanes and engines are handed back to their lessors.

As at 31 December 2012 and 2011, the amount recorded as "Other - current" corresponds to:

| | 2012 | 2011 |
|---|---|---|
| Other receivables from suppliers | 8,688 | 9,722 |
| Interline and other invoicing | 8,400 | 6,773 |
| Debtors - Brazil | 4,832 | 2,790 |
| Debtors - Italy | 2,027 | 218 |
| VAT of offices abroad | 1,732 | 1,199 |
| Other | 6,606 | 6,859 |
| | 32,285 | 27,561 |

The heading "Other", of 6,606 thousand Euros, includes 547 thousand Euros related with the surplus funding recorded as at 31 December 2012, of the Horizonte Valorização Pension Fund of the subsidiary UCS. This surplus funding is reimbursable under the terms of the law and/or allows the exemption of future contributions (Note 28).

The movements occurred in "Impairments of other debtors" in 2012 and 2011 is as follows:

| | |
|---|---|
| Opening balance as at 1 January 2011 | (6,549) |
| Reinforcement (Note 44) | 107 |
| Reversals (Note 44) | (124) |
| Utilisations | 68 |
| Closing balance as at 31 December 2011 | (6,498) |
| Reinforcement (Note 44) | 661 |
| Reversals (Note 44) | (244) |
| Utilisations | 29 |
| Closing balance as at 31 December 2012 | (6,052) |

## 19. Deferrals

As at 31 December 2012 and 2011, the heading "Deferrals" is detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Asset deferrals | 9,597 | 10,805 |
| | 9,597 | 10,805 |

| | 2012 | 2011 |
|---|---|---|
| Liability deferrals | 53,360 | 65,393 |
| | 53,360 | 65,393 |

The amount recorded as "Deferred assets", as at 31 December 2012 and 2011, is detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Aircraft leasings | 2,614 | 1,975 |
| Fees | 2,229 | 3,232 |
| Insurance | 2,213 | 1,820 |
| Rents and leases | 1,909 | 2,337 |
| Other deferred costs | 632 | 1,441 |
| | 9,597 | 10,805 |

The fees refer to the amounts paid to agents for tickets sold but not yet used or expired by 31 December 2012 and 2011.

The heading “Deferred liabilities”, as at 31 December 2012 and 2012, is detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Work for aviation companies | 27,530 | 35,125 |
| Customer loyalty programme | 25,133 | 28,341 |
| Overhaul reserves | 123 | 127 |
| Fuel supplies | – | 875 |
| Other | 574 | 925 |
| | 53,360 | 65,393 |

The amount of 27,530 thousand Euros (2011: 35,125 thousand Euros), recorded as “Maintenance work for airline companies”, refers to provisional invoicing of maintenance work for third parties that was still underway as at 31 December 2012.

Under the application of IFRIC 13 - Customer loyalty programmes, the attribution of miles to customers who are members of the “TAP Victoria” customer loyalty programme is based on the unit value of the mile, as collected by the customer (Note 2.26).

## 20. Inventories

The detail of inventories as at 31 December 2012 and 2011 is as follows:

| | 2012 | 2011 |
|---|---|---|
| Goods (Note 40) | 14,400 | 12,982 |
| Products and work in progress (Note 38) | 10,046 | 23,431 |
| Raw materials, subsidiary materials and consumables (Note 40) | 147,934 | 163,759 |
| Inventory impairment losses | (47,265) | (57,743) |
| | 125,115 | 142,429 |

The item “Products and work in progress” corresponds to the amounts of materials and hours spent on aircraft maintenance works for third parties which are still in progress at the reporting date.

Raw materials, subsidiary materials and consumables refer to technical material used in the repair of own aircraft and in works carried out for other airline companies.

The movement which occurred in “Inventory impairment losses” in 2011 and 2012 is as follows:

| | |
|---|---|
| Opening balance as at 1 January 2011 | 59,176 |
| Reinforcement (Note 43) | 3,140 |
| Reversals (Note 43) | (692) |
| Utilisations | (2,108) |
| Currency conversion adjustment | (1,773) |
| Closing balance as at 31 December 2011 | 57,743 |
| Reinforcement (Note 43) | 2,278 |
| Reversals (Note 43) | (314) |
| Utilisations | (14,524) |
| Currency conversion adjustment | 2,082 |
| Closing balance as at 31 December 2012 | 47,265 |

## 21. Customers

As at 31 December 2012 and 2011, the item "Customers" is detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Customers - current account | 257,501 | 283,129 |
| Customers - bad debt | 36,759 | 36,090 |
| Customer impairent losses | (62,686) | (68,737) |
| | 231,574 | 250,482 |

The breakdown of this heading by type of customer is as follows:

| | 2012 | 2011 |
|---|---|---|
| Private entities | 99,542 | 94,303 |
| Travel agencies | 80,632 | 85,671 |
| Airline companies | 41,807 | 62,645 |
| Related entities (Note 56) | 1,640 | 1,675 |
| Other | 7,953 | 6,188 |
| | 231,574 | 250,482 |

The balances receivable from travel agencies and airline companies are settled, mainly, through the IATA Clearing House system.

The movement occurred in "Customer impairment losses" in 2011 and 2012 is as follows:

| | |
|---|---|
| Opening balance as at 1 January 2011 | 70,893 |
| Reinforcement (Note 44) | 4,647 |
| Reversals (Note 44) | (5,218) |
| Utilisations | (360) |
| Currency conversion adjustment | (1,225) |
| Closing balance as at 31 December 2011 | 68,737 |
| Reinforcement (Note 44) | 3,526 |
| Reversals (Note 44) | (7,266) |
| Utilisations | (167) |
| Currency conversion adjustment | (2,144) |
| Closing balance as at 31 December 2012 | 62,686 |

## 22. Cash and bank deposits

As at 31 December 2012 and 2011, the cash and cash equivalents detail present the following amounts:

| | 2012 | 2011 |
|---|---|---|
| Term deposits | 18,889 | 106,766 |
| Overnight bank cash deposits | 66,330 | 60,384 |
| Cash | 134 | 215 |
| Cash and bank deposits in the statement of the financial position | 85,353 | 167,365 |
| Bank overdrafts (Note 27) | 42,331 | 42,350 |
| Cash and cash equivalents in the cash flow statement | 43,022 | 125,015 |

The amount of cash on hand presented by Grupo TAP results mainly from the cash on hand of TAP S.A., of 71,003 thousand Euros (2011: 156,848 thousand Euros).

Surplus liquidity is normally invested in short term financial investments, earning interest at normal market rates.

## 24. Equity instruments

The nominal share capital of Grupo TAP, of 15,000 thousand Euros is represented by 1,500,000 nominal shares of 10 Euros each, 100% owned by Parpública – Participações Públicas, SGPS, S.A.

### Legal reserve

The legal reserve was constituted in accordance with the article 295 of the Commercial Companies Code, which establishes that a minimum of 5% of the net income for the year shall be allocated to this reserve until the amount of the reserve correspondents to a fifth of the share capital. This reserve cannot be distributed, except in case of the company's liquidation, but can be incorporated into the share capital or used to absorb losses after the other reserves have been depleted.

### Currency conversion reserves

Currency conversion differences arising from the conversion of operating units denominated in foreign currency are recorded in equity as:

| | 2012 | | | |
|---|---|---|---|---|
| | Opening balance | Increases | Reductions | Closing balance |
| TAP ME Brasil and Aeropar: | | | | |
| Conversion of the financial statements and goodwill | (11,399) | 30,752 | – | 19,353 |
| Extension of the net investment in TAP ME Brasil | 4,532 | – | (37,464) | (32,932) |
| | (6,867) | 30,752 | (37,464) | (13,579) |

| | 2011 | | | |
|---|---|---|---|---|
| | Opening balance | Increases | Reductions | Closing balance |
| TAP ME Brasil and Aeropar: | | | | |
| Conversion of the financial statements and goodwill | (30,973) | 19,574 | – | (11,399) |
| Extension of the net investment in TAP ME Brasil | 25,949 | – | (21,417) | 4,532 |
| | (5,024) | 19,574 | (21,417) | (6,867) |

The increase of 30,752 thousand Euros refers to the Group's appropriation of the currency conversion differences arising from the conversion of the financial statements of the companies operating in Brazil.

The reduction of 37,464 thousand Euros, which occurred in 2012, refers to unfavourable currency conversion differences from the medium and long term loans granted to TAP ME Brasil, whose settlement is unlikely to occur in the foreseeable future, being in substance, an extension of the Group's net investment in this foreign entity.

### Fair value reserves

The negative amount of 1,680 thousand Euros presented as "Fair value reserves" corresponds to the fair value of the financial instruments classified as hedging, of the subsidiary TAP, S.A., recorded in accordance with the policy described in Note 2.12.

As at 31 December 2012 and 2011, the fair value of the derivative financial instruments is detailed as follows:

| | | | 2012 | 2011 |
|---|---|---|---|---|
| | Beginning | Maturity | Net | Net |
| Interest rate swaps (Notes 31 and 58) | | | | |
| TOL | 26-11-2009 | 26-11-2019 | (2,380) | (1,665) |
| Jet fuel swaps (Notes 18 and 58) | | | 700 | 429 |
| | | | (1,680) | (1,236) |

The interest rate and jet fuel derivative financial instruments in portfolio, classified as hedging instruments, during the financial years ended on 31 December 2012 and 2011, present the following evolution:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Fair value as at 1 January 2011 | - | - | (259) | (747) |
| Acquisitions during the financial year - payments/(receipt) | - | - | - | - |
| Payment/(receipt) of swaps during the financial year | - | - | 303 | 571 |
| Receipt/(payment) of swaps retained in net income | - | - | (303) | (571) |
| Increase/(decrease) of the fair value reflected in equity | 429 | - | 259 | (918) |
| Fair value as at 31 December 2011 | 429 | - | - | (1,665) |
| Acquisitions during the financial year - payments/(receipt) | (8,902) | - | - | - |
| Payment/(receipt) of swaps during the financial year | (4,242) | - | - | 626 |
| Receipt/(payment) of swaps retained in net income | 13,144 | - | - | (626) |
| Increase/(decrease) of the fair value reflected in equity | 15 | 256 | - | (715) |
| Fair value as at 31 December 2012 | 444 | 256 | - | (2,380) |

### Retained earnings

The "Retained earnings" corresponds to the net income of previous years, as deliberated at the General Meetings. Any changes arising from the first-time application of the International Financial Reporting Standards are also recorded under this heading.

### Earnings per share

There are no convertible financial instruments related with TAP SGPS shares; therefore there is no dilution of earnings.

| | 2012 | 2011 |
|---|---|---|
| Earnings attributable to TAP SGPS shareholders | (30,794) | (76,807) |
| Weighted average number of shares | 1,500,000 | 1,500,000 |
| Basic earnings per share (value in Euros) | (21) | (51) |
| Diluted earnings per share (value in Euros) | (21) | (51) |

## 25. Non-controlling interests - statement of the financial position

The non-controlling interests stated in the statement of the financial position are detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Non-controlling interests of equity | | |
| Cateringpor | 2,840 | 2,509 |
| LFP | 5,759 | 5,292 |
| | 8,599 | 7,801 |

## 26. Provisions

During 2012 and 2011, the following movements took place in provisions:

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Opening balance | Increases | Reductions due to use | Reversed unused amounts | Exchange rate variation | Other movements | Closing balance |
| Provisions | | | | | | | |
| Provision for current lawsuits (Note 45) | 25,824 | 2,019 | (80) | (5,425) | (1,995) | 1,893 | 22,236 |
| Provision for financial investments (Note 37) | 126,785 | 1,886 | – | (2,996) | – | (119,379) | 6,296 |
| Other provisions (Note 45) | 5,477 | 298 | (2,681) | (579) | (278) | 69 | 2,306 |
| | 158,086 | 4,203 | (2,761) | (9,000) | (2,273) | (117,417) | 30,838 |

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Opening balance | Increases | Reductions due to use | Reversed unused amounts | Exchange rate variation | Other movements | Closing balance |
| Provisions | | | | | | | |
| Provision for current lawsuits (Note 45) | 38,615 | 2,059 | (241) | (14,630) | (1,920) | 1,941 | 25,824 |
| Provision for financial investments (Note 37) | 115,661 | 11,124 | – | – | – | – | 126,785 |
| Other provisions (Note 45) | 5,299 | 31 | (1,606) | (63) | (324) | 2,140 | 5,477 |
| | 159,575 | 13,214 | (1,847) | (14,693) | (2,244) | 4,081 | 158,086 |

These movements resulted in gains of 3,687 thousand Euros and 12,603 thousand Euros, in 2012 and 2011, respectively, recorded as "Provisions" (Note 45).

A gain of 1,110 thousand Euros (2011: loss of 11,124 thousand Euros) was also recorded in 2012, as "Gains and losses in associates", related to the provision for financial investments (Note 37).

### Provision for current lawsuits

Provisions for current lawsuits are constituted in accordance with the risk assessments carried out by the Group and its legal advisors, based on historical success rates by type of legal action and probability of unfavourable outcomes for the Group. As at 31 December 2012, the existing provision, of 22,236 thousand Euros, aims to cover the cost of various lawsuits filed against the Group, in Portugal and abroad.

The breakdown of the provision for current lawsuits is as follows:

| | 2012 | 2011 |
|---|---|---|
| Grupo TAP (without subsidiary TAP ME Brasil) | 8,015 | 6,249 |
| Subsidiary TAP ME Brasil | 14,221 | 19,575 |
| | 22,236 | 25,824 |

As at 31 December 2012, the subsidiary TAP ME Brasil faced close to 2,182 labour claims (2,042 claims as at 31 December 2011). The subsidiary is a joint debtor of the labour liabilities related to the migration of employees from VARIG to TAP ME Brasil in 2001 and 2002. Labour claims have been filed by former employees of VARIG against the subsidiary and against TAP S.A. due to the dismissal of VARIG employees following the judicial auction sale of the production unit of VARIG, held in July 2006.

### Provision for financial investments

The amount of 1,886 thousand Euros, related to the reinforcement of the provision for the negative equity of SPdH, as well as the amount of 2,966 thousand Euros, related to the reversal of 50.1% of the said provision, following the sale of the stake in SPdH, were recorded as "Gain and losses in associates" (Note 37).

The amount of 119,379 thousand Euros recorded in "Other movements" refers to the use of the provision when the loans conversion into additional paid-in capital to cover losses, as decided at the General Meeting of 31 January 2012, following the sale agreement of 50.1% of the capital of SPdH (Note 18).

In March 2009, a consortium of three banks (BIG, Banif and Banco Invest) transferred the stake in SPdH (50.1%) to TAP S.A. for 31.6 million Euros. On the same date and during the period when the concentration process at the Competition Authority was pending, TAP S.A. transferred the exercise of its voting and supervision rights, as majority shareholder of SPdH, to an independent entity of Grupo TAP.

On 19 November 2009, the Competition Authority, following an in-depth investigation, decided to adopt a decision of prohibition relative to the concentration operation which consisted in the acquisition, by TAP S.A., of the exclusive control of SPdH, through the acquisition of a 50.1% stake of the share capital of SPdH.

The Competition Authority thus imposed the forced separation of SPdH via the sale, by Grupo TAP, of the shares relative to at least 50.1% of the share capital of SPdH. Until the sale, the regulator imposed that SPdH be administered by a trustee, acting on behalf of the Competition Authority and managing SPdH independently from Grupo TAP.

On 18 June 2012, a purchase and sale contract was celebrated between, on the one hand, TAP S.A., TAP SGPS, Portugália and SPdH and, on the other hand, Urbanos Grupo, SGPS, S.A. for the acquisition, by the latter group of 50.1% of the capital of SPdH, which shall effect from 20 July 2012, date of the deliberation of the AdC regarding the decision of non-opposition to the said operation. In the interim, on 17 October 2012, Pasogal SGPS, S.A. took over from Urbanos Group, SGPS, S.A. all the rights and obligations that emerged from said contract and Shareholders' Agreement.

The activity licenses of SPdH for handling services to third parties, in Lisbon and Porto, in the reserved access categories 3 (luggage handling), 4 (freight and mail handling) and 5 (ramp handling) expired on 31 December 2011.

As INAC has not yet concluded the international invitations to tender the new licences issuance, and the subsequent selection of the second service provider in those reserved access categories for the Lisbon and Porto airports, in which SPDH is opponent, Decree-Law no. 19/2012, of 27 January was published in the interim.

The said Decree-Law provides the possibility of INAC extending, as an exceptional measure, the licenses granting access to the activity of ground handling services provider, in the said reserved categories in Lisbon and Porto airports, held by SPdH as at 31 December 2011, until the date on which the ground handling services providers, to be selected through the invitations to tender underway, initiate their activity.

It should be noted that, if SPdH is not selected as handling services provider to third parties,, through the invitations to tender currently underway opened by INAC, Pasogal SGPS, S.A. shall have the right to terminate the purchase and sale contract.

As at 31 December 2012 and 2011, the financial information relative to the associate SPdH is as follows:

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Total assets | Total equity | Total liabilities | Sales and services rendered | Net income for the year |
| SPdH | 23,675 | (5,202) | 28,877 | 103,011 | (1,496) |

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Total assets | Total equity | Total liabilities | Sales and services rendered | Net income for the year |
| SPdH | 24,703 | (123,085) | 147,788 | 106,381 | (11,124) |

## Other provisions

This item is detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Subsidiary TAP ME Brasil | | |
| Provision for tax contingencies | 778 | 4,053 |
| Remaining subsidiaries | | |
| Other provisions | 1,528 | 1,424 |
| | 2,306 | 5,477 |

## Provision for tax contingencies

The subsidiary TAP ME Brasil is currently involved in tax proceedings, both in the administrative and judicial areas, which, when applicable, are guaranteed by judicial deposits and/or pledge of assets.

In 2009, the subsidiary TAP ME Brasil, S.A. joined the REFIS tax refinancing programme, which subdivided the total federal contingencies, and where the probability of success is classified as remote.

The movement which occurred in the provision for tax contingencies was as follows:

| | |
|---|---|
| Balance as at 1 January 2011 | 3,823 |
| Decrease due to payments made | (1,586) |
| Exchange rate variation | (324) |
| Other movements | 2,140 |
| Balance as at 31 December 2011 | 4,053 |
| Decrease due to payments made | (4,574) |
| Exchange rate variation | (278) |
| Other movements | 1,577 |
| Balance as at 31 December 2012 | 778 |

# 27. Loans received

The loans received are detailed as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Bank loans | 107,937 | 334,014 | 90,725 | 413,872 |
| Financial leasing liabilities | 108,406 | 441,376 | 112,134 | 571,837 |
| Bank overdrafts (Note 22) | 42,331 | – | 42,350 | – |
| | 258,674 | 775,390 | 245,209 | 985,709 |

## Remunerated net debt

As at 31 December 2012 and 2011, the remunerated net debt is detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Loans received | | |
| Non-current | 775,390 | 985,709 |
| Current | 258,674 | 245,209 |
| | 1,034,064 | 1,230,918 |
| Cash and cash equivalents (Note 22) | | |
| Cash | 134 | 215 |
| Overnight bank cash deposits | 66,330 | 60,384 |
| Term deposits | 18,889 | 106,766 |
| | 85,353 | 167,365 |
| Remunerated net debt | 948,711 | 1,063,553 |

## Remunerated bank debt

As at 31 December 2012 and 2011, the current and non-current remunerated bank debt is detailed as follows:

| | 2012 | 2011 | Reference rate |
|---|---|---|---|
| Non-current | | | |
| TAP SGPS | | | |
| BCP bank loan | 3,135 | 3,741 | Euribor 3m |
| Deutsche Bank bank loan | 51,339 | 50,772 | Fixed rate |
| TAP S.A. | | | |
| Tagus – Sociedade de Titularização de Créditos, S.A. | 98,889 | 128,143 | Euribor 3m |
| Deutsche Bank bank loan | 180,651 | 221,216 | Fixed rate |
| C. Mútuo BPP | – | 10,000 | Euribor 3m |
| | 334,014 | 413,872 | |
| Current | | | |
| TAP SGPS | | | |
| BCP bank loan | 611 | 591 | Euribor 3m |
| Deutsche Bank bank loan | 1,449 | 1,434 | Fixed rate |
| BCI credit line | 4,034 | 4,013 | Euribor 1m |
| BES bank overdraft | 7,493 | 7,493 | Euribor 1m |
| TAP S.A. | | | |
| Bank overdrafts | 34,838 | 34,857 | Various |
| Tagus – Sociedade de Titularização de Créditos, S.A. | 29,296 | 27,657 | Euribor 3m |
| BCP credit line | 10,253 | 10,249 | Euribor 1m |
| Deutsche Bank bank loan | 42,045 | 40,685 | Fixed rate |
| C. Mútuo BPP | 10,064 | 83 | Euribor 3m |
| Banco Popular credit line | 6,016 | 6,013 | Euribor 3m |
| BIC | 4,169 | – | Libor 6m |
| | 150,268 | 133,075 | |
| Dívida bancária remunerada | 484,282 | 546,947 | |

The amount of 98,889 thousand Euros and 29,296 thousand Euros, recorded on 31 December 2012 in non-current and current bank debt, respectively, corresponds to a liability generated under a securitisation operation of future loans, carried out by TAP in December 2006, under the terms of Decree-Law No. 453/99, of 5 November. Deutsche bank acted as lead manager on that operation and Tagus – Sociedade de Titularização de Créditos, S.A. acquired the future receivables.

The remunerated bank debt, by maturity and type of interest rate, as at 31 December 2012 and 2011, is detailed as follows:

| By maturity | 2012 | 2011 |
|---|---|---|
| Up to 1 year | 150,268 | 133,075 |
| 1 to 2 years | 73,459 | 79,858 |
| 2 to 3 years | 129,697 | 73,459 |
| 3 to 4 years | 81,704 | 129,698 |
| 4 to 5 years | 48,770 | 81,704 |
| Over 5 years | 384 | 49,153 |
| | 484,282 | 546,947 |

| By type of interest rate | 2012 | 2011 |
|---|---|---|
| Variable rate | | |
| Expires in 1 year | 106,774 | 90,956 |
| Expires in 1 to 2 years | 31,650 | 39,860 |
| Expires in 2 to 3 years | 33,612 | 31,650 |
| Over 3 years | 36,762 | 70,374 |
| | **208,798** | **232,840** |
| Fixed rate | | |
| Expires in 1 year | 43,494 | 42,119 |
| Expires in 1 to 2 years | 41,809 | 39,998 |
| Expires in 2 to 3 years | 96,085 | 41,809 |
| Over 3 years | 94,096 | 190,181 |
| | **275,484** | **314,107** |
| | **484,282** | **546,947** |

All the loans received state the Euro as the functional currency.

The total amount of liabilities plus interest due is presented in the chapter on interest rate risk (Note 3).

## Financial leasing

The Group records the assets acquired under financial leasing in its tangible fixed assets. As at 31 December 2012 and 2011, the Group had on-going financial leasing liabilities as described in Note 5, with the corresponding principal being included in the financial position as “Loans received”, as follows:

| | 2012 | 2011 |
|---|---|---|
| Debts related to financial leasing | | |
| Basic equipment | 549,649 | 683,926 |
| Other tangible fixed assets | 133 | 45 |
| | **549,782** | **683,971** |
| Future payments of principal | | |
| Up to 1 year | 108,406 | 112,134 |
| 1 to 5 years | 376,366 | 390,317 |
| Over 5 years | 65,010 | 181,520 |
| | 549,782 | 683,971 |

Financial leasing, by functional currency, is detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Financial leasing in EUR | 425,460 | 528,888 |
| Financial leasing in USD (Note 3) | 124,301 | 155,083 |
| Financial leasing in BRL (Note 3) | 21 | - |
| | **549,782** | **683,971** |

The financial leasing liabilities, by maturity and type of interest rate, as at 31 December 2012 and 2011, is detailed as follows:

| By maturity | 2012 | 2011 |
|---|---|---|
| Up to 1 year | 108,406 | 112,134 |
| 1 to 2 years | 86,697 | 109,233 |
| 2 to 3 years | 104,992 | 98,111 |
| 3 to 4 years | 69,563 | 113,020 |
| 4 to 5 years | 115,114 | 69,953 |
| Over 5 years | 65,010 | 181,520 |
| | **549,782** | **683,971** |

| By type of interest rate | 2012 | 2011 |
|---|---|---|
| Variable rate | | |
| Expires in 1 year | 54,663 | 60,439 |
| Expires in 1 to 2 years | 33,444 | 57,113 |
| Expires in 2 to 3 years | 34,440 | 44,614 |
| Over 3 years | 79,277 | 121,882 |
| | **201,824** | **284,048** |
| Fixed rate | | |
| Expires in 1 year | 53,743 | 51,695 |
| Expires in 1 to 2 years | 53,253 | 52,120 |
| Expires in 2 to 3 years | 70,552 | 53,497 |
| Over 3 years | 170,410 | 242,611 |
| | **347,958** | **399,923** |
| | **549,782** | **683,971** |

The total amount of liabilities plus interest due is presented in the chapter on interest rate risk (Note 3).

## Operating leasing

As referred to in Note 2.24, these liabilities are not recorded in the Group's financial position. The duration of the Group's operating lease contracts is variable, may reach up to 8 years, and the contracts may be extended through the explicit consent of the contracting parties.

As at 31 December 2012, 18 airplanes, as shown in detail in Note 5, and 4 engines were under operating lease contracts.

As at 31 December 2012 and 2011, the financial commitments assumed by the subsidiary TAP S.A., related to operating lease contracts for aircraft and engines reached a total of 245,068 thousand Euros (318,588 thousand USD) and 218,876 thousand Euros (295,483 thousand USD), respectively (Note 60).

The payment plans for the operating lease instalments are detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Up to 1 year | 50,799 | 49,551 |
| 1 to 2 years | 44,424 | 35,829 |
| 2 to 3 years | 39,030 | 28,431 |
| 3 to 4 years | 37,385 | 26,947 |
| Over 4 years | 73,430 | 78,118 |
| | **245,068** | **218,876** |

These contracts require security deposits which, as at 31 December 2012 and 2011, reached a total of 8,043 thousand Euros and 3,550 thousand Euros, respectively (Note 18). These deposits shall be returned to the Group when each of these aircraft is handed back to its lessor.

## Financial covenants

The financial covenants enclosed in the lease and loan contracts are the usual ones in this kind of operations, including compulsory provisions such as the maintenance of the airline operator activity, commitments to periodically disclose the available financial information, and, in the specific case of financial leasing, operating duties relative to registrations at official entities, information relative to leased aircraft, strict compliance with all the regulations, procedures defined by the authorities, amongst others.

# 28. Liabilities related to post-employment benefits

| | 2012 | 2011 |
|---|---|---|
| Liabilities for past services at the beginning of the year | 78,540 | 88,393 |
| Cost of interest | 13,811 | 12,702 |
| Cost of current services | 2,868 | 3,111 |
| Pensions fund contributions | (13,079) | (14,631) |
| Actuarial gains and losses | 1,036 | 5,429 |
| Exchange rate changes in the plans measured in a different currency | (913) | (2,303) |
| Fund asset income | (11,147) | (7,778) |
| Benefits paid | (5,457) | (6,383) |
| Other | 5,367 | – |
| Liabilities for past services at the end of the year | 71,026 | 78,540 |

The main actuarial assumptions used in the preparation of the studies are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Portugal | Brazil | Portugal | Brazil |
| Mortality table | TV 88/90 | AT2000 | TV 88/90 | AT2000 |
| Invalidity table | EKV1980 | IAPB-57 | EKV1980 | IAPB-57 |
| Discount rate | 4.25% | 9.93% | 4.75% | 10.78% |
| Fund yield rate | 4.25% | 9.93% | 4.75% | 11.64% |
| Growth rate | | | | |
| Salaries | 1.50% | 7.61% | 1.50% | 7.10% |
| Pensions | 1.00% | 5.50% | 1.00% | 5.00% |
| Trend of medical costs | 1.50% | – | 1.50% | – |

The liabilities of the different companies of Grupo TAP were calculated through actuarial studies reported as at 31 December 2012 and 2011, prepared by independent entities, individually for each company, using the Projected Unit Credit method. The liabilities for the financial years of 2008 to 2012 are detailed as follows:

| | 2012 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Viva Pensions | Before 1997 | Active | Healthcare | Seniority bonuses | England representation | Brazil | UCS | Total |
| Liabilities from past services | | | | | | | | | |
| Active | 2,214 | – | 419 | – | 35,747 | 13,958 | – | 7 | 52,345 |
| Pre-retired | 2,197 | – | 2,970 | 254 | – | – | 90,056 | – | 95,477 |
| Retired | 9,442 | 39,994 | – | 2,739 | – | – | 153 | – | 52,328 |
| Market value of the funds | (15,943) | – | – | – | (32,106) | (13,131) | (67,937) | (554) | (129,671) |
| Insufficiency / (surplus) | (2,090) | 39,994 | 3,389 | 2,993 | 3,641 | 827 | 22,272 | (547) | 70,479 |

The surplus financing recorded as at 31 December 2012, of 2,637 thousand Euros (Pensões Viva and UCS), is reimbursable under the terms of the law and/or allows for exemption from future contributions.

The excess financing of the Horizonte Valorização Pension Fund of the subsidiary UCS, of 547 thousand Euros, is recorded as "Other accounts receivable" (Note 18).

| | 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Viva Pensions | Before 1997 | Active | Healthcare | Seniority bonuses | England representation | Brazil | Total |
| Liabilities from past services | | | | | | | | |
| Active | 2,579 | – | – | – | 39,340 | 12,440 | – | 54,359 |
| Pre-retired | – | – | 2,321 | 299 | – | – | 84,995 | 87,615 |
| Retired | 8,899 | 40,985 | – | 2,682 | – | – | – | 52,566 |
| Market value of the funds | (14,719) | – | – | – | (29,845) | (11,683) | (59,753) | (116,000) |
| Insufficiency / (surplus) | (3,241) | 40,985 | 2,321 | 2,981 | 9,495 | 757 | 25,242 | 78,540 |

| | 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Viva Pensions | Before 1997 | Active | Healthcare | Seniority bonuses | England representation | Brazil | Total |
| Liabilities from past services | | | | | | | | |
| Active | 4,854 | – | – | – | 37,398 | 8,956 | – | 51,208 |
| Pre-retired | – | – | 820 | 197 | – | – | 83,569 | 84,586 |
| Retired | 6,562 | 45,000 | – | 2,942 | – | 3,424 | – | 57,928 |
| Market value of the funds | (15,467) | – | – | – | (25,543) | (10,370) | (53,949) | (105,329) |
| Insufficiency / (surplus) | (4,051) | 45,000 | 820 | 3,139 | 11,855 | 2,010 | 29,620 | 88,393 |

| | 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Viva Pensions | Before 1997 | Active | Healthcare | Seniority bonuses | England representation | Brazil | Total |
| Liabilities from past services | | | | | | | | |
| Active | 3,389 | – | – | – | 37,214 | 14,418 | – | 55,021 |
| Pre-retired | – | – | 1,247 | 115 | – | – | 60,419 | 61,781 |
| Retired | 6,723 | 44,606 | – | 3,356 | – | 1,220 | – | 55,905 |
| Market value of the funds | (15,149) | – | – | – | (22,988) | (13,130) | (33,656) | (84,923) |
| Insufficiency / (surplus) | (5,037) | 44,606 | 1,247 | 3,471 | 14,226 | 2,508 | 26,763 | 87,784 |

| | 2008 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Viva Pensions | Before 1997 | Active | Healthcare | Seniority bonuses | England representation | Brazil | Total |
| Liabilities from past services | | | | | | | | |
| Active | 7,219 | - | 2,843 | - | 32,641 | 15,638 | - | 58,341 |
| Pre-retired | - | - | 1,064 | 136 | - | - | 40,436 | 41,636 |
| Retired | 10,568 | 44,139 | - | 3,362 | - | - | - | 58,069 |
| Market value of the funds | (8,819) | - | - | - | (18,154) | (13,130) | (20,775) | (60,878) |
| Insufficiency / (surplus) | 8,968 | 44,139 | 3,907 | 3,498 | 14,487 | 2,508 | 19,661 | 97,168 |

According to the actuarial study carried out by an independent entity, the best estimate of contributions to the pension benefit plans of the subsidiary TAP S.A., in the following financial year, is 432 thousand Euros.

## Evolution of liabilities related to pensions and other post-employment benefits

The evolution of the assumed liabilities, reflected in the consolidated statement of the financial position, as at 31 December 2012 and 2011, is as follows:

| | 2012 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Viva Pensions | Before 1997 | Active | Healthcare | Seniority bonuses | England representation | Brazil | UCS | Total |
| Liabilities at the beginning of the year | 11,478 | 40,985 | 2,321 | 2,981 | 39,340 | 12,440 | 84,995 | – | 194,540 |
| Exchange rate variation | – | – | – | – | – | 389 | (5,936) | – | (5,547) |
| Values recorded in net income for the year | | | | | | | | | |
| Current services | 350 | – | (216) | – | 2,246 | – | 488 | 79 | 2,947 |
| Cost of interest | 603 | 1,742 | 315 | 142 | 1,505 | 583 | 8,921 | 41 | 13,852 |
| Other | 5,367 | – | – | – | – | – | – | – | 5,367 |
| Actuarial deviations | 2,828 | (2,733) | 969 | (130) | (4,057) | 806 | 6,626 | (113) | 4,196 |
| Benefits paid | (6,773) | – | – | – | (3,287) | (260) | (4,885) | | (15,205) |
| Costs of past services | – | – | – | – | – | – | – | – | – |
| Liabilities at the end of the year | 13,853 | 39,994 | 3,389 | 2,993 | 35,747 | 13,958 | 90,209 | 7 | 200,150 |

| | 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Viva Pensions | Before 1997 | Active | Healthcare | Seniority bonuses | England representation | Brazil | Total |
| Liabilities at the beginning of the year | 11,416 | 45,000 | 820 | 3,139 | 37,398 | 12,380 | 83,569 | 193,722 |
| Exchange rate variation | – | – | – | – | – | 377 | (7,132) | (6,755) |
| Values recorded in net income for the year | | | | | | | | |
| Current services | 353 | – | – | – | 2,536 | – | 222 | 3,111 |
| Cost of interest | 630 | 2,137 | 39 | 149 | 1,782 | – | 7,965 | 12,702 |
| Actuarial deviations | (921) | (6,152) | 1,462 | (307) | (1,465) | 166 | 5,358 | (1,859) |
| Benefits paid | – | – | – | – | (911) | (483) | (4,987) | (6,381) |
| Costs of past services | – | – | – | – | – | – | – | – |
| Liabilities at the end of the year | 11,478 | 40,985 | 2,321 | 2,981 | 39,340 | 12,440 | 84,995 | 194,540 |

If the rate of the trend of medical costs increases or decreases by one percentage point, the respective impact on the Group's liabilities as at 31 December 2012 and 2011 is as follows:

| | Rate | 2012 | 2011 |
|---|---|---|---|
| Annual growth rate of medical costs | 1.50% | 2,993 | 2,981 |
| 1% increase in the growth rate of medical costs | 2.50% | 3,240 | 3,222 |
| 1% decrease in the growth rate of medical costs | 0.50% | 2,775 | 2,768 |

## Costs paid relative to pensions and other post-employment benefits

The costs paid relative to pensions and other post-employment benefits are detailed as follows:

| | 2012 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Viva Pensions | Before 1997 | Active | Healthcare | Seniority bonuses | England representation | Brazil | UCS | Total |
| Current services | 350 | – | (216) | – | 2,246 | – | 488 | 79 | 2,947 |
| Cost of interest | 603 | 1,742 | 315 | 142 | 1,505 | 583 | 8,921 | 41 | 13,852 |
| Other | 5,367 | – | – | – | – | – | – | (515) | 4,852 |
| Return of plan assets | (1,848) | – | – | – | (1,268) | (931) | (7,100) | (67) | (11,214) |
| Actuarial (gains)/losses | 2,828 | (2,733) | 969 | (130) | (3,680) | 806 | 2,976 | (85) | 951 |
| | 7,300 | (991) | 1,068 | 12 | (1,197) | 458 | 5,285 | (547) | 11,388 |

| | 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Viva Pensions | Before 1997 | Active | Healthcare | Seniority bonuses | England representation | Brazil | Total |
| Current services | 353 | – | – | – | 2,536 | – | 222 | 3,111 |
| Cost of interest | 630 | 2,137 | 39 | 149 | 1,782 | – | 7,965 | 12,702 |
| Return of plan assets | 748 | – | – | – | (1,213) | (1,111) | (6,202) | (7,778) |
| Actuarial (gains)/losses | 5,174 | (6,152) | 1,462 | (307) | (1,041) | (142) | 5,653 | 4,647 |
| | 6,905 | (4,015) | 1,501 | (158) | 2,064 | (1,253) | 7,638 | 12,682 |

As mentioned below, the pilots of TAP S.A., recruited after 1 June 2007, and the pilots of Portugália benefit from a defined contribution plan. During the financial year of 2012, a cost of 1,020 thousand Euros was recorded as "Staff costs - expenses related to post-employment benefits" related to the contributions made in the year to its employees.

The costs relative to pensions and other post-employment benefits for 2012 and 2011 are recorded as "Staff costs" (Note 42).

## Evolution of funds allocated to benefit schemes with pensions

In 2012 and 2011 the fund assets evolution was as follows:

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Viva Pensions | Seniority bonuses | England representation | Brazil | UCS | Total |
| Opening balance | 14,719 | 29,845 | 11,683 | 59,753 | – | 116,000 |
| Exchange rate variation | – | – | 276 | (4,910) | – | (4,634) |
| Allocation made in the year | 783 | 4,656 | 501 | 7,139 | 515 | 13,594 |
| Income of the funds for the year | 1,848 | 1,268 | 931 | 7,100 | 67 | 11,214 |
| Actuarial deviations | – | (376) | – | 3,649 | (28) | 3,245 |
| Benefits paid | (1,407) | (3,287) | (260) | (4,794) | – | (9,748) |
| Closing balance | 15,943 | 32,106 | 13,131 | 67,937 | 554 | 129,671 |

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Viva Pensions | Seniority bonuses | England representation | Brazil | Total |
| Opening balance | 15,467 | 25,543 | 10,370 | 53,949 | 105,329 |
| Exchange rate variation | – | – | 316 | (4,767) | (4,451) |
| Allocation made in the year | – | 4,425 | 370 | 9,836 | 14,631 |
| Income of the funds for the year | (748) | 1,213 | 1,111 | 6,202 | 7,778 |
| Actuarial deviations | – | (424) | – | (480) | (904) |
| Benefits paid | – | (912) | (484) | (4,987) | (6,383) |
| Closing balance | 14,719 | 29,845 | 11,683 | 59,753 | 116,000 |

The composition of the funds and respective category of the amounts included in the fair value of the assets, as at 31 December 2012 and 2011, is as follows:

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Level of Fair Value | Viva Pensions | Seniority bonuses | England representation | Brazil | UCS | Total |
| Shares | 1 | 3,605 | 1,413 | 8,317 | 8,832 | 138 | 22,305 |
| Derivative products | 2 | 19 | - | - | - | - | 19 |
| Bonds | 1 | 3,591 | 30,051 | 3,564 | 59,105 | 340 | 96,651 |
| Public Debt | 1 | 4,066 | - | - | - | - | 4,066 |
| Real Estate | 1 | 918 | 225 | - | - | 18 | 1,161 |
| Liquidity | 1 | 3,744 | 417 | - | - | 58 | 4,219 |
| Other current investments | 1 | - | - | 1,250 | - | - | 1,250 |
| | | 15,943 | 32,106 | 13,131 | 67,937 | 554 | 129,671 |

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Level of Fair Value | Viva Pensions | Seniority bonuses | England representation | Brazil | Total |
| Shares | 1 | 3,268 | 800 | 7,399 | 5,659 | 17,126 |
| Derivative products | 2 | 15 | - | - | - | 15 |
| Bonds | 1 | 3,224 | 26,243 | 3,171 | 47,509 | 80,147 |
| Public Debt | 1 | 4,283 | - | - | - | 4,283 |
| Real Estate | 1 | 978 | 126 | - | 1,434 | 2,538 |
| Liquidity | 1 | 2,951 | 2,272 | - | 5,151 | 10,374 |
| Other current investments | 1 | - | 404 | 1,113 | - | 1,517 |
| | | 14,719 | 29,845 | 11,683 | 59,753 | 116,000 |

## Pensions - Transportes Aéreos Portugueses, S.A.

Pursuant to the rules at TAP S.A., employees who joined the company before 31 May 1993 are entitled to receive the difference between the state retirement pension paid by the Social Security System, due to the age limit or invalidity, plus a minimum amount, guaranteed by TAP S.A.. This amount corresponds to a fixed percentage of part of the pensionable salary (base remuneration + annuities) on the retirement date, multiplied by the number of years of Company service, up to a maximum of 20 years, as follows:

- Flight Deck Crew (pilots and flight technicians) – 3.2% per year of service
- Ground staff and cabin crew – 4% per year of service

Furthermore, TAP S.A. has undertaken to pay pre-retirement pensions, ranging from 75% to 100% of the net working salary its employees would receive if they were still in active service at the date of early retirement.

In October 2008, the Labour Agreement with the Civil Aviation Pilots Union ("SPAC") was amended, with the following main alterations:

- Pilots recruited before 31 May 2007: the pension plan includes the seniority bonus guaranteed by the State (of 15% or 10%, according to the starting date of the contributory career) and the possibility of an additional bonus (up to 25% or 30%) as an option for the beneficiary upon retirement (this additional bonus of up to 25% will be paid by TAP S.A.);
- Pilots recruited as of 1 June 2007: the pension plan comprises a defined contribution scheme, of 7.5% of the base remuneration effectively earned (14 times a year), of which 80% is paid by TAP S.A.

TAP S.A. has recorded all its liabilities related to past services for the payment of pension supplements and pre-retirement benefits relative to the defined benefit scheme.

The quantification of the liabilities took into consideration that, under the terms of the collective regulations establishing the abovementioned pension plan, the total pension guaranteed by TAP S.A., that is, the social security pension and pension supplement will never exceed the base monthly remuneration, net of personal income tax (IRS) and social security payments during employment. This premise is not applicable, since it is not established in the collective regulations relative to flight deck crew, for whom this limit does not apply and the pensionable salary is made up of the base salary set out in the pay scale, plus monthly earnings in the financial year and seniority bonuses.

This premise is not applicable, since it is not established in the collective regulations relative to flight deck crew, for whom this limit does not apply and the pensionable salary, considered for the purposes of calculating the guaranteed total pension, is made up of the base salary set out in the pay scale, plus monthly earnings in the financial year and seniority bonuses.

## Pensions - TAP ME Brasil

### TAPMEPrev Benefit Scheme (Defined benefits component)

The subsidiary sponsors a pension plan for its employees, initially managed by the Instituto AERUS de Seguridade Social ("AERUS") and designated as Benefit Scheme II - VEM, recently transferred to the Fundação Petrobrás de Seguridade Social ("PETROS") and renamed TAPMEPrev Plan. Although this is a "defined contribution" benefit scheme, it also offers invalidity and death benefits under the concept of "defined benefits", in addition to guaranteeing special benefits to a group of employees from VARIG who were integrated in the staff of the subsidiary when the operations of this company were demerged.

From 1 January 2002 onwards, the subsidiary became one of the sponsors of the Instituto AERUS de Segurança Social, through a complementary (defined contribution) pension scheme, named Benefit Scheme II - VEM.

In 2008, the subsidiary requested the transfer of the manager of the benefits fund of its employees from the entity AERUS. This process was initially refused by the holding company of the AERUS fund, which claimed that TAP ME Brasil had debts that were not recognised in the transfer of liabilities relative to post-employment benefits, since it was jointly liable for the pension fund deficits of other sponsors. TAP ME Brasil disputed the legal validity of said debt and the competent authorities declared there was no reason for opposing the transfer mentioned above. Accordingly, on 15 June 2012, the transfer was successfully carried out to the Benefit Scheme of the Fundação Petrobrás de Seguridade Social.

Therefore, only the defined benefit component referred to above is recorded as "Liabilities related to post-employment benefits".

### Pensions – Portugália

Portugália set up, on 1 January 2010, a defined contribution scheme for flight deck crew. This scheme is managed by BPI, to which the subsidiary contributes 6% of pilots' salary every month, 12 times a year. Employees make social security payments of 1.5%, and can also make supplementary payments of between 1% and 5%.

### Pensions – UCS

According to internal regulations UCS is responsible, for granting, through a defined benefit scheme, retirement pension supplements for the part which exceeds those that are granted by Social Security. To cover that liability, the Company subscribed to the Horizonte Valorização Pension Fund. Annual expenditure on pensions, which includes contributions to the fund, is calculated in accordance with the actuarial study, reviewed and adjusted annually according to the updating of salaries and the career development of the participant group.

### Seniority bonus - PNT - Transportes Aéreos Portugueses, S.A.

Under the Company Agreement signed between TAP S.A. and SPAC, TAP S.A. undertakes to pay, in addition to a pension scheme, a one-off retirement bonus to every pilot upon retirement due to age, which is funded by the capital accumulated in a collective insurance policy constituted by TAP S.A. on behalf of the pilots. The main conditions of the collective retirement policy agreed with the insurance company, which describe this Retirement Benefits Plan for Pilots, are as follows:

- (i) Admission conditions: Pilots who are still in active service;
- (ii) Normal retirement age: 65 years;
- (iii) Guarantees: Each participant is entitled, upon the retirement date, to an amount equal to 16 times the last declared monthly salary.

The Benefit Plan is funded through an insurance policy that is reinforced by contributions (premiums) paid by TAP S.A. and by income got from investments made by the insurance company in an Autonomous Fund which supports this type of insurance.

In October 2008, the agreement between the Company and SPAC was amended. The main changes were:

- Pilots recruited before 31 May 2007: the one-off retirement bonus is maintained, but shall only be paid if, on the retirement date if the pilot is entitled to the full pension. There are the possibility of increasing the capital for every additional year of service after the full pension age has been reached;
- Pilots recruited as of 1 June 2007: there is no entitlement to a one-off retirement bonus.

### Cuidados de Saúde – Transportes Aéreos Portugueses, S.A.

TAP S.A. ensures that both pre-retired and early-retired employees, below the age of 65, are provided with a health care plan providing access to medical care at reduced prices. Moreover, TAP S.A. provides its retired staff access to UCS medical services, as a freely granted benefit, for which they pay a portion of the cost of each clinical service with the remainder being paid by TAP S.A.

TAP S.A. considers that although it provides its former, pre-retired, early-retired and retired staff with access to the health care services of UCS, this is not a liability but a freely granted benefit at any given time, and therefore the company assumes no accounting liability regarding the provision of health care services to current employees after they cease working for the company. As such, the existing provision covers the total responsibility for medical treatment with pre-retired, early retired and retired staff. The total responsibility was calculated based on an independent actuarial evaluation.

## 29. Advances from customers

As at 31 December 2012 and 2011, the balance of "Advances from customers" is detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Ministère de la Défense | 398 | 400 |
| Linhas Aéreas de Angola – TAAG | 189 | 193 |
| Travel agencies | 76 | 56 |
| Misc. passengers | 16 | 37 |
| Related entities (Note 56) | – | 4 |
| Other | 368 | 512 |
| | 1,047 | 1,202 |

# 30. Suppliers

As at 31 December 2012 and 2011, the balance of "Suppliers" is as follows:

| | 2012 | 2011 |
|---|---|---|
| Suppliers – current account | 107,882 | 146,150 |
| Suppliers – invoices pending | 8,147 | 18,931 |
| | 116,029 | 165,081 |

As at 31 December 2012 and 2011, this heading is detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Petrogal | 13,577 | 24,899 |
| Related entities (Note 56) | 14,776 | 14,815 |
| Petrobras Distribuidora | 6,135 | 6,777 |
| ASECNA | 4,278 | 2,120 |
| Suppliers of TAP ME Brasil | 2,818 | 4,400 |
| CFM International, S.A. | 2,554 | 1,058 |
| Suppliers of the Brazil Representation | 2,396 | 3,344 |
| Gestmin Power - Unipessoal, Lda. | 1,876 | 2,054 |
| Eagle Services Asia | 1,799 | 72 |
| INAC - Inst. Nac. Aviação Civil | 1,437 | 1,604 |
| Amadeus It Group, S.A. | 1,403 | 3,592 |
| BP Portugal - Comércio de combustíveis e lubrificantes S.A. | 1,280 | 2,382 |
| REPSOL Portuguesa, S.A. | 1,180 | 1,275 |
| Shell Brasil, Ltda. | 1,158 | 2,208 |
| Asa - Emp. Nac. Aerop. Seg. Aérea EP | 1,130 | 320 |
| Siemens and TDGI, ACE | 1,018 | - |
| Heathrow Airport Limited - Baa | 982 | 519 |
| Galp Energia Espanha, S.A.U. | 794 | 1,463 |
| ADP - Aeroports de Paris | 752 | 1,070 |
| Kelly Services | 703 | 690 |
| NAV - Emp. Pub. Nav. Aérea Portugal | 698 | 1,736 |
| Soc. des Petroles Shell - France | 688 | 173 |
| Groupama Seguros de Vida, S.A. | 446 | 662 |
| Swissport International GVA | 285 | 700 |
| Rolls-Royce Plc | 121 | 1,022 |
| Siemens and Iberlim, ACE | 64 | 1,043 |
| Eurocontrol - EU | - | 9,119 |
| Sonangol | - | 1,986 |
| Rolls-Royce Corporation | - | 1,197 |
| Galileo International | - | 1,219 |
| Other | 51,681 | 71,562 |
| | 116,029 | 165,081 |

## 31. Other accounts payable

As at 31 December 2012 and 2011, "Other accounts payable" is detailed as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Accrued costs | 198,190 | - | 149,042 | - |
| Staff | 2,715 | - | 2,236 | - |
| Suppliers of fixed assets | 3,137 | - | 2,684 | - |
| Related entities (Note 56) | 164 | - | 2,407 | - |
| Unions | 274 | - | 276 | - |
| Other | 59,105 | 2,380 | 65,988 | 1,958 |
| | 263,585 | 2,380 | 222,633 | 1,958 |

### Accrued costs

As at 31 December 2012 and 2011, "Accrued costs" is detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Maintenance reserves | 40,887 | 18,408 |
| Remuneration | 37,832 | 36,396 |
| Navigation charges | 17,123 | 603 |
| Aircraft fuel | 14,489 | 13,952 |
| Special sales charges | 10,644 | 11,295 |
| Remuneration - air crew | 9,707 | 10,891 |
| Fees payable to non-resident entities | 9,421 | 9,998 |
| Variable salaries | 5,103 | 4,784 |
| Passenger boarding taxes | 3,959 | 3,175 |
| Conservation and repair of materials | 3,427 | 5,576 |
| Handling by third parties | 2,644 | 4,579 |
| Specialised work | 2,513 | 1,975 |
| Booking fees | 2,419 | 2,943 |
| Insurance payable | 1,442 | 835 |
| Social security: other entities - Brazil | 1,396 | 1,097 |
| Landing charges | 974 | 1,163 |
| Fees | 575 | 524 |
| IMI - Municipal Property Tax | 264 | 307 |
| Other | 33,371 | 20,541 |
| | 198,190 | 149,042 |

The special sales charges refer to commissions attributed to agents according to their obtained yearly flight revenue.

Under the terms of the State Budget for 2012 and 2013, no estimate has been recorded as at 31 December 2011 and 2012, for the holiday bonus to be paid in 2012 and 2013.

### Other - non-current

As at 31 December 2012 and 2011, this heading comprises the fair value of the derivative financial instruments, namely interest rate swaps, of 2,380 thousand Euros and 1,665 thousand Euros, respectively (Notes 24 and 58).

### Other - current

As at 31 December 2012 and 2011, "Other - current" is detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Fees and taxes | 44,714 | 45,517 |
| Work accident indemnities | 805 | 892 |
| Customer balances payable | 1,297 | 1,296 |
| Other | 12,289 | 18,283 |
| | 59,105 | 65,988 |

The "fees and taxes" refers, essentially, to amounts payable to various entities, related to rates charged to customers on the issued tickets.

## 32. Advances from customers – tickets to be used

As at 31 December 2012 and 2011, the Group's liabilities relative to unused issued tickets, recorded as "Advances from customers - tickets to be used", were as follows:

| | 2012 | 2011 |
|---|---|---|
| Passengers | 278,126 | 263,299 |
| Cargo | 532 | 211 |
| | 278,658 | 263,510 |

During 2012 and 2011, based on the partial and periodic analyses of this heading (Note 2.26), adjustments were recorded to the revenue from passenger and cargo transport of 85,871 thousand Euros (4.4% of flight revenue) and 92,223 thousand Euros (5.0% of flight revenue), respectively, which were recognised as "Sales and services rendered".

## 35. Sales and services rendered

As at 31 December 2012 and 2011, sales and services rendered are detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Sales | | |
| Internal market | | |
| Air transport and maintenance | 341 | 440 |
| Catering | 3,402 | 4,378 |
| Duty free shop | 16,488 | 17,342 |
| Healthcare | 220 | 124 |
| Other | 1,624 | 1,571 |
| External market | | |
| Air transport and maintenance | 7,810 | 7,571 |
| Duty free shop | 137,959 | 125,437 |
| | 167,844 | 156,863 |
| Services rendered | | |
| Internal market | | |
| Air transport and maintenance | 142,978 | 144,837 |
| Catering | 2,587 | 1,231 |
| Healthcare | 9,919 | 3,809 |
| Information technologies | 2,757 | 3,368 |
| Other | 4,570 | 4,817 |
| External market | | |
| Air transport and maintenance | 2,287,394 | 2,123,885 |
| Information technologies | – | 70 |
| | 2,450,205 | 2,282,017 |
| | 2,618,049 | 2,438,880 |

Sales and services rendered by geographic market are as follows:

| 2012 | Air Transport | Maintenance Portugal | Maintenance Brazil | Duty free shop | Catering | Holdings and other | Consolidated |
|---|---|---|---|---|---|---|---|
| Sales and services rendered: | | | | | | | |
| Mainland and islands | 126,966 | 16,353 | – | 16,488 | 5,989 | 19,090 | 184,886 |
| Europe | 829,947 | 69,668 | – | 91,800 | – | – | 991,415 |
| South Atlantic | 764,872 | 9,366 | 70,765 | 22,564 | – | – | 867,567 |
| North Atlantic | 103,009 | 2,590 | – | 2,603 | – | – | 108,202 |
| Mid Atlantic | 59,896 | – | – | 1,521 | – | – | 61,417 |
| Africa | 368,617 | 16,031 | – | 18,084 | – | – | 402,732 |
| Other | – | 443 | – | 1,387 | – | – | 1,830 |
| | 2,253,307 | 114,451 | 70,765 | 154,447 | 5,989 | 19,090 | 2,618,049 |

| 2011 | Air Transport | Maintenance Portugal | Maintenance Brazil | Duty free shop | Catering | Holdings and other | Consolidated |
|---|---|---|---|---|---|---|---|
| Sales and services rendered: | | | | | | | |
| Mainland and islands | 129,219 | 16,058 | – | 17,342 | 5,609 | 13,689 | 181,917 |
| Europe | 737,126 | 43,248 | – | 82,764 | – | – | 863,138 |
| South Atlantic | 767,645 | 7,710 | 63,419 | 20,860 | – | – | 859,634 |
| North Atlantic | 85,412 | 5,939 | – | 2,406 | – | – | 93,757 |
| Mid Atlantic | 49,527 | – | – | 1,407 | – | – | 50,934 |
| Africa | 352,978 | 17,111 | – | 16,718 | – | 70 | 386,877 |
| Other | – | 1,341 | – | 1,282 | – | – | 2,623 |
| | 2,121,907 | 91,407 | 63,419 | 142,779 | 5,609 | 13,759 | 2,438,880 |

Sales and services rendered by geographic market are defined based on the destination country of the goods and services sold by the Group, which in the case of air transport and duty free shops is considered as the flight destination country.

## 36. Operating grants

As at 31 December 2012 and 2011, operating grants are detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Other revenue and gains | 4,312 | 3,253 |
| | 4,312 | 3,253 |

The Group recognises, on an annual basis, the grants receivable from the State relative to its contribution to the retail price of fares for flights coming from or going to the archipelago of the Azores, provided that the passengers meet the applicable legal conditions. The value recognised for each year corresponds to the Group's estimate of the value receivable for the tickets used in the actual year by passengers covered by this benefit scheme.

## 37. Gains and losses in associates

As at 31 December 2012 and 2011, the heading of gains and losses in associates is detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Gains | | |
| SPdH | 4,110 | – |
| | 4,110 | – |
| Losses | | |
| SPdH (Note 26) | – | 11,124 |
| | – | 11,124 |
| | (4,110) | 11,124 |

The amounts recorded in this heading, as at 31 December 2012, of 4,110 thousand Euros, correspond to the net effect of: i) reinforcement of the provision for financial investments of 1,886 thousand Euros (Note 26); ii) reversal of 50.1% of the existing provision of 2,996 thousand Euros (Note 26), following the sale of 50.1% of the stake in SPDH and iii) amount of 3,000 thousand Euros of the sale of 50.1% of the stake in SPdH (Note 18).

The amounts recorded under this heading, as at 31 December 2011, correspond to the loss for the year of SPdH, as described in Note 2.3.2 and Note 26, arising from the application of the equity method.

## 38. Variation in production

The variation in production in 2012 and 2011 was as follows:

| | 2012 | 2011 |
|---|---|---|
| Opening inventories (Note 20) | (23,431) | (15,219) |
| Inventories adjustments | 5,498 | 2,300 |
| Closing inventories (Note 20) | 10,046 | 23,431 |
| | (7,887) | 10,512 |

## 39. Own work capitalised

Own work capitalised, in 2012 and 2011, of 1,144 thousand Euros and 950 thousand Euros, respectively, refers to staff and other costs included in inventory acquisition/production costs, with a duration above one year.

## 40. Cost of goods sold and materials consumed

The cost of goods sold and materials consumed in 2012 and 2011 was as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Goods | Raw materials, subsidiary materials and consumables | Goods | Raw materials, subsidiary materials and consumables |
| Opening inventories (Note 20) | 12,982 | 163,759 | 11,833 | 180,714 |
| Purchases | 97,512 | 107,237 | 89,405 | 90,349 |
| Inventories adjustments | 3,476 | (17,604) | 5,934 | (13,222) |
| Closing inventories (Note 20) | (14,400) | (147,934) | (12,982) | (163,759) |
| | 99,570 | 105,458 | 94,190 | 94,082 |
| | | 205,028 | | 188,272 |

## 41. External supplies and services

External supplies and services are detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Aircraft fuel | 811,491 | 716,867 |
| Handling services | 160,218 | 157,667 |
| Navigation charges | 133,758 | 135,318 |
| Conservation and repair of flight equipment | 93,031 | 69,564 |
| Specialised work | 82,442 | 76,309 |
| Landing charges | 57,063 | 53,655 |
| Rents and leases | 54,425 | 49,919 |
| Operating leasing of aircraft and spare parts | 54,247 | 51,479 |
| Fees | 46,688 | 64,582 |
| In-flight expenses | 45,821 | 42,662 |
| Special sales charges - air transport | 36,955 | 39,409 |
| Accommodation and meals during stopovers | 22,790 | 21,737 |
| Subcontracts | 14,441 | 14,699 |
| Conservation and repair of other assets | 14,211 | 17,132 |
| Insurance | 7,139 | 8,113 |
| Fees | 6,316 | 5,171 |
| Surveillance and security | 3,482 | 3,471 |
| Other costs related to external supplies and services | 123,545 | 119,306 |
| | 1.768.063 | 1.647.060 |

The increase noticed in costs with external supplies and services is essentially due to the operations increase compared with previous year plus the higher average price of jet fuel linked the appreciation of the USD relative to the Euro (see Note 3).

The "Other costs related to external supplies and services" presents the following details:

| | 2012 | 2011 |
|---|---|---|
| Air traffic control charges | 18,694 | 20,133 |
| Luggage, cargo and mail charges | 16,707 | 18,836 |
| Other costs related to passengers | 15,480 | 12,758 |
| Chartering of aircraft | 12,641 | 9,386 |
| Advertising and publicity | 11,536 | 11,244 |
| Communication | 9,228 | 8,661 |
| Transport of goods | 5,287 | 4,289 |
| Electricity | 4,879 | 4,456 |
| Ground costs related to executive class passengers | 4,509 | 4,231 |
| Cleaning, hygiene and comfort | 4,069 | 3,973 |
| Legal and notary costs | 3,727 | 5,504 |
| Facilities at airports | 3,554 | 1,585 |
| Travel costs | 3,073 | 3,337 |
| Other | 10,161 | 10,913 |
| | 123,545 | 119,306 |

## 42. Staff costs

The staff costs are detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Staff remuneration | 381,793 | 389,990 |
| Social charges | 77,258 | 79,024 |
| Other staff costs | 41,742 | 42,274 |
| Expenses related to post-employment benefits (Note 28) | 12,408 | 12,682 |
| | 513,201 | 523,970 |

The remunerations paid to the members of the corporate bodies of Grupo TAP, in 2012, were:

| | 2012 | 2011 |
|---|---|---|
| Board of Directors / General and Supervisory Board | 2,926 | 3,251 |
| General Meeting | 3 | 5 |
| Audit Board / Statutory Auditor | 111 | 92 |
| | 3,040 | 3,348 |

The "Other staff costs" is detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Insurance | 12,492 | 14,865 |
| Social action costs | 11,547 | 9,996 |
| Meals allowance | 4,746 | 4,639 |
| Work accident insurance | 4,148 | 2,904 |
| Other | 8,809 | 9,870 |
| | 41,742 | 42,274 |

## 43. Inventory adjustments (losses/reversals)

As at 31 December 2012 and 2011, this item is detailed as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Inventory losses | Reversal of inventory adjustments | Inventory losses | Reversal of inventory adjustments |
| Raw materials, subsidiary materials and consumables (Note 20) | 2,278 | (314) | 3,140 | (692) |
| | 2,278 | (314) | 3,140 | (692) |
| | | 1,964 | | 2,448 |

## 44. Impairment of debts receivable (losses/reversals)

As at 31 December 2012 and 2011, this item is detailed as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Adjustments of accounts receivable | Reversal of adjustments of accounts receivable | Adjustments of accounts receivable | Reversal of adjustments of accounts receivable |
| Customers (Note 21) | 3,526 | (7,266) | 4,647 | (5,218) |
| Other accounts receivable - current (Note 18) | 661 | (244) | 107 | (124) |
| | 4,187 | (7,510) | 4,754 | (5,342) |
| | | (3,323) | | (588) |

## 45. Provisions (increases/decreases)

The details of the amount recorded as provisions, net of allocations and reversals, for the years ended on 31 December 2012 and 2011, are as follows:

| | 2012 | 2011 |
|---|---|---|
| Provision for current lawsuits (Note 26) | (3,406) | (12,571) |
| Other provisions (Note 26) | (281) | (32) |
| | (3,687) | (12,603) |

## 46. Impairment of assets

The impairment of fixed assets, subject and not subject to depreciation, recorded in 2012 and 2011, is detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Fixed assets subject to depreciation (Note 5) | | |
| Basic equipment | – | 2,350 |
| | – | 2,350 |
| Fixed assets not subject to depreciation (Note 5) | | |
| Land and natural resources | – | 3,400 |
| | – | 3,400 |
| | – | 5,750 |

## 47. Fair value increases/reductions

As at 31 December 2012, a gain of 2,210 thousand Euros (2011: 255 thousand Euros) (Note 6) was recorded in the net income for the year arising from the variation in the fair value of investment properties.

## 48. Other revenue and gains

As at 31 December 2012 and 2011, the heading of other revenue and gains is detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Supplementary income | 50,475 | 42,787 |
| Gains from fixed assets | 3,433 | 2,606 |
| Inventory gains | 566 | 714 |
| Cash discounts received | 320 | 380 |
| Other income and gains | 1,178 | 1,151 |
| | 55,972 | 47,638 |

The “Supplementary income” as at 31 December 2012 and 2011 is detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Sale of miles | 20,159 | 15,060 |
| Advertising | 9,508 | 4,403 |
| Recovered warehouse material | 8,972 | 5,560 |
| Rents and sub-leases | 1,905 | 3,853 |
| Aircraft rentals | - | 1,733 |
| Other | 9,931 | 12,178 |
| | 50,475 | 42,787 |

## 49. Other costs and losses

As at 31 December 2012 and 2011, the heading of other costs and losses is detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Unfavourable operating currency conversion differences | 20,623 | 5,604 |
| Taxes | 6,976 | 7,884 |
| Inventory losses | 5,838 | 2,882 |
| Other costs and losses from financial services | 4,200 | 9,541 |
| Losses from fixed assets | 1,650 | 3,196 |
| Fines and penalties | 105 | 265 |
| Other | 3,051 | 2,560 |
| | 42,443 | 31,932 |

## 50. Depreciation and amortisation costs/reversals

The amount of this heading is detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Tangible fixed assets (Note 5) | | |
| Buildings and other constructions | 5,981 | 6,016 |
| Basic equipment | 107,128 | 110,931 |
| Transport equipment | 255 | 233 |
| Tools and utensils | 2,006 | 1,762 |
| Administrative equipment | 2,148 | 1,959 |
| Other tangible fixed assets | 1,614 | 780 |
| | 119,132 | 121,681 |
| Other intangible assets (Note 8) | | |
| Other intangible assets | 644 | 509 |
| | 644 | 509 |
| | 119,776 | 122,190 |

## 51. Interest and similar revenue received/costs paid

Interest and similar revenue got and interest and similar costs incurred, as at 31 December 2012 and 2011, are detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Income and gains | | |
| Interest received from investments | 3,333 | 8,596 |
| Favourable currency conversion differences | 2,363 | – |
| | 5,696 | 8,596 |
| Costs and losses | | |
| Interest paid on loans | 55,271 | 44,524 |
| Unfavourable currency conversion differences | – | 8,195 |
| Other financial costs and losses | 2,100 | 2,313 |
| | 57,371 | 55,032 |

## 52. Corporate income tax for the year

The companies of the Group, based in Portugal, are subject to Corporate Income Tax ("IRC") based on their individual net income, at the normal rate of 25%. In addition to IRC, the taxable net income of these companies is also subject to a municipal tax which varies between 1.5% and 6.5%, resulting in a maximum aggregate income tax of 31.5%.

Under the terms of article 88 of the Corporate Income Tax Code, the Group's companies, based in Portugal, are subject to autonomous taxation on several expenses, at the tax rates listed therein.

Under the terms of the Corporate Income Tax Code, the income and gains, costs and losses and asset variations that were stated using the equity method do not count towards the determination of taxable profit.

Tax losses calculated in each taxation period are deducted from taxable income up to the limit of 75% of taxable income.

As at 31 December 2012 and 2011, the "Income tax for the year" is detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Current tax | 8,638 | 7,749 |
| Deferred tax (Note 15) | (453) | (49) |
| | 8,185 | 7,700 |

The current tax of 2012 refers essentially to the current tax of the subsidiaries TAP S.A. and LFP of 3,714 thousand Euros and 3,982 thousand Euros, respectively.

The reconciliation of the effective tax rate for 2012 and 2011 is presented as follows:

| | 2012 | 2011 |
|---|---|---|
| Pre-tax earnings | (17,230) | (64,503) |
| Nominal tax rate | 29.5% | 29.0% |
| | (5,083) | (18,706) |
| Permanent differences | 2,114 | 16,767 |
| Reversal/(reinforcement) of deferred tax assets relative to tax losses | 699 | 708 |
| Insufficient/(surplus) estimate of taxes for the previous year | (71) | 1,065 |
| Use of reported tax losses for previous years without IDA | (4,196) | (711) |
| Reported tax losses for the year without IDA | 11,894 | 5,780 |
| Autonomous tax and other forms of taxation | 2,828 | 2,797 |
| Income tax | 8,185 | 7,700 |
| Effective tax rate | -47.50% | -11.94% |
| Current tax | 8,638 | 7,749 |
| Deferred tax | (453) | (49) |
| | 8,185 | 7,700 |

## 53. Non-controlling interests - net income

The non-controlling interests, presented in the consolidated income statement, as at 31 December 2012 and 2011 are detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Non-controlling interests of net income | | |
| Cateringpor | 758 | 450 |
| LFP | 4,621 | 4,154 |
| | 5,379 | 4,604 |

## 55. Segmental reporting

The following business segments have been identified: air transport, maintenance, duty free shop, catering and others. The net income, assets and liabilities of each segment correspond to those directly attributable to each segment, as well as those that can be attributable to them based on a reasonable basis.

The financial information by business segment, for the financial year of 2012, is analysed as follows:

| | | Maintenance | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Air Transport | Portugal | Brazil | Duty free shop | Catering | Holdings and other | Intersegmental Annulments | Consolidated |
| Income | | | | | | | | |
| Income | 2,327,679 | 115,151 | 70,972 | 154,447 | 38,242 | 60,866 | (149,308) | 2,618,049 |
| Net operating income | 24,616 | 27,451 | (40,014) | 13,352 | 2,051 | 6,989 | – | 34,445 |
| External net financial results | (914) | – | (17,033) | 24 | 56 | (33,808) | – | (51,675) |
| Share of net losses in associated companies | – | – | – | – | – | 4,110 | – | 4,110 |
| Income tax | (3,017) | – | – | (3,945) | (561) | (662) | – | (8,185) |
| Minority interests | – | – | – | 4,621 | 758 | – | – | 5,379 |
| **Net income for the year** | **20,685** | **27,451** | **(57,047)** | **9,431** | **1,546** | **(27,481)** | **–** | **(25,415)** |
| Other Information | | | | | | | | |
| Total segmental assets | 132,283 | – | 132,437 | 27,789 | 13,695 | 2,225,925 | (881,424) | 1,650,705 |
| Total segmental liabilities | 129,010 | – | 467,833 | 16,035 | 7,899 | 2,292,157 | (881,424) | 2,031,510 |
| Amortisations and impairment losses | (100,167) | (2,516) | (4,748) | (1,780) | (698) | (8,508) | – | (118,417) |
| CAPEX | 23,699 | 11,039 | 1,129 | 1,801 | 149 | 1,188 | – | 39,005 |
| Remunerated net debt | 103,956 | – | (660) | (6,356) | (4,612) | 856,383 | – | 948,711 |

The financial information by business segment, for the financial year of 2011, was restated relative to the signed final financial statements for said financial year, and is analysed as follows:

| | | Maintenance | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Air Transport | Portugal | Brazil | Duty free shop | Catering | Holdings and other | Intersegmental Annulments | Consolidated |
| Income | | | | | | | | |
| Income | 2,185,854 | 92,566 | 64,131 | 142,779 | 36,698 | 55,822 | (138,970) | 2,438,880 |
| Net operating income | 37,262 | 9,795 | (61,479) | 11,710 | 1,199 | (16,554) | – | (18,067) |
| External net financial results | (961) | – | (5,495) | 86 | 93 | (40,159) | – | (46,436) |
| Share of net losses in associated companies | – | – | – | – | – | (11,124) | – | ( 11,124) |
| Income tax | (2,807) | – | – | (3,327) | ( 345) | (1,221) | – | (7,700) |
| Minority interests | – | – | – | 4,154 | 450 | – | – | 4,604 |
| **Net income for the year** | **33,494** | **9,795** | **(66,974)** | **8,469** | **947** | **(57,934)** | **–** | **(72,203)** |
| Other Information | | | | | | | | |
| Total segmental assets | 133,096 | – | 150,021 | 24,323 | 12,823 | 2,459,377 | ( 797,676) | 1,981,964 |
| Total segmental liabilities | 140,148 | – | 461,909 | 13,523 | 7,704 | 2,499,601 | ( 797,676) | 2,325,209 |
| Amortisations and impairment losses | (98,127) | (12,781) | (4,669) | ( 831) | ( 767) | (12,625) | – | (129,800) |
| CAPEX | 9,578 | 2,911 | 2,033 | 2,552 | 365 | 815 | – | 18,254 |
| Remunerated net debt | 119,932 | – | ( 661) | (4,510) | (2,923) | 951,715 | – | 1,063,553 |

The Maintenance - Portugal segment is included in the structure of the subsidiary TAP S.A., reason why its assets and liabilities are not presented separately.

## 56. Related entities

Balances and transactions between companies of the Group which are included in the consolidation perimeter are eliminated in the consolidation process, and, therefore, are not disclosed in the present note. The balances and transactions between the Group and the associated companies (consolidated through the equity method) are presented in the tables below. The terms and conditions enforced between the Group and the related parties are similar in substance to the terms which would normally be contracted between independent entities in comparable operations.

The members of the Executive Board of Directors of the Group were considered, according to IAS 24, as the only "key" members of the Group management.

During the financial years ended on 31 December 2012 and 2011, the remunerations earned by the Board of Directors and by the General and Supervisory Board totalize 2,926 thousand Euros (2011: 3,251 thousand Euros), according to Note 42.

As at 31 December 2012 and 2011, the balances with related parties are detailed as follows:

| | 2012 – Assets | | | |
|---|---|---|---|---|
| | Other non-current accounts receivable (Note 18) | Customers (Note 21) | Other current accounts receivable (Note 18) | Deferrals |
| Shareholder | | | | |
| Parpública - Participações Públicas, SGPS, S.A. | – | -- | 55 | – |
| Associates | | | | |
| SPdH–Serviços Portugueses de Handling, S.A. | 3,700 | 1,455 | 5,012 | – |
| Other related entities | | | | |
| Grupo ANA–Aeroportos de Portugal | – | 185 | 6 | – |
| | 3,700 | 1,640 | 5,073 | – |

| | 2012 – Liabilities | | | |
|---|---|---|---|---|
| | Shareholders (Note 14) | Suppliers (Note 30) | Other current accounts payable (Note 31) | Deferrals |
| Shareholder | | | | |
| Parpública - Participações Públicas, SGPS, S.A. | (50,000) | — | – | – |
| Associates | | | | |
| SPdH–Serviços Portugueses de Handling, S.A. | – | (6,883) | (50) | (98) |
| Other related entities | | | | |
| Grupo ANA–Aeroportos de Portugal | – | (7,893) | (114) | – |
| | (50,000) | (14,776) | (164) | (98) |

| | 2011 – Assets | | | |
|---|---|---|---|---|
| | Other non-current accounts receivable (Note 18) | Customers (Note 21) | Other current accounts receivable (Note 18) | Deferrals |
| Shareholder | | | | |
| Parpública - Participações Públicas, SGPS, S.A. | – | – | – | – |
| Associates | | | | |
| SPdH–Serviços Portugueses de Handling, S.A. | 3,700 | 1,636 | 119,824 | – |
| Other related entities | | | | |
| Grupo ANA–Aeroportos de Portugal | – | 39 | 98 | 604 |
| | 3,700 | 1,675 | 119,922 | 604 |

| | 2011 – Liabilities | | | |
|---|---|---|---|---|
| | Suppliers (Note 30) | Advances from customers (Note 29) | Other current accounts payable (Note 31) | Deferrals |
| Shareholder | | | | |
| Parpública - Participações Públicas, SGPS, S.A. | – | – | – | – |
| Associates | | | | |
| SPdH–Serviços Portugueses de Handling, S.A. | (6,831) | (4) | (737) | (92) |
| Other related entities | | | | |
| Grupo ANA–Aeroportos de Portugal | (7,984) | – | (1,670) | – |
| | (14,815) | (4) | (2,407) | (92) |

As at 31 December 2012 and 2011, the transactions between related parties are broken down as follows:

| | 2012 | | | | |
|---|---|---|---|---|---|
| | External supplies and services | Other costs and losses | Sales and services rendered | Other income and gains | Financial results |
| Shareholder | | | | | |
| Parpública - Participações Públicas, SGPS, S.A. | – | – | – | – | (221) |
| Associates | | | | | |
| SPdH–Serviços Portugueses de Handling, S.A. | (79,061) | 1 | 10,384 | – | 13 |
| Other related entities | | | | | |
| Grupo ANA–Aeroportos de Portugal | (76,979) | (145) | 80 | 670 | - |
| | (156,040) | (144) | 10,464 | 670 | (208) |

| | 2011 | | | | |
|---|---|---|---|---|---|
| | External supplies and services | Other costs and losses | Sales and services rendered | Other income and gains | Financial results |
| Shareholder | | | | | |
| Parpública - Participações Públicas, SGPS, S.A. | – | – | – | – | – |
| Associates | | | | | |
| SPdH–Serviços Portugueses de Handling, S.A. | (79,780) | – | 9,795 | 1,487 | 1,785 |
| Other related entities | | | | | |
| Grupo ANA–Aeroportos de Portugal | (70,630) | (250) | 64 | 8 | – |
| | (150,410) | (250) | 9,859 | 1,495 | 1,785 |

The transactions, of 79,061 thousand Euros and of 76,979 thousand Euros (2011: 79,780 thousand Euros and 70,630 thousand Euros), recorded in external supplies and services, refer to handling services provided by SPdH and the services provided at the airport by Grupo ANA, respectively.

# 57. Contingent assets and liabilities

## Contingent assets

As at 31 December 2012 and 2011, the Group did not own any contingent assets.

## Contingent liabilities

The Brazilian subsidiary TAP ME Brasil is involved in tax, civil and labour claims, involving risks of loss classified by the Management as possible, based on the appraisal of its legal consultants, for which no provision has been constituted.

## Labour claims

- (i) Employees' Severance Indemnity Fund ("FGTS") not deposited between 2002/2004 and Hazard/Unfitness
  Value: 75,864 thousand Euros

The main labour claim involves a legal action filed by the Union claiming the deposit of the FGTS between 2002 and 2004 for all the employees of Porto Alegre.

The other legal action refers to the request for additional payment due to insalubrity and hazard, for all employees working as aircraft maintenance auxiliaries in Porto Alegre. Following analysis of the expert's report, it was concluded that the activities exercised are not characterised as hazardous or insalubrious. The Union has filed an appeal which is currently at the Superior Labour Court of Brazilia pending judgement.

Based on information provided by its lawyers, TAP ME Brasil believes that these legal actions will have no materially relevant impacts which might affect its financial statements as at 31 December 2012.

## Tax claims

- (ii) Tax foreclosure relative to accessory obligations of tax on circulation of goods and services ("ICMS")
  Value: 10,288 thousand Euros

In December 2007, the subsidiary was notified, in the context of tax foreclosure, proposed by the State Treasury Office of São Paulo (Guarulhos), relative to accessory obligations of ICMS. The subsidiary pledged 2% of turnover, and suspended the enforcement, arguing for a review of the tax foreclosure. The subsidiary is currently awaiting the Judge's decision relative to the suspension of the enforcement. The probability of loss for the subsidiary is considered possible.

- (iii) Notice of infraction of import tax ("II"), tax on industrialised products ("IPI"), social integration programme ("PIS") and contribution to the financing of social security ("COFINS")
  Value: 44,740 thousand Euros

The subsidiary was notified by the Federal Reserve Office, on 16 October 2007, which considered that the exemption of II and IPI and 0% rate of PIS and COFINS are not applicable to the import operations of the subsidiary. The subsidiary's defence has been filed and awaits trial. Based on information provided by its lawyers, TAP ME Brasil believes that this legal action will have no materially relevant impacts which might affect its financial statements as at 31 December 2012. The probability of a negative outcome for the subsidiary is considered possible.

- (iv) Notice of infraction of corporate income tax ("IRPJ"), social contribution on net income ("CSLL"), PIS and COFINS with reference to 2007.
  Value: 48,488 thousand Euros

The federal tax authorities considered that there was inconsistency in the statements presented by the subsidiary TAP ME Brasil, thereby disregarding all of the accountancy for the period and arbitrating the value of taxes owed. The case is still at the Court of First Instance, pending trial at the Federal Tax Office. The lawyers consider that a loss is possible.

- (v) Notice of infraction regarding failure to comply with the temporary admission regime.
  Value: 5,692 thousand Euros

In 2012, the subsidiary was notified by the Federal Revenue Office, due to failure to comply with the temporary import regime. The defence lawyers concluded that the probability of loss for the subsidiary is considered as possible.

- (vi) Notice of infraction of IRPJ/CSLL
  Value: 232 thousand Euros

In 2012, various administrative proceedings were filed, arising from the failure to ratify the compensation, undertaken through the Declaration of Compensation of Taxes with reference to the negative balances of IRPJ and CSLL, for supposed use of undue loans. A protest letter was presented and trial is pending at first instance. The lawyers consider that a loss is possible.

- (vii) Notice of infraction – Tax fine
  Value: 216 thousand Euros

The subsidiary TAP ME Brasil was fined for failure to comply with the temporary export regimes in 2009. All the ensuing administrative processes are being defended within the scope of the Taxpayers' Council, with the probability of loss by the subsidiary being considered possible.

- (viii) Notice of infraction - Tax fine relative to accessory obligations
  Value: 281 thousand Euros

The Brazilian subsidiary was fined for failing to submit the accessory obligation. The defence lawyers concluded that the probability of loss for the subsidiary is considered as possible.

- (ix) Notice of infraction - Non-ratified offsetting of taxes
  Value: 88 thousand Euros

The subsidiary was notified relative to the non-conformity in completing the Declaration of Offsetting of Taxes, not having been ratified. The defence lawyers concluded that the probability of loss for the subsidiary is considered as possible.

### Other

- (x) Pledged assets
  Value: 18,158 thousand Euros

The subsidiary TAP ME Brasil has pledged various assets totalizing 18,158 thousand Euros (21,384 thousand Euros in 2011), which refer to guarantees required by tax and labour proceedings. These assets include vehicles, computers, components and items of the hangars of Rio de Janeiro and Porto Alegre, amongst others.

The disclosure of the contingent liability, issued on 31 December 2011, related to the tax foreclosure of the compulsory payment of ICMS of 2009, a tax on the import of goods, is not applicable as at 31 December 2012, since the lawyers of the subsidiary TAP ME Brasil consider the probability of loss, as at 31 December 2012, both in the administrative and judicial areas, as remote.

## 58. Breakdown of financial assets and liabilities

The reconciliation of the consolidated financial positions, as at 31 December 2012 and 2011, relative to the different categories of the financial assets and liabilities included therein, is detailed as follows:

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Derivative financial instruments designated as hedging instruments (Note 24) | Credit and other receivables | Other financial liabilities | Non-financial assets and liabilities | Total |
| Assets | | | | | |
| Other non-current assets | 256 | 50,183 | – | – | 50,439 |
| Current receivables | 444 | 293,080 | – | 27,433 | 320,957 |
| Cash and cash equivalents | – | 85,353 | – | – | 85,353 |
| **Total Assets** | **700** | **428,616** | **–** | **27,433** | **456,749** |
| Liabilities | | | | | |
| Non-current loans received | – | – | (775,390) | – | (775,390) |
| Other non-current liabilities | (2,380) | – | – | (76,557) | (78,937) |
| Current loans received | – | – | (258,674) | – | (258,674) |
| Current payables | – | – | (430,661) | (361,745) | (792,406) |
| **Total Liabilities** | **(2,380)** | **–** | **(1,464,725)** | **(438,302)** | **(1,905,407)** |

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Derivative financial instruments designated as hedging instruments (Note 24) | Credit and other receivables | Other financial liabilities | Non-financial assets and liabilities | Total |
| Assets | | | | | |
| Other non-current assets | – | 37,656 | – | – | 37,656 |
| Current receivables | 429 | 417,889 | – | 29,425 | 447,743 |
| Cash and cash equivalents | – | 167,365 | – | – | 167,365 |
| Total Assets | 429 | 622,910 | – | 29,425 | 652,764 |
| Liabilities | | | | | |
| Non-current loans received | – | – | (985,709) | – | (985,709) |
| Other non-current liabilities | (1,665) | – | (293) | (84,868) | (86,826) |
| Current loans received | – | – | (245,209) | – | (245,209) |
| Current payables | – | – | (388,916) | (357,990) | (746,906) |
| Total Liabilities | (1,665) | – | (1,620,127) | (442,858) | (2,064,650) |

The table below presents the assets and liabilities measured at fair value as at 31 December 2012 and 2011, according to the following hierarchical levels of fair value established in IFRS 7:

Level 1: fair value of financial instruments based on active net market prices on the reference reporting date;

Level 2: the fair value of financial instruments is not determined based on active market prices, but rather through evaluation models. The main inputs of these models are observable on the market; and

Level 3: the fair value of financial instruments is not determined based on active market prices, but rather through evaluation models, whose main inputs are not observable on the market.

## Assets measured at fair value

| | 2012 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Financial assets at fair value recognised in reserves – hedging derivatives | 700 | – | 700 | – |

| | 2011 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Financial assets at fair value recognised in reserves – hedging derivatives | 429 | – | 429 | – |

## Liabilities measured at fair value

| | 2012 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Financial liabilities at fair value recognised in reserves – hedging derivatives | 2,380 | – | 2,380 | – |

| | 2011 | | | |
|---|---|---|---|---|
| | Level | Level 1 | Level 2 | Level 3 |
| Financial liabilities at fair value recognised in reserves – hedging derivatives | 1,665 | – | 1,665 | – |

### Derivative financial instruments

The fair value of the derivative financial instruments is recorded as payables when negative, and as receivables when positive.

During 2012 and 2011, the variation in the fair value of the derivative financial instruments was recorded as equity.

The breakdown of the fair value of the derivative financial instruments is presented in Note 24.

### Credit and other receivables

These amounts are originally recognised at their fair value, corresponding to their nominal value, minus any impairment identified during credit risk analysis.

### Credit and other receivables

These values are recognised at their amortised cost, corresponding to the value of the respective cash flow, discounted by the effective interest rate associated to each liability.

## 60. Commitments

### Guarantees provided

As at 31 December 2012 and 2011, the guarantees provided by the Group are broken down as follows:

| | 2012 | 2011 |
|---|---|---|
| Bank guarantees provided by TAP S.A. | | |
| Portuguese State - Operation of the Azores routes | 4,234 | 2,715 |
| Natwest - Acquiring relative to credit cards | 2,573 | 2,514 |
| Labour Court | 3,633 | 3,440 |
| Aircraft | 21,166 | 15,891 |
| Fuel | 2,994 | 4,317 |
| Other | 7,970 | 8,646 |
| Bank guarantees provided by LFP | | |
| Operating license concession contracts for the Duty Free Shops | 6,336 | 6,336 |
| Bank guarantees provided by other Group Companies | 534 | 393 |
| Securities provided to insurers | 162 | 162 |
| | 49,602 | 44,414 |

The reinforcement, undertaken during the current financial year, of bank guarantees provided by Grupo TAP related to aircraft, is mainly linked to the existing operating lease contracts.

### Purchase commitments

As at 31 December 2012, the financial commitments assumed by the subsidiary TAP S.A. relative to operating lease contracts for aircraft and engines totalized 245,068 thousand Euros (218,876 thousand Euros as at 31 December 2011) (Note 27).

Moreover, a contract has been signed with Airbus for the future acquisition of twelve Airbus A350, with the option of a further three aircraft, to be received between 2015 and 2017. However, negotiations are now taking place with a view to signing an addendum which will change the current conditions.

## 61. Subsequent events

The Executive Board of Directors has no knowledge of any events subsequent to the reporting date that may have a significant impact on the financial statements of the financial year ended on 31 December 2012.

## Accountant

Sandra Candeias Matos da Luz

## Executive Board Of Directors

| | |
|---|---|
| Presidente | Fernando Abs da Cruz Souza Pinto |
| Vogal | Luís Manuel da Silva Rodrigues |
| Vogal | Fernando Jorge Alves Sobral |
| Vogal | Luiz da Gama Mór |
| Vogal | Manoel José Fontes Torres |
| Vogal | Michael Anthony Conolly |

# Audit Report

## Introduction

1. We have examined the consolidated financial statements of TAP–Transportes Aéreos Portugueses, SGPS, S.A., which include the Consolidated statement of the financial position as at 31 December 2012 (showing a total of 1,650,705 thousand euros and a negative total equity of 380,805 thousand euros, including non-controlling interests of 8,599 thousand euros and a negative consolidated net income of 30,794 thousand euros), the Consolidated income statement, the Consolidated comprehensive income statement, the Consolidated statement of changes in equity and the Consolidated cash flow statement for the financial year ended on that date, and the corresponding Notes.

## Responsibilities

2. It is responsibility of the Board of Directors to prepare the Consolidated management report and the consolidated financial statements that present a true and fair view of the financial position of the companies included in the consolidation, the consolidated net income and the consolidated comprehensive net income of their operations, the changes in consolidated equity, and the consolidated cash flows, as well as the adoption of adequate accounting policies and criteria and the maintenance of appropriate internal control systems.

3. Our responsibility consists of expressing a professional and independent opinion, based on our examination of these financial statements.

## Scope

4. Our examination was performed in accordance with the Technical Standards and Review/Auditing Directives of the "Ordem dos Revisores Oficiais de Contas" (Portuguese Institute of Statutory Auditors), which require that the examination be planned and performed in order to obtain a reasonable level of assurance that the consolidated financial statements are free of materially relevant distortions.

   For this purpose, the examination included:

   (i) the verification that the financial statements of the companies included in the consolidation have been examined appropriately and, for significant cases where this is not so, verification, based on sampling, of the documentation supporting the amounts and disclosures in the financial statements, and assessment of the estimates based on judgements and criteria defined by the Board of Directors used in their preparation;

   (ii) verification of the consolidation operations and application of the equity method;

   (iii) assessment of the adequacy of the adopted accounting policies, their uniform application and their disclosure, considering the circumstances;

   (iv) verification of the applicability of the principle of business continuity; and

   (v) assessment of the adequacy, in overall terms, of the presentation of the consolidated financial statements.

5. Our examination also included verification that the consolidated financial information presented in the Consolidated management report is consistent with the consolidated financial statements.

6. We believe that the examination carried out provides an acceptable basis for the expression of our opinion.

## Opinion

7. In our opinion, the abovementioned consolidated financial statements present a fair and appropriate view, in all materially relevant aspects, of the consolidated financial position of TAP–Transportes Aéreos Portugueses, SGPS, S.A. as at 31 December 2012, the consolidated net income and the consolidated comprehensive income of its operations, the changes in consolidated equity and the consolidated cash flows for the financial year ended on that date, in accordance with the international financial reporting standards as adopted in the European Union.

## Reporting on other legal requirements

8. It is also our opinion that the financial information included in the consolidated management report is consistent with the consolidated financial statements for the year.

## Emphasis

9. Notwithstanding the opinion expressed in paragraph 7, we would like to call attention to the following situations:

   i) As at 31 December 2012, TAP Group presents negative equity, including non-controlling interests, of about 381 million euros, with the financial statements having been prepared based on the principle of the business continuity, which depends on the financial support of the shareholder and on the future profitability of operations.

   In addition, pursuant to article 35 of the Commercial Companies Code, since more than half of the share capital has been lost, measures must be taken to rectify this situation;

   ii) Following the approval of the consolidated financial statements, on 5 April 2013, the Constitutional Court issued its ruling on the State Budget for 2013, which declared unconstitutional the suspension of the public employees' holiday bonus payment under the article 29 of the Budget. The abovementioned decision will add up additional costs for TAP Group of about 24 million euros, which will be recorded in the financial year of 2013.

Lisbon, 10 April 2013
PricewaterhouseCoopers & Associados
– *Sociedade de Revisores Oficiais de Contas, Lda.*
Represented by

José Pereira Alves, ROC


Em Grande no Porto | tmn

# Report of the General and Supervisory Board 2012 TAP SGPS

1. The General and Supervisory Board (GSB) carried out the supervision of TAP Group in 2012. The work of the Board is documented in the minutes of the meetings.

2. The Chairman of the Executive Board of Directors and the Directors responsible for the matters under analysis also participated in the General and Supervisory Board meetings. The full participation of the Executive Board of Directors took place in the meetings of the General and Supervisory Board dedicated to the assessment of the accounts for the financial year of 2011 and the budget for 2013, and the issuing of a decision on the binding proposal submitted by the companies Synergy Aerospace Corp. and Synergy Europa S.A. relative to the privatisation of TAP SGPS. The Chairman of the General and Supervisory Board regularly supervised the management of the Company, having attended the formal meetings of the Executive Board of Directors.

3. The General and Supervisory Board acquainted itself in due time with the deliberations of the Executive Board of Directors that, within statutory limits, were submitted to them for appreciation and deliberation, as well as the respective reasons and clarifications.

4. The supervision undertaken by the General and Supervisory Board over the course of 2012 covered the universe of TAP Group companies, with particular emphasis on TAP, S.A.. The General and Supervisory Board undertook an analysis and held a wide-ranging debate, with the Executive Board of Directors, on the operating, financial and strategic issues that arose in those domains, both at the Group level and at the level of associated companies, having, in accordance with the articles of association, issued opinions or recommendations where circumstances warranted it.

5. The General and Supervisory Board met formally ten times during the year, having been assisted in its work by the Specialised Audit and Sustainability and Corporate Governance Commissions, as well as by the work group appointed *ad hoc* to assist the Board on the application of remuneration policy. These commissions and group provided the Board with the necessary support on matters within their remit, whether their own or delegated, namely those involving the verification of compliance with the articles of association and applicable legal precepts.

6. Eight meetings of the Specialised Audit Commission were held in 2012. The Director responsible for financial matters had always an active participation in these meetings. Occasionally, when the agenda warranted it, the Official Accountant, the External Audit and the Internal Audit also participated. The Specialised Audit Commission accompanied, over the course of 2012, the evolution of the financial environment of the Group, with emphasis on the activity of TAP, S.A. and the situation of TAP–Maintenance and Engineering Brazil, due to the relevant financial impact they had on the accounts of the Group. As regards treasury management, the Specialised Audit Commission, in close cooperation with the Director responsible for financial matters, monitored the evolution of cash flows over the course of the year and the debt amortisation process of the Group. The Specialised Audit Commission was informed, by the aforementioned Director, of the various efforts made by TAP, in discussions with funding entities, with a view to, namely, mitigate the effects of the suspension of loan negotiations, as a result of the launch of the privatisation process until its completion. The Specialised Audit Commission verified the existence, over the course of the year, of sufficient liquidity levels for the operations of the Group.

7. The Sustainability and Corporate Governance Commission met seven times during the year. The work of the Commission involved the supervision of the associated companies of TAP Group, from the viewpoint of the creation of the conditions necessary for the sustained growth of the Group, in the economic, environmental and social areas. The directors responsible for those companies presented at those meetings an overview of the evolution of their businesses, debating with the Sustainability and Corporate Governance Commission the aspects that have a more significant impact on their sustainability. In this context, it is important to point out the continued monitoring of the restructuring process of TAP–Maintenance and Engineering Brazil and the specific monitoring of the ground handling operation of SPdH during the transition period to a new shareholder composition. The sale of 50.1% of the stake of TAP, S.A. in the share capital of SPdH was concluded during 2012.

8. During 2012, the General and Supervisory Board carried out – both directly and through the said specialised commissions – the supervision of the activity of the Group and its associated companies. In TAP, S.A., core business of the Group, the EUR 90 million increase (excluding charges in the amount of EUR 4.3 million relative to $CO_2$ emission allowances), relative to 2011, in fuel costs, an item that currently represents 35% of the operating costs of the company, is noteworthy. 73% of that increase was due to the exchange rate effect on the increase in price in euros. Nonetheless, in spite of the context of general economic recession, there was a significant growth of the operation (5%), load factor (0.4 p.p.) and revenues (7.2%). This growth, combined with efficiency gains and strong contention in other cost items, enabled TAP, S.A. to achieve, for the fourth consecutive year, a positive net income of EUR 21 million in 2012, which is noteworthy within the context of European air transport.

9. In the meetings of the General and Supervisory Board with the Executive Board of Directors, over the course of the year, in addition to the general activity of the Group and the specific monitoring of the various business units, other issues of relevance to the sustainability of TAP were also analysed and debated: continued implementation of the cost-cutting plan, in coordination with TAP's process of adaptation to the budgetary consolidation measures; assessment of the Group's financing needs and capacity relative to the evolution of the global and domestic financial environment, namely within the context of the privatisation process underway.

10. Within the framework of the Preliminary Hearing pursuant to Art. 13 of the Tender Specifications that regulated the terms and conditions of the sale of 95% of the share capital of TAP, SGPS, S.A., approved by the Council of Ministers Resolution no. 88-A/2012, of 19 October, the Shareholder requested that the General and Supervisory Board, in coordination with the Executive Board of Directors, issue an opinion on the binding proposal submitted by the companies Synergy Aerospace Corp. and Synergy Europa S.A.. The General and Supervisory Board, meeting in an extraordinary session specifically convened for this purpose, issued its opinion – based on the documentation that was provided to it by the Shareholder and upon debate with the Executive Board of Directors –, which, in terms of the said request, was strictly confined to the appreciation of the proposal from the viewpoint of its strategic fit with the interests of TAP.

11. The Board assessed the management report and accounts for 2012. The report evidenced a Group net income of EUR -31 million, which, being negative, reflects a recovery of EUR 46 million relative to the loss registered in the previous year. In this result, in addition to the positive contribution of TAP, S.A., mentioned above, the losses incurred in the loss-making associated companies had a negative impact, namely in TAP–Maintenance and Engineering Brazil (EUR 57 million, against EUR 67 million in 2011) and less markedly in SPdH (EUR 2 million, against EUR 11 million in 2011), whereas the profit of EUR 7 million (against a loss of EUR 2 million in 2011) of the other subsidiary companies had a positive impact.

    Also taking into account the recommendation of the Specialised Audit Commission and the reports of the Official Accountant and of the External Auditor, the General and Supervisory Board, in accordance with the legal and statutory provisions, decided to issue a favourable opinion on the said management report and accounts, recommending their approval by the General Meeting of TAP, SGPS.

12. The General and Supervisory Board wishes to express its gratitude to the board of directors, workers and employees of TAP, for their outstanding personal contribution towards the development and sustainability of the Group in 2012.

Lisbon, 28th March, 2013

## The General and Supervisory Board

Manuel Soares Pinto Barbosa
Carlos Alberto Veiga Anjos
João Luís Traça Borges de Assunção
Luís Manuel dos Santos Silva Patrão
Maria do Rosário Miranda Andrade Ribeiro Vítor
Rui Manuel Azevedo Pereira da Silva
Vítor Cabrita Neto

# Abbreviations and glossary

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|---|---|
| AEA | Association of European Airlines |
| APCER | Portuguese Certification Association |
| EASA | European Aviation Safety Agency |
| IATA | International Air Transport Association |
| INAC | National Civil Aviation Institute |
| IPAC | Portuguese Accreditation Institute |
| ISO | International Standards Organization |
| LCC | Low Cost Carrier |
| MRO | Maintenance Repair and Overhaul |
| OEM | Original Equipment Manufacturer |
| QTC | Quick Transfer Centre |

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|---|---|
| ASK | Total number of seats available for sale multiplied by the number of kilometres flown. |
| Block Hours | Number of hours between the departure and arrival of a flight, with time measured between when chocks are placed and removed. |
| Cargo and Mail RTK | Total number of tons of cargo and mail multiplied by the number of kilometres flown. |
| $CO_2$ | Gas that is naturally-occurring in the atmosphere and which is also a waste product of combustion of fossil fuels (coal, oil). Increased levels of carbon dioxide in the atmosphere could lead to global warming and subsequent climate changes. |
| Code-Share | Agreement between two companies operating as partners that agree to provide services on the same aircraft, whilst maintaining the respective IATA codes, flight numbers and brands. |
| Global RTK | Total number of tons of passengers, cargo and mail multiplied by the number of kilometres flown. |
| Hub | Term used to describe an airline's operating base, where arrivals and departures are coordinated in order to keep transit time to a minimum. TAP's hub in Lisbon is structured in three daily waves of arrivals and departures in order to increase the number of connection opportunities for TAP Customers. |
| Hub and Spoke | A model of operating that allows for connections between destinations with less traffic flow, through an airport hub whenever a direct flight is not feasible. |
| Multi-hub | Systems of operation by connection through several hubs which makes it possible to offer a greater variety of destinations through access to the networks based at each hub. |
| Passenger Load Factor | Total number of revenue passenger-kilometres (RPK) divided by the total number of available seat-kilometres (ASK). |
| Passenger Yield | Revenue from passenger traffic divided by the number of passenger-kilometres (RPK). |
| Punctuality | Industry standard measured by the percentage of the number of flights departing up to 15 minutes after their scheduled departure time. |
| Regularity | Percentage of flights actually carried out, of the total flights planned. |
| Revenue Management | Technique used for optimisation of revenue from each flight by seeking systematic balance between the flight's level of occupation and tariff's offered. |
| RPK | Total number of passengers multiplied by the number of kilometres flown. |

## Credits


### TAP, SGPS, S.A.

Apartado 50194, 1704-801 Lisboa
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Fax +351 218 415 774
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de braços abertos *with arms wide open*

A STAR ALLIANCE MEMBER

TAP, SGPS, S.A.
Apartado 50194, 1704-801 Lisboa
Tel. +351 21 841 50 00
Fax +351 21 841 57 74
www.flytap.com