Annual Report 2014

Index

TAP GROUP

MESSAGE OF THE CHAIRMAN OF THE GENERAL AND SUPERVISORY BOARD

2014 will be recalled as a critical year in TAP's history.
A year when the Company was confronted with uncertainties that tested its response capacity to the numerous adverse constraints.
A year when, on the other hand, important windows of opportunity opened, which might positively influence its future.

In spite of the incipient recovery of the world economy, in 2014 global air transport registered a considerably better performance than in 2013. Passenger traffic grew (+5.9% RPK) at a rate above the average of the last ten years and above the growth of supply (+5.6% ASK), thus increasing the capacity utilisation index (to 79.7%, PLF).

However, the expansion of the activity was not uniform in terms of time, space and type of traffic. Growth was concentrated in the first half of the year, in the domestic segment and predominantly in emerging countries. During the second half of the year, in contrast, there were clear signs of a slowdown in the international traffic segment, and indications of significant alterations in market dynamics.

Stimulated by the growth of activity, the overall financial performance of air transport also registered some improvement in 2014 in relation to the previous year, reflected in the increased profitability of the Industry. Nevertheless, the increase was insufficient to assure coverage of the cost of capital, and therefore the capital invested in the Industry generally continued to show a loss.

This evolution was significantly influenced by the trend of declining yield, driven by the stronger competition in the market. The decline accentuated in 2014, causing a pronounced financial impact, namely for European companies in general, which was only partially mitigated in the last quarter of the year as a result of the low price of fuel.

TAP's performance in 2014 was to a large extent influenced by this overall evolution of the Industry. Seeking to make the most of the opportunities offered by market expansion, TAP managed to increase and diversify its activity, in terms of routes and passenger traffic, at a strong rate (+7.0% RPK), higher than the general European average (+5.8%) and significantly above the average of similar European companies of the AEA (+4.1%). However, this gain proved insufficient to annul the loss of revenue derived from the aforesaid lower yield.

In addition to the external general circumstances of the Industry, particular constraints of TAP's specific context also had an enormous repercussion on its performance in 2014.

Indeed, during the second half of the year, the Company's activity experienced an extraordinary combination of adverse events – unpredictable delays in the programmed expansion of the fleet, operating occurrences, strokes and labour instability – causing severe disturbance of the operation, loss of revenue and increased operating costs. Consequently, net income for the year was, also due to these events, strongly penalised.

In contrast, other associates of the TAP Group recorded a positive evolution in 2014. However, the emergence – for the first time in the last five years – of an operating deficit in the core business, TAP SA, became a major determinant of the negative consolidated net income.

The required assessment, conducted internally, of the circumstances of the aforesaid crisis led to the reformulation of the Company's business plan, with the highest swiftness and scope possible within its institutional, financial and labour-related framework.

Carried out in the context of the review of the Strategic Plan for 2015-2020, this reformulation sought to readjust the programming of the Company's business and investments, on the one hand, to the new global circumstances of air transport – in particular adapting it to the new trends of the yield and price of fuel –, and on the other hand, to the increased constraints of its financial context.

Contrary to the yield reduction, the drop in the price of oil and jet-fuel at the end of 2014 had a favourable repercussion on the profitability of air transport. However, its impact on the Company's accounts was not yet significant during the year, due to the persistence of deferred contractual effects, namely derived from the risk protection policy. Nevertheless, it is expected that the new trend of the price of fuel will be reflected in more expressive gains in TAP's accounts in 2015.

It should be noted, as an important fact in the Company's history, that the Government decided in November to launch a new process of reprivatisation of TAP SGPS, through the sale of 61% of its capital by tender. The tender will be completed by June 2015, opening up new prospects of the possible materialisation of the so necessary and urgent recapitalisation of the Company in the near future.

On the other hand, the reprivatisation operation has brought in further constraints to TAP's management action, also requiring an extraordinary internal mobilisation of resources, in addition to the normal tasks of its current operation, where special note should be made of the diligent effort developed by its employees under these circumstances.

In summary, 2014 will be recalled as a critical year in TAP's history.

A year when the Company was confronted with uncertainties of a crisis of growth that tested its response capacity to the numerous adverse constraints. A year when, on the other hand, important windows of opportunity opened, which might positively influence its future.

With remarkable determination, TAP demonstrated its capacity of mobilisation to overcome these challenges and, promoting the possible adjustments in its operation and business strategy, assure the conditions for its sustainability.

On behalf of the General and Supervisory Board, I would like to thank all those – directors, workers and employees – who, with unshakable engagement, dedication and professionalism, gave a decisive contribution to enable the future viability of the Company.

Manuel Pinto Barbosa

INTERVIEW WITH FERNANDO PINTO

CHAIRMAN OF THE EXECUTIVE BOARD OF DIRECTORS

> We obviously faced the challenge of ensuring the supply of traffic of the new routes and frequencies, make its feeding, which came not only of existing routes as well as series of new European routes. Yes, this was an ambitious goal and presented many challenges.

The year 2014 was marked by two relevant events: operational irregularities over the summer, which resulted in financial losses and affected the company's reputation, a fundamental asset for any organisation; and periods of strikes in the second half of the year. Would you like to comment on these key events?

Fernando Pinto – Actually, we started the year having come from an excellent 2013 and with the enthusiasm of having managed to maintain the business growth achieved over the previous years, with a good market position, occupying relevant slots and not leaving much room for other companies to penetrate our market…

We intended to continue growing at the same rate, and we had good international destinations to operate with two additional long-haul aircraft to our fleet. We obviously faced the challenge of ensuring the supply of traffic of the new routes and frequencies, make its feeding, which came not only of existing routes as well as series of new European routes. We had planned to start operating 11 new routes in the summer. This is the best time to start operating new routes, as success is relatively certain. We had carefully planned this important step, as we believed it would increase our business by about 10%, a similar value to that achieved in prior years. Yes, this was an ambitious goal and presented many challenges, since we usually achieve business growth progressively, throughout the year, which reached 10%, whereas this time we intended to accomplish this growth in one go.

We experienced a few difficulties. One was the training of new pilots, which was delayed due to several reasons, mostly related to regulatory changes introduced by the authorities in the meantime. It was also necessary to train new aircraft maintenance technicians, as we had lost about 50 mechanics in the two previous years. We had to train new mechanics, and here there was also a delay in the recruitment and training process, as well as a delay in the process of introducing the new aircraft. This combination was at the root of the problems of the summer operation. In principle, these problems would have been resolved by early June, which marks the beginning of the summer period, had it not been for a further problem, at a trade union level, that caused a series of flight delays and cancellations over the entire summer.

The truth is that the summer, which is the time that the company makes its most important and decisive gains, was heavily affected. Normally, only a few European companies manage to break even over the first half of the year. It is when the summer kicks in that we have a chance to make profits. It is during the second half of the year that European companies make their profits. Nowadays, the summer lasts until October. Business slows down in November and picks up again in December, with peak demand again over Christmas and New Year.

The issue is that, in addition to the difficulties experienced during the summer, which were aggravated by a strike in August, this followed by new strike action in October, November and December, creating strong instability in the business. As well as causing heavy losses, resulting in negative net income for 2014, these occurrences had a very harmful impact on our image. This effect, which started to be felt in the beginning of 2015, continued to affect the company during the first half of the year. Sales and bookings have declined… One of the major challenges we currently face is to restore our image, by showing that we are a trustworthy company and that we are fully committed to providing quality services.

In addition to the delays referred to above, there was also a technical problem involving the engine of an aircraft that was about to depart from the Lisbon airport, as well as an incident at Belém airport, which caused an aircraft to be out of service for a few weeks… Did these episodes, added to the delays you have already mentioned, cause major damage to TAP's reputation and image?

FP – Precisely, those incidents were an unfortunate coincidence, although in both cases our company was not responsible and no risks were involved.

The main issue we are facing is that customers who experienced problems with TAP last summer and at the end of the year do not wish to repeat them next summer. People are naturally reluctant to book flights with TAP, and we are continued to feel that throughout this year. Although we are slowly recovering, this is a stain which remains for some time. Moreover, competition is now much stronger than in the past. This means that customers have a much wider range of options to choose from. We know that our customers like TAP; however they need to regain their trust in the company.

How can this trust be regained? What has TAP already done and what is the company doing to regain market trust?

FP – It is extremely important to ensure that all of our employees understand what happens to the company's image if the services are unreliable. Business that was easily recovered in the past is much more difficult to recover nowadays. Given the size of the company and the strong competition we currently face, recovery is a long, drawn-out process. It involves a process of awareness-raising; we need to show the market that TAP has also learned from these experiences.

And has it learned?

FP – We hope so. We have achieved significant improvements compared to the previous year, in terms of regularity and punctuality targets. We are currently showing the market that we are extremely punctual. We have an important programme for the summer of 2015, with a view to meeting maximum punctuality targets never before achieved. This is a company effort, but one which must include the effort all our employees. The truth is that we all need to be extremely cautious, as we feel it is very difficult to win back lost customers.

You already have long-standing and broad experience in managing airlines and establishing relationships with your peers at STAR Alliance, IATA and AEA. You are very familiar with this Industry. After all these years, have you learned any lessons, as a manager, from what happened in 2014? Has the TAP management learnt any lessons, has anything changed?

FP – The most important is to be aware that we are always learning. It's not because I have been in the air transport business for 43 years that I imagine that I know it all. Last year's events undoubtedly taught me a great deal. I can only hope that it taught us all a great deal, it is very important that this message has got through to us all: 2014 must be regarded as a year not to be repeated. It was, without doubt, the worst year since I arrived at TAP, with a combination of factors that, every one of them, were detrimental to the customer.

We are currently showing the market that we are extremely punctual. We have an important programme for the summer of 2015, with a view to meeting maximum punctuality targets. This is a company effort, but one which must include the effort all our employees.

Apart from that, there was yet another factor which made the year even more difficult, the steep decline in average fares...

FP – Yes, in the midst of all of this, there was also that drop, which was largely related to our main international market, which is Brazil. The business many of us believed would be brought by the 2014 World Cup, in Brazil, was not as significant as assumed. Although demand for flights to Brazil increased over the first half of 2014, demand for flights from Brazil to other destinations fell, which is the most important market. Demand for flights from Europe to Brazil also increased during the 2014 World Cup and we were well positioned here, although, in this market, average fares were already lower, since the type of customer seeking this type of event is not a business customer, but has a different customer profile. However, the most serious issue was the fact that many Brazilians chose to remain in Brazil to watch the matches instead of travelling abroad on their holidays. Moreover, competition increased steeply, supply was greater and demand was lower, all of which caused average rates to decline.

Competition from low-cost airlines for European routes also increased significantly at the Lisbon Hub, which contributed significantly to lowering average fares. Therefore, in our main international market and in our home market, two relevant factors contributed to strongly reduce our average fares, by somewhere around 8-10%. We also experienced difficulties in Angola and Venezuela, which are also important markets to TAP.

On the other hand, the price of fuel is obviously an important factor, which progressively lowered our costs. Nevertheless, as is the case with all the other airlines, TAP purchases fuel futures, so that costs can be reasonably forecast. This meant that we hardly felt any gains via the reduction of the price of fuel in 2014. Moreover, any savings achieved were offset by the appreciation of the US dollar against the euro, and as a result, the effect of the price reduction was neutralised.

How do you, as such an experienced manager and the CEO of TAP, view what happened in 2014?

FP – The truth is that these things happen, as we are involved in a rapidly changing market, and it is very difficult to make accurate forecasts or predict what will happen 2 or 3 months from now. There are too many variables involved... for instance, we thought that the company would recover quickly from the effects of the 2014 World Cup, which were felt in June and July, and that normal circumstances would soon be resumed. In actual fact, those effects continued to be felt over the remainder of the year. We expected to experience difficulties as a result of the events occurred in Venezuela, but we had never had to wait for so long for resources to be repatriated. As for the effect of competition from low-cost airlines here in Portugal... I believe that we were dealing with this problem in a very satisfactory manner. However, at the time when the volume really increased, the arrival of yet another low-cost airline to the Lisbon airport, which is TAP's main Hub, our *battle front*, forced us to lower our rates even further. On top of this, we have never had to deal with a series of consecutive strikes, one after the other, which severely compromised our operations in such an unprecedented manner.

These challenges forced us to continually review our actions, launch promotions and take all sorts of steps in order to overcome our difficulties. We definitely had to become more proactive and were obviously a great deal more concerned than in previous years. As soon as the year ended, we restricted our offer in an attempt to increase our rates somewhat.

In early 2014, would it not have been possible to predict the course of events; were you not expecting such a difficult year?

FP – No, especially as the year had started really well. In fact, the first half of 2014 was the best half-year in the history of TAP. We could not possibly have imagined that we were about to face our worst six months ever.

A few changes in the Maintenance & Engineering Department were also made in 2014, namely the appointment of a new director, Mário Lobato Faria... How would you sum up these changes?

FP – Jorge Sobral, who dedicated many years to TAP, retired at the end of 2013. We immediately managed to recruit Mário Lobato Faria, a very experienced professional who had previously worked at TAP and PGA. He joined out team at a difficult time, when the new aircraft that would be added to the TAP fleet in order to ensure operations over the summer were being prepared, a process which had already undergone a series of delays. The beginning of the year was fraught with problems, but they were resolved throughout the year. Not only were we operating normally by the end of 2014, but we had also achieved remarkable growth in services provided to third parties, which we have managed to maintain at a good rate in 2015.

I can tell them that TAP will not remain the same. It will be better, of this I am certain.

Reprivatisation

In the midst of a very tough year, as we have seen, the new TAP reprivatisation process also started being prepared in 2014. What did this preparation entail?

FP – This is a huge project, involving the entire structure of the company, during which we were required to provide a whole series of information to potential buyers. I am talking about thousands and thousands of documents, which have to be absolutely accurate, as this forms the basis for the entire process. This means incessant work, covering various months, which started in 2014 and is still in course in 2015.

Do you think that the instability is also related to the relaunch of the reprivatisation?

FP – Yes, definitely. I believe that trade unions attempted to benefit from the situation before the process was completed. This resulted in a series of negotiations with the Government, with a view to safeguarding some employees' rights. The scheduling of a strike between Christmas and New Year was extremely detrimental to the company. We had just gone through a very harrowing period. As we all know, many people travel to join their families during the holiday season and, once again, after a very complicated summer, here was TAP saying that it could not assure their travel. That effectively put an end to their trust in TAP. And this is what we continue to feel and will feel in the future, which is why we will need to work arduously to regain their trust.

Was this still a problem even after the strike was called off and not carried out?

FP – The damage had already been done; the adverse effects of this incident were huge and persist to this day.

We already know which reprivatisation proposal has been selected by the Government. Will your mission at TAP come to an end once the official steps required to complete the process have been taken?

FP – Yes, I was hired to make this transition, oversee the privatisation process; I came here for that. This process was supposed to have started by the end of 2000 or early in 2001. However, for the known reasons, this did not happen. We then attempted to take advantage of every business opportunity we could seize, obviously, always in line with the Government, which is accountable for this initiative. TAP came close to being privatised in 2012; however, now it has become a reality. For me and for the entire management team, it is extremely satisfying to have successfully brought this whole process to its completion, and we feel that it was our responsibility to accomplish this mission.

There is a part of the Portuguese public opinion that is against the privatisation, what would you like to say to these citizens?

FP – I can tell them that TAP will not remain the same. It will be better, of this I am certain. Lack of capital has been a constant problem for TAP; we have struggled with many difficulties. What we have achieved over this time has been nothing short of miraculous. The company has grown, it has grown a lot, it has entered an enormous amount of new markets, it has become the leading airline for flights between Europe and Brazil, and has achieved huge growth in Africa and Eastern Europe.

However, throughout this entire time, TAP has always faced a very critical situation in terms of capital. Now we have the opportunity to continue at this growth rate, and even offer better services to our customers. New partnerships will allow our business to leap further. I believe this is what TAP needs. TAP is extremely important to Portugal; the country needs an airline able to hold its own in an increasingly more difficult market, where companies need to be very solid and flexible...

Did you feel that constraints were being imposed on that necessary business flexibility?

FP – Yes, definitely. A public company, especially during the period of economic and financial adjustment experienced by Portugal, faces strong constraints regarding its decision-making processes, apart from not having access to the necessary capital for its development. With the privatisation, the whole environment will be different. From the very beginning, I said that TAP's path had to follow along the road to privatisation, as it has been for all major, successful companies in Europe.

And what about TAP's employees, who have gone through this process with you, what would you like to say to them at this very moment?

FP – Firstly, I would like to express my heartfelt gratitude to everyone. TAP's employees have been instrumental for the company to become what it is today. This has been the outcome of teamwork, and I include everyone, from the staff responsible for planning, management, operations and services to the customer. We have gone through hard times, when the trade unions were clearly understanding of our position, and I thank them for that, even if this has not always been the case. I believe that we have all fulfilled our responsibility of taking this company forward to serve future generations. Our predecessors handed the company over to us, and it is our duty to deliver a better company to our successors. I believe everyone is doing their utmost to accomplish this goal.

Therefore, do you consider that, at the end of this process, you are leaving a better TAP?

FP – Absolutely. Today's TAP is a completely different company, in each and every aspect, no matter how you look at it. When we arrived, the company was a third of what it is today, and it is not true that TAP has become *swollen*... No, the company has evolved to a much higher level of efficiency. It is an efficient company; it can compete in the market. It is true that it has its difficulties, but had it remained at its past levels of efficiency, it would not have survived, it would not even have reached our current times. It is a company that, in proportion to its turnover, has a lot less debt than in the past. We used to have revenue of one billion and debt of one billion. Nowadays, the company is three times larger, it has almost three times more aircraft and revenue, yet its debt remains the same around one billion euros. And all of this, despite the fact that in the midst TAP acquired a maintenance company in Brazil, as well as Portugália and an entire fleet of A330 aircraft.

Now we have the opportunity to continue at this growth rate, and even offer better services to our customers. New partnerships will allow our business to leap further.

I envision a truly brilliant future for TAP. More capital, new aircraft, new routes… I see a vibrant company; and this is what Portugal needs.

In fact, the acquisition of Maintenance & Engineering Brazil is the main argument used by many to attack your management, not taking into account that the management's greatest achievement is likely to have been the assurance of TAP's survival. Do you think this has not been sufficiently recognised? Do you consider this to be your primary accomplishment?

FP – When we arrived, in 2000, we only had enough capital to keep the business afloat for another three months. Prospects were dire. Fifteen years later, TAP continues to experience its difficulties, it continues to face extremely strong liquidity constraints, because there are no easy arrangements with the credit entities, but the truth is that we have a completely different company.

It is always useful to recall the reasons why we decided to invest in a different business. The principal motive is that we had the opportunity to acquire the largest aviation company in Brazil, which would give us a very important partnership in one of the world's fastest-growing markets. The first stage in this process was to acquire the Maintenance and Cargo Companies, so that we would eventually have access to the Air Transport business. As this did not happen, we had offers to sell these recently acquired companies. We sold the Cargo Company at a 20% profit, but decided to keep the Maintenance Company, as it was becoming difficult for us to service the entire TAP fleet in Lisbon and there were no viable prospects to expand the work of third parties in Portugal. The outcome was not what we expected, that is true.

However, we also acquired Portugália which, in contrast to what may be thought, represented a higher investment value than that made in Maintenance & Engineering Brazil. Nevertheless, we achieved full return on this investment in only 3 years, which was an exceptional business accomplishment. We have faced many challenges and I admit we have been unable to meet them all. However, I believe that it was better to seek new challenges than to adopt a static approach to management.

Finally, let us talk about the future. How do you envision the future of TAP and your future relationship with TAP?

FP – I envision a truly brilliant future for TAP. More capital, new aircraft, new routes… I see a vibrant company; and this is what Portugal needs. My own future at TAP… At the moment, it is my duty to hand over a solid company to its new owners. Afterwards, I might even continue connected to the company for a little longer, I have some inkling that may happen… However, the time will also come for me to retire…

Do you feel it is time for you to retire and enjoy some well-deserved rest?

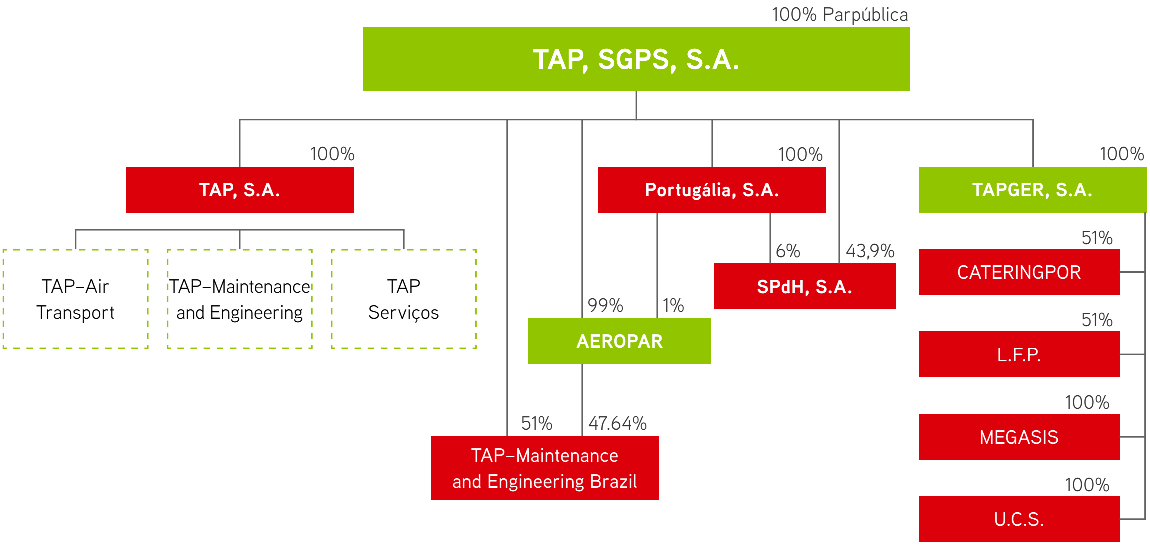
FP – Not yet (laughing)… This is doubtlessly a tiring profession and I believe I am the longest--serving CEO in the history of air transport. The 15 years I have worked at TAP and the 8 years I worked at Varig add up to 23 years as a CEO. And being the CEO of a company for 15 consecutive years is a unique achievement, both in the history of AEA and IATA. I believe I can still do useful work at TAP, that my presence matters, that I can still play an important role in liaising with the buyers. After that, only time will tell. But I will always keep rooting for TAP.

SHAREHOLDER STRUCTURE OF TAP GROUP

December 31, 2014

At the end of 2014, 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.


414


100% Parpública
TAP, SGPS, S.A.
100%
TAP, S.A.
TAP–Air Transport
TAP–Maintenance and Engineering
TAP Serviços
100%
Portugália, S.A.
6%
43,9%
SPdH, S.A.
99%
1%
AEROPAR
51%
47.64%
TAP–Maintenance and Engineering Brazil
100%
TAPGER, S.A.
51%
CATERINGPOR
51%
L.F.P.
100%
MEGASIS
100%
U.C.S.

CORPORATE GOVERNANCE

The year of 2014 was marked by a series of particularly complex and demanding situations which Corporate Governance had to deal with. On the one hand, the strong competition in the air transport sector, at both a European level, mainly due to the activity of low cost companies, and at an intercontinental level, due to the strong competition of the major European companies on routes to Brazil. This new competitive context constrained margins and the profitability of the air operation on some routes served by TAP, in spite of the positive impact resulting from the decline in fuel prices, which took place at the end of the previous year. On the other hand, the operational problems registered during the summer, namely related to delays in the delivery of aircraft necessary for the opening of new routes, delay in the training of pilots and the disturbance of the Company's working environment strongly conditioned its normal activity. These previously mentioned factors had a significant cumulative impact on TAP's performance, in the second half of the year in particular. The evolution of the events mentioned above exposed the vulnerabilities and limitations of TAP – a company that operates in a highly competitive market, but subject, as required by law, to a conditioned management regime –, which limits its capacity to respond, in an effective and timely manner, to the several uncertainties facing its activity. In spite of this context and of the difficulties faced, lessons were learnt from the adversities faced in the second half of the year, and a set of measures was implemented by Corporate Governance to prepare the Company to face future challenges.

In December 2014, the Portuguese Government approved the relaunch of the reprivatisation process of the TAP Group (see Decree-Law no. 181-A/2014), which will take place during 2015.

Over the course of 2014, the Executive Board of Directors relied on the cooperation, supervision and informed advice from the General and Supervisory Board on all matters for which it is responsible for, as well as the qualified contribution of the Specialised (Audit and Sustainability and Corporate Governance) Commissions. As a result, the institutional relationship between the two bodies, underpinned by eight years of experience under the two-tier model of corporate governance, was reinforced.

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.

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

Chairman	Fernando Abs da Cruz Souza Pinto
Member	Luís Manuel da Silva Rodrigues (requested termination, taking effect on 2nd December 2014)
Member	Luiz da Gama Mór
Member	Manoel José Fontes Torres
Member	Maria Teresa Silva Lopes (appointed with effect from 3rd December 2014)
Member	Michael Anthony Conolly (requested termination, taking effect on 31st March 2014)

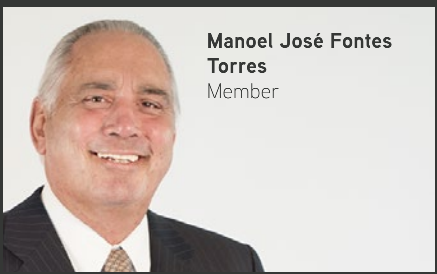
General and Supervisory Board

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

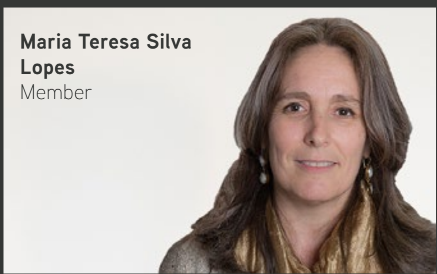
Executive Board of Directors

Fernando Abs da Cruz Souza Pinto
Chairman

Luiz da Gama Mór
Member



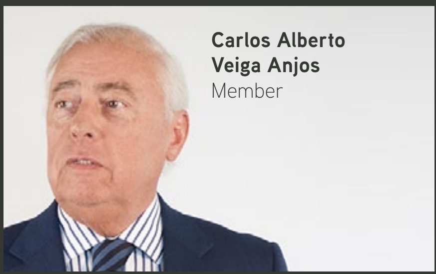
Manoel José Fontes Torres
Member



Maria Teresa Silva Lopes
Member

General and Supervisory Board

Manuel Soares Pinto Barbosa
Chairman



Carlos Alberto Veiga Anjos
Member

João Luís Traça Borges de Assunção
Member

Luís Manuel dos Santos Silva Patrão
Member

Maria do Rosário Miranda Andrade Ribeiro Vítor
Member

Rui Manuel Azevedo Pereira da Silva
Member

Vítor José Cabrita Neto
Member

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 de 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 de 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 2014, 23 meetings were held by the Executive Board of Directors of TAP, SGPS, S.A. and 26 meetings were held by the Executive Board of Directors of TAP, S.A..

Main Deliberations of the Boards of Directors in 2014

TAP, SGPS, S.A.	Approval of the Purchases and Sales Manual of the TAP Group
	Review of the Business Plan
	Plan of Activities and Budget for 2015
	Advance payment of the debt (REFIS) of TAP M&E Brazil to the Brazilian State
TAP, S.A.	Replacement of the Compass System
	Opening of TAP representation offices in Bogotá and in Panama City.
	Reorganisation of the Route Network – Contingency Plan/2015

Supervision of the Company

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

TAP–Transportes Aéreos Portugueses, SGPS, S.A.
Permanent Oliveira, Reis & Associados represented by José Vieira dos Reis

Alternate Fernando Marques Oliveira

TAP, S.A.
Permanent Oliveira, Reis & Associados represented by José Vieira dos Reis (until 4th December 2013) and by Joaquim Oliveira de Jesus (since 5th December 2013). This appointment was ratified through Unanimous Board Decision in Writing by the sole shareholder TAP, SGPS on 31st January 2014.

Alternate Fernando Marques Oliveira

COMPLIANCE WITH LEGAL GUIDELINES

MANAGEMENT OBJECTIVES

No objectives were defined by the holder of the shareholder function, through deliberation of the general meeting.

FINANCIAL RISK AND DEBT MANAGEMENT

Years	2009	2010	2011	2012	2013	2014
Financial costs (€)	(46,558)	(44,977)	(44,524)	(55,271)	(46,993)	(44,659)

Remunerated Liabilities (€)	2013	2014	Var. (abs)	Var. (%)
Non-current Liabilities	660,131	427,969	(232,162)	-35.2%
Loans received	660,131	427,969	(232,162)	-35.2%
Current Liabilities	390,512	633,682	243,170	62.3%
Loans received	390,512	633,682	243,170	62.3%
Total Remunerated Liabilities	1,050,643	1,061,651	11,008	1.0%

RECOMMENDATIONS OF THE SHAREHOLDER

There were no recommendations of the shareholder issued at the time of approval of the accounts for 2013.

REMUNERATIONS

- The remuneration of the Governing Bodies of TAP is set by the General Meeting (see article 11 of the Articles of Association of TAP, SGPS).
- The members of the Executive Board of Directors and General and Supervisory Board are remunerated, exclusively, for positions held at TAP, S.A., and do not earn any remuneration for positions held at TAP, SGPS or at any other TAP Group company.

Of the Governing Bodies

Board of the General Meeting

Mandate (Start - End)	Position	Name	Annual Remuneration	
			Fixed (1)	Gross Paid (2)
2009-2011 (*)	Chairman	Paulo Manuel Marques Fernandes	640 €	1,280 €
	Deputy Chairman	António Lorena de Sèves	400 €	800 €
	Secretary	Orlanda do Céu Silva Sampaio Pimenta d' Aguiar	330 €	660 €

(*) See number 4 of article 391 of the Companies Code
(1) Established value of the attendance voucher;
(2) Value corresponds to a General Meeting at TAP, SGPS and a General Meeting at TAP, S.A.

General and Supervisory Board

Mandate (Start - End)	Position	Name	Appointment	
			Doc.	Date
2009-2011 (*)	Chairman	Manuel Pinto Barbosa	General Meeting	02.Jun.2009
	Member of the GSB	Carlos Veiga Anjos	General Meeting	02.Jun.2009
	Member of the GSB	João Borges de Assunção	General Meeting	02.Jun.2009
	Member of the GSB	Luís Patrão	General Meeting	02.Jun.2009
	Member of the GSB	Maria do Rosário Vítor	General Meeting	02.Jun.2009
	Member of the GSB	Rui Azevedo Silva	General Meeting	02.Jun.2009
	Member of the GSB	Vítor Cabrita Neto	General Meeting	02.Jun.2009

(*) See number 4 of article 391 of the Companies Code

Name	Annual Remuneration (€) (**)						
	Variable	Fixed (*)	Other	Reduction Law 12-A/2010	Reduction (State Budget Law)	Reduction Law 75/2014	Gross after Reductions
Manuel Pinto Barbosa	n.a.	126,000.00 €	----	3,815.00 €	5,740.63 €	3,526.30 €	112,918.07 €
Carlos Veiga Anjos	n.a.	98,000.00 €	----	2,975.00 €	4,464.93 €	2,734.89 €	87,825.18 €
João Borges de Assunção	n.a.	98,000.00 €	----	2,975.00 €	4,464.93 €	2,734.89 €	87,825.18 €
Luís Patrão	n.a.	98,000.00 €	----	2,975.00 €	4,464.93 €	2,734.89 €	87,825.18 €
Maria do Rosário Vítor	n.a.	98,000.00 €	----	2,975.00 €	4,464.93 €	2,734.89 €	87,825.18 €
Rui Azevedo Silva	n.a.	98,000.00 €	----	2,975.00 €	4,464.93 €	2,734.89 €	87,825.18 €
Vítor Cabrita Neto	n.a.	98,000.00 €	----	2,975.00 €	4,464.93 €	2,734.89 €	87,825.18 €

(*) Only for remuneration, with there being no entitlement to representation expenses
(**) Includes supplementary remuneration for effective participation in the Audit and in the Sustainability and Corporate Governance Specialised Commissions

Name	Meal Allowance	Social Benefits (€)				
		Social Protection Scheme		Health Insurance	Life Insurance	Personal Accident Insurance
		Identify	Value			
Manuel Pinto Barbosa	n.a.	Social Security	12,420.98 €	n.a.	n.a.	n.a.
Carlos Veiga Anjos	n.a.	(*)	----	n.a.	n.a.	n.a.
João Borges de Assunção	n.a.	Social Security	9,660.77 €	n.a.	n.a.	n.a.
Luís Patrão	n.a.	Social Security	9,660.77 €	n.a.	n.a.	n.a.
Maria do Rosário Vítor	n.a.	Lawyers and Solicitors Welfare Fund		n.a.	n.a.	n.a.
Rui Azevedo Silva	n.a.	Social Security	9,660.77 €	n.a.	n.a.	n.a.
Vítor Cabrita Neto	n.a.	Social Security	9,660.77 €	n.a.	n.a.	n.a.

(*) Retired

Board of Directors

Mandate (Start - End)	Position	Name	Appointment	
			Doc.	Date
2009-2011 (*)	Executive Chairman	Fernando Pinto	General Meeting	02.Jun.2009
	Executive Director	Luís Rodrigues (2)	General Meeting	02.Jun.2009
	Executive Director	Luiz Mór	General Meeting	02.Jun.2009
	Executive Director	Manoel Torres	General Meeting	02.Jun.2009
	Executive Director	Maria Teresa Lopes (3)	(3)	03.Dec.2014
	Executive Director	Michael Conolly (1)	General Meeting	02.Jun.2009

(*) See number 4 of article 391 of the Companies Code
(1) Requested termination, taking effect on 31 March 2014
(2) Requested termination, taking effect on 2 December 2014
(3) Appointed with effect from 3 December 2014, under the terms of sub-paragraph f) of number 1 of article 23 of the Articles of Association of TAP, SGPS

Name	EGP				OPRLO	
	Fixed [Y/N]	Classification [A/B/C]	Salary Value (monthly)	Representation Expenses Value (monthly)	Identify Entity [identified/n.a.]	Payer [O/D]
Fernando Pinto	Y	Exempt (1)	----	----	----	----
Luís Rodrigues	Y	Exempt (1)	----	----	----	----
Luiz Mór	Y	Exempt (1)	----	----	----	----
Manoel Torres	Y	Exempt (1)	----	----	----	----
Maria Teresa Lopes	Y	Exempt (1)	----	----	----	----
Michael Conolly	Y	Exempt (1)	----	----	----	----

Note: EGP – Public Manager Status; OPRLO – Option for Remuneration of Place of Origin; O/D: Origin/Destination
(1) Under the terms of RCM 36/2012 of 15 March 2012

Name	Annual Remuneration (€)						
	Variable	Fixed (*)	Other	Reduction Law 12-A/2010	Reduction (State Budget Law)	Reduction Law 75/2014	Gross after Reductions
Fernando Pinto	----	420,000.00 €	----	16,500.00 €	17,635.38 €	9,470.95 €	376,393.67 €
Luís Rodrigues	----	299,398.91 €	----	11,970.00 €	11,756.95 €	8,156.84 €	267,515.12 €
Luiz Mór	----	280,000.00 €	----	11,000.00 €	11,756.95 €	6,313.97 €	250,929.08 €
Manoel Torres	----	280,000.00 €	----	11,000.00 €	11,756.95 €	6,313.97 €	250,929.08 €
Maria Teresa Lopes	----	30,698.54 €	----	1,535.00 €	0.00 €	2,909.33 €	26,254.21 €
Michael Conolly	----	64,931.51 €	----	9,318.13 €	1,330.65 €	0.00 €	54,282.73 €

(*) Only for remuneration, with there being no entitlement to representation expenses

Name	Social Benefits (€)						Other	
	Meal Allowance	Social Protection Scheme		Health Insurance	Life Insurance	Personal Accident Insurance		
		Identify	Value				Identify	Value
Fernando Pinto	1,099.80 €	Social Security	50,816.40 €	1,037.91 €	20,236.00 €	1,096.00 €	Accommodation expenses in Portugal – gross value	85,205.76 €
Luís Rodrigues	1,043.64 €	Social Security	29,536.48 €	1,037.91 €	4,709.00 €	1,096.00 €	At the termination of the mandate – net value	75,000.00 €
Luiz Mór	987.48 €	Social Security	37,093.35 €	1,037.91 €	15,243.00 €	1,096.00 €	Accommodation expenses in Portugal – gross value	85,205.76 €
Manoel Torres	1,057.68 €	Social Security	37,014.21 €	1,037.91 €	30,567.00 €	1,096.00 €	Accommodation expenses in Portugal – gross value	85,205.76 €
Maria Teresa Lopes	88.92 €	Social Security	2,950.92 €	1,037.91 €	0.00 €	0.00 €	---	---
Michael Conolly	219.96 €	Social Security	8,320.10 €	1,037.91 €	13,306.00 €	360.00 €	Accommodation expenses in Portugal – gross value	21,301.44 €

Name	Mobile Communication Expenses (€)		
	Defined Annual Ceiling	Annual Value	Comments
Fernando Pinto	9,000.00 €	6,006.30 €	includes expenses related to internet
Luís Rodrigues	9,000.00 €	4,891.35 €	
Luiz Mór	9,000.00 €	8,387.47 €	
Manoel Torres	9,000.00 €	2,721.41 €	
Maria Teresa Lopes	9,000.00 €	67.04 €	
Michael Conolly	9,000.00 €	540.70 €	

Costs related to Vehicles

Vehicle fleet for use by the Executive Board of Directors and general support services of the Governing Bodies	Conclusion of individual contracts for use of vehicles	Reference value of the vehicle	Mode	Starting Year	End Year	Number of Instalments	Value of the Monthly Rent (a) (b)	Annual Value (a) (b)
12-ND-38	N	53.899,53 €	Renting	2012	2016	48	1,059.44 €	12,713.40 €
88-NC-57	N			2012	2016	48	1,145.22 €	13,742.64 €
21-EM-43	N	51.027,65 €	Acquisition	2007	n.a.	n.a.	n.a.	n.a.
68-EJ-82	N			2007	n.a.	n.a.	n.a.	n.a.
14-IM-45	N			2009	n.a.	n.a.	n.a.	n.a.

a) Value of insurance €98.62/month, included in the monthly instalment rent
b) Includes VAT at the legal rate in force

Name	Defined Annual Plafond for fuel of the vehicle fleet allocated to the Governing Bodies	Annual costs of the vehicle fleet allocated to the Governing Bodies (€)		
		Fuel	Tolls	Insurance
Fernando Pinto	24,000.00 €	16,474.40 €	6,377.20 €	1,183.44 for rented vehicles (value included in the rent); from 803,65 € to 1.112,29 € for vehicles owned by TAP
Luís Rodrigues				
Luiz Mór				
Manoel Torres				
Maria Teresa Lopes				
Michael Conolly				

Name	Annual costs related to Work Travel (€)				
	Accommodation cost	Daily allowance	Other		Total travel cost
			Identify	Value	
Fernando Pinto	1,211.56 €	1,056.90 €	Transport	474.11 €	2,742.57 €
Luís Rodrigues	3,256.76 €	3,133.65 €	Transport	586.29 €	6,976.70 €
Luiz Mór	0.00 €	3,347.50 €	Transport	220.00 €	3,567.50 €
Manoel Torres	1,249.00 €	998.40 €	Transport	392.37 €	2,639.77 €
Maria Teresa Lopes	0.00 €	0.00 €	Transport	0.00 €	0.00 €
Michael Conolly	88.04 €	156.00 €	Transport	0.00 €	244.04 €

Supervision and Audit

TAP, SGPS

Mandate (*) (Start - End)	Position	SROC identification		Appointment		Remuneration (€)		Number of mandates held in the company
		Name	Number	Doc.	Date	Fixed (1) (3)	Gross Paid (2) (4)	
2009-2011 (*)	Certified Accountant	Oliveira, Reis & Associados, represented by José Vieira dos Reis	359	General Meeting	2.Jun.2009	13,800.00 €	15,616.08 €	2
2009-2011 (*)	Certified Accountant Alternate	Fernando Marques Oliveira	207	General Meeting	2.Jun.2009	-----	-----	2

(*) See number 4 of article 391 of the Companies Code
(1) Value set, before remuneration cuts
(2) Includes salary reduction by application, until 31 May 2014, of Law 83-C/2013 of 31 December; from 1 June 2014 to 12 September 2014, salary reductions were suspended, by virtue of Ruling number 413/2014, of 30 May 2014 of the Constitutional Court; from 13 September 2014 onwards, the salary reduction provided for in Law 75/2014 of 12 September was applied
(3) Subject to VAT at the legal rate in force
(4) Includes VAT at the legal rate in force

TAP, S.A.

Mandate (*) (Start - End)	Position	SROC identification		Appointment		Remuneration (€)		Number of mandates held in the company
		Name	Number	Doc.	Date	Fixed (1) (3)	Gross Paid (2) (4)	
2009-2011 (*)	Certified Accountant	Oliveira, Reis & Associados, represented by José Vieira dos Reis (until 4.Dec.2013)	359	General Meeting	2.Jun.2009	32,100.00 €	36,324.36 €	2
		Oliveira, Reis & Associados, represented by Joaquim Oliveira de Jesus (as of 5.Dec.2013)	1056					
2009-2011 (*)	Certified Accountant Alternate	Fernando Marques Oliveira	207	General Meeting	2.Jun.2009	-----	-----	2

(*) See number 4 of article 391 of the Companies Code
(1) Value set, before remuneration cuts
(2) Includes salary reduction by application, until 31 May 2014, of Law 83-C/2013 of 31 December; from 1 June 2014 to 12 September 2014, salary reductions were suspended, by virtue of Ruling number 413/2014, of 30 May 2014 of the Constitutional Court; from 13 September 2014 onwards, the salary reduction provided for in Law 75/2014 of 12 September was applied
(3) Subject to VAT at the legal rate in force
(4) Includes VAT at the legal rate in force

External Auditor

TAP, SGPS

External Auditor identification	Date of Hire		Annual Remuneration(€)
Name	Date	Period	Value of services rendered
PricewaterhouseCoopers & Associados	8.Aug.2008	Year 2014	11,000 € + VAT (at the legal rate in force)

TAP, S.A.

External Auditor identification	Date of Hire		Annual Remuneration(€)
Name	Date	Period	Value of services rendered
PricewaterhouseCoopers & Associados	8.Aug.2008	Year 2014	69,050 € + VAT (at the legal rate in force)

PUBLIC MANAGER STATUTE

Article 32 of the Public Manager Statute, relative to the non-use of Company credit cards and the non-reimbursement of personal representation expenses, is being complied with.

PUBLIC PROCUREMENT

- *Application of the public procurement rules*
  TAP Group companies are not covered by the Public Procurement Code.
- *Internal procedures established for the procurement of goods and services*
  Manual of Procurement and Sales – The procurement areas, as departments responsible for the provisioning process, must endeavour to ensure compliance with 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.
- *Concluded contracts of a value greater than 5 M€*
  Contracts requiring prior approval from the Court of Auditors, until 31st December 2013, as determined in article 47 of the Organisation and Procedural Law of the Court of Auditors, at TAP, S.A.:
  • Contract for the Provision of Canteen, Bar and Vending Services.

All of the above contracts received the approval of the Court of Auditors.

NATIONAL PUBLIC PURCHASING SYSTEM (SNCP) AND VEHICLE FLEET OF THE STATE

TAP is not covered by the National Public Purchasing System (SNCP). Regarding the management of the vehicle fleet of Group Companies, the *Purchases and Sales Manual* of TAP Group requires compliance with the guidelines laid down in Law number 66-A/2012 of 31st December.

PRINCIPLE OF UNITY OF THE STATE TREASURY

TAP Group is not subject to compliance with the Principle of Unity of the State Treasury; see Order number 694/14–SET of 23.04.2014.

AUDITS CONDUCTED BY THE COURT OF AUDITORS

The Company was not subject to audits conducted by the Court of Auditors.

SEE SITE

The information is available on the official site of TAP and is entered into the Economic and Financial Information Collection System (SIRIEF); TAP is not subject to this reporting on the SEE site.

MANAGEMENT REPORT TAP, SGPS, S.A.


HANDCRAFT
ARTESANATO
ZARA

178
destinations

88 with TAP operation
107 Europe (10 Portugal)
42 Americas
21 Africa
8 Middle East and Asia

77
aircraft

18 long-haul operation
43 medium-haul operation
16 regional operation (Portugália)

11.4 million
Passengers

85.1 thousand tons
Cargo and Mail

37
Third Party
Customers Maintenance

29 airline companies

TAP, SGPS, S.A.

PROFILE

TAP will focus on the Air Transport service and its complementary activities, seeking a position of leadership in the market segment 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 customers through its Maintenance business, in Portugal, and in Brazil through the Group company TAP–Manutenção e Engenharia Brasil, S.A.
- 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.

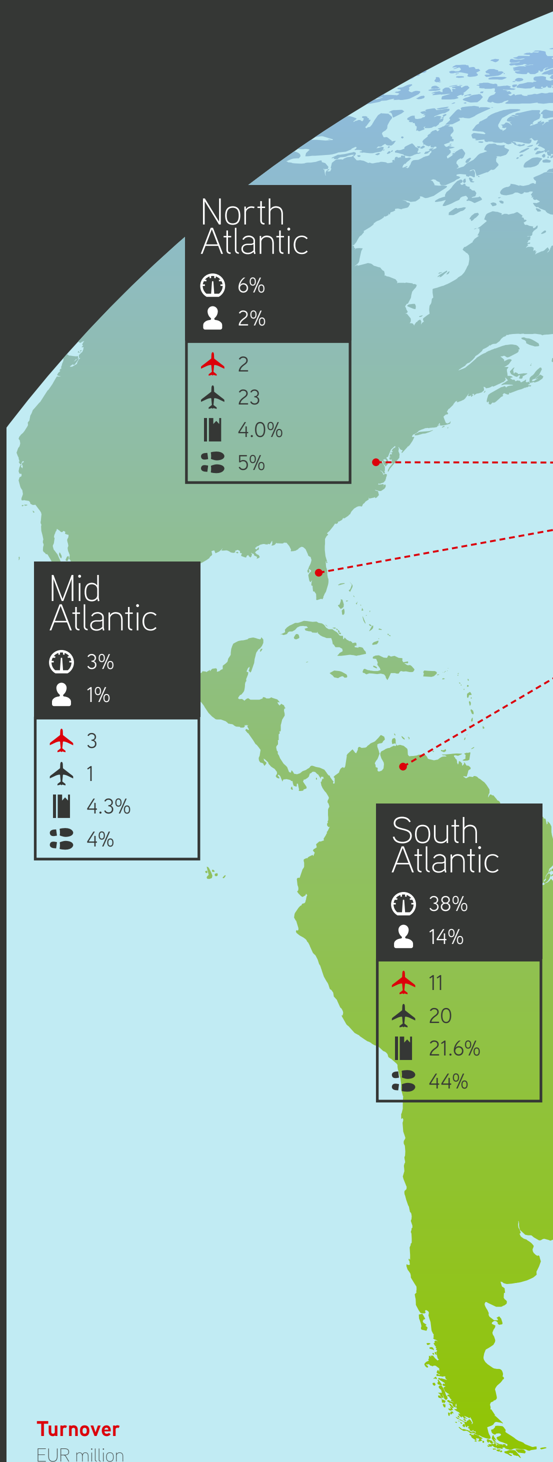
In the development of its network, the Company pursues a niche strategy, connecting Europe to a growing number of destinations located in Africa, in North, Central and South America, and in the latter is the leading European air carrier flying to Brazil.

The TAP Group closed 2014 with a net income of -85.1 million euros, 79.2 million euros less than the -5.9 million euros posted in the previous year.

At the operating level, before interest and taxes, the Company recorded 2.6 million euros, representing a reduction of 41.5 million euros relative to 2013.

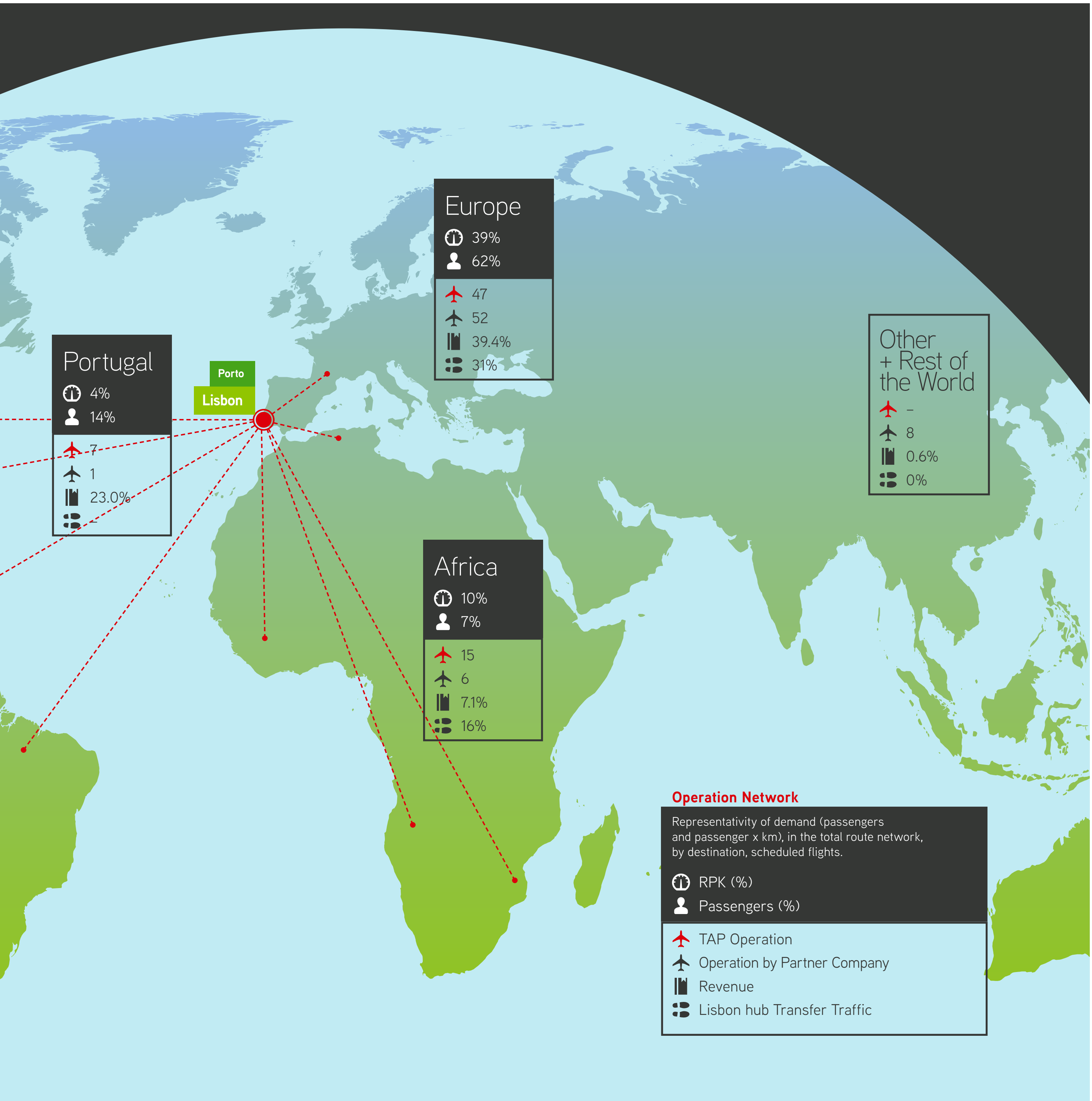
Particular note should be made of the fact that by the end of 2014, TAP had more than doubled its size in relation to 2000, with its offer having grown by more than 170% over this period.

Over the course of the financial year, the TAP Group (TAP, S.A. and associated companies) had an average number of staff of 13,124, having ended the year with 13,268 employees.



Turnover
EUR million

	2014	2013	var. (%)
Air Transport	2,342.6	2,346.5	(0.2)
Maintenance Third Parties Assistance **Portugal**	91.8	74.2	23.7
Maintenance Third Parties Assistance **Brazil**	69.3	72.6	(4.6)
Duty Free	179.4	162.5	10.4
Catering	6.1	7.0	(13.7)
Other Activities of TAP, SGPS, S.A.	9.2	8.7	5.8
TOTAL	**2,698.3**	**2,671.5**	1.0



Reinforcement of sales in markets abroad

In 2014, TAP Group strengthened the positioning of its contribution to the volume of national exports, with a total contribution of 2,400.9 million euros of sales and services rendered in markets abroad, 1.1% more than in 2013.

Sales and Services Rendered

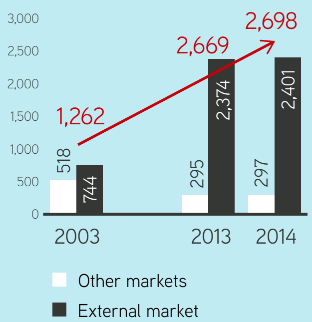
EUR million

	2014	2013	var. (%)
External market(*)	2,400.9	2,374.3	1.1
Other markets	297.4	294.8	0.9

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

Sales and Services Rendered

EUR million



Growth strongly reinforced particularly in external market

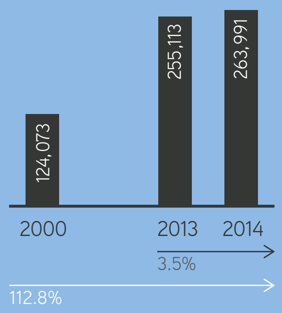
Annual compound average growth rate 2003-2014

External Market

11.2%

KEY FIGURES

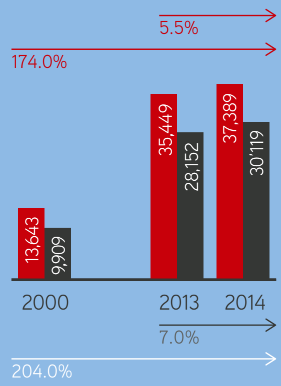
Flight Hours
Own aircraft



263,991 hours

The number of flight hours by the TAP fleet came to a total of approximately 264 thousand, 3.5% more than in 2013.

Supply - ASK
Demand - RPK
10^6

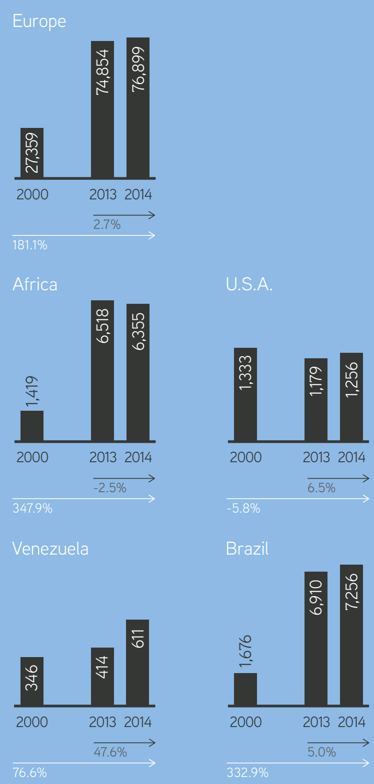


37,389 million ASK

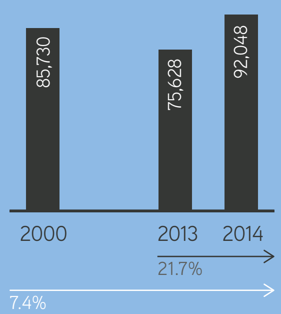
30,119 million RPK

The capacity of the operation grew 5.5% in relation to the previous year, with demand having increased by approximately 7.0%.

Frequency Evolution



Maintenance Revenues
EUR 10^3

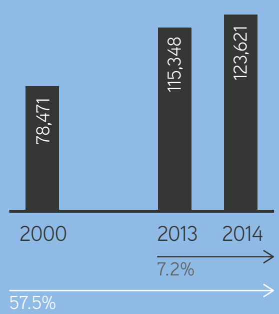


92,048 EUR thousand

The total Sales and Services Rendered by TAP–Maintenance and Engineering Portugal, in spite of the continued climate of significant pressure in the market, registered an increase of about 22%.

Note - Values for 2013 and 2014 in accordance with the IFRS (International Financial Reporting Standards).

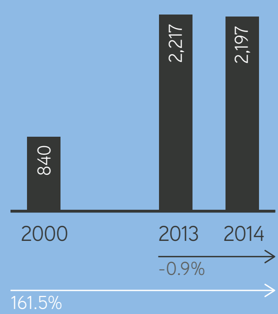
Cargo Revenues
EUR 10^3



123,621 EUR thousand

Revenue from carried cargo registered a positive performance, having increased by 7.2%, reflecting a general recovery in the markets operated by TAP.

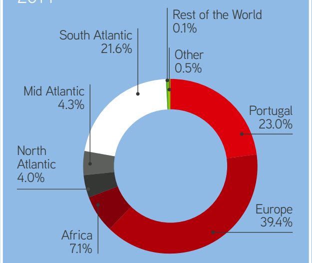
Passenger Revenues
EUR 10^6

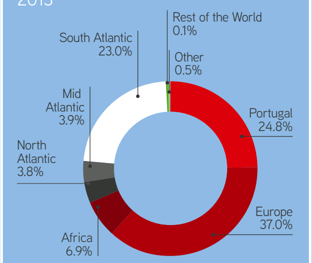


2,197 EUR million

Passenger revenues, reflecting the disturbances that occurred throughout the year, presented a value slightly below that registered in the previous year.

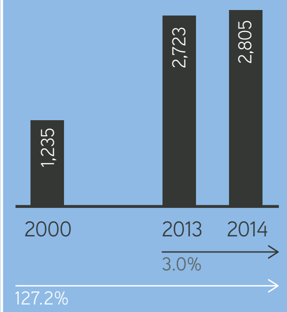
Ticket Sales





Operating Revenues and Gains

EUR 10^6



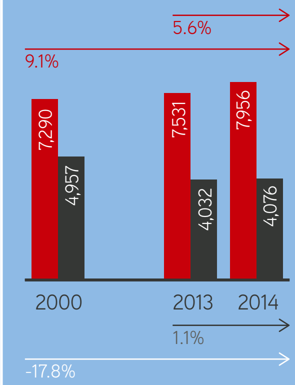
2,805

EUR million

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

Note - Values of 2013 and 2014 according to the IFRS (International Financial Reporting Standards).

Human Resources (TAP, S.A. + PGA, S.A.)



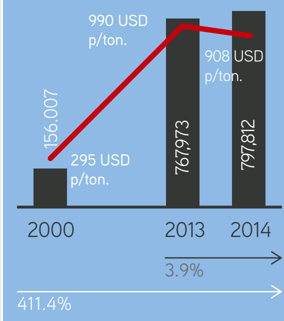
7,956

Employees

In view of the growth 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.

Fuel

EUR 10^3



797,812(*)

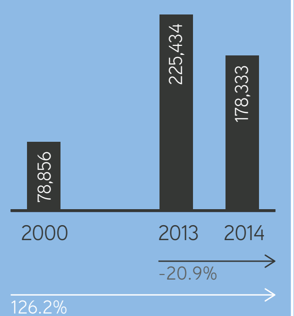
EUR thousand

The expansion of activity in 2014 was reflected in the increase in fuel costs of TAP, S.A., whose impact was mitigated by the favourable evolution of the price in dollars and of the exchange rate.

(*) Includes charges relative to the acquisition of the CO_2 emission allowances

EBITDAR

EUR 10^3



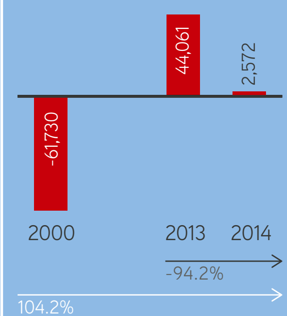
178,333

EUR thousand

Net operating cash flow to deal with financial charges and investments for TAP Group companies decreased by 47.1 million euros.

Net Operating Income

EUR 10^3



2,572

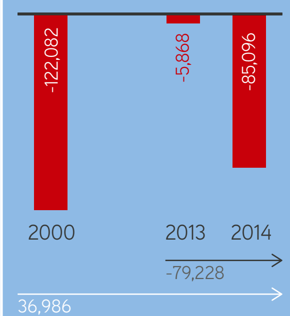
EUR thousand

The operating income reflected the negative impact of the multiplicity of disturbances that occurred in 2014.

Note - Values of 2013 and 2014 according to the IFRS (International Financial Reporting Standards).

Net Income

EUR 10^3



-85,096

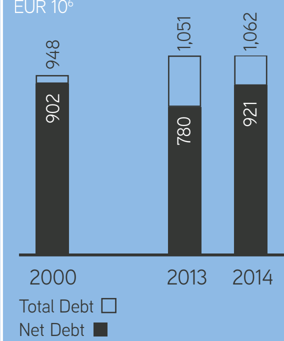
EUR thousand

The consolidated net income of the Group was strongly influenced by the performance of TAP, S.A., contrary to the positive trend observed in the last few years, and which reflected the impact of the cumulative extraordinary effects that occurred mostly in the second half of the year.

Note - Values of 2013 and 2014 according to the IFRS (International Financial Reporting Standards).

Debt

EUR 10^6



1,062

EUR million

Total net debt reflected the negative consolidated net income for the year.

SUSTAINABLE DEVELOPMENT OF TAP GROUP

SOCIAL RESPONSIBILITY

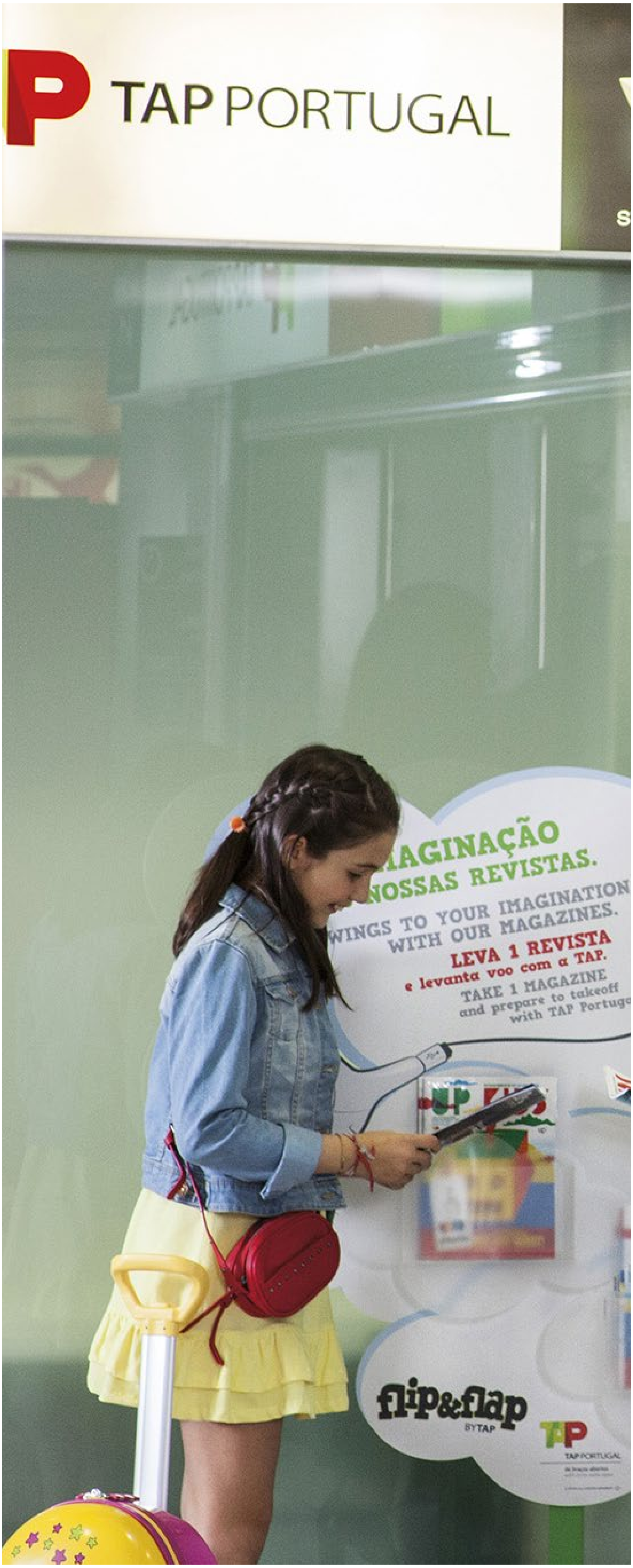
In all of its actions, TAP seeks to strengthen its commitment to citizenship and social responsibility, having been awarded, in 2014, a commendation from the Commission for Equality and Against Racial Discrimination. In this regard, TAP expresses its commitment towards its people, based on a model of participatory management and social recognition, in the search for a balance between competitiveness and improved performance, and safety and their well-being, which represent a constant concern for the Company, continuously seeking to provide personal and professional support in the fulfilment of their objectives.

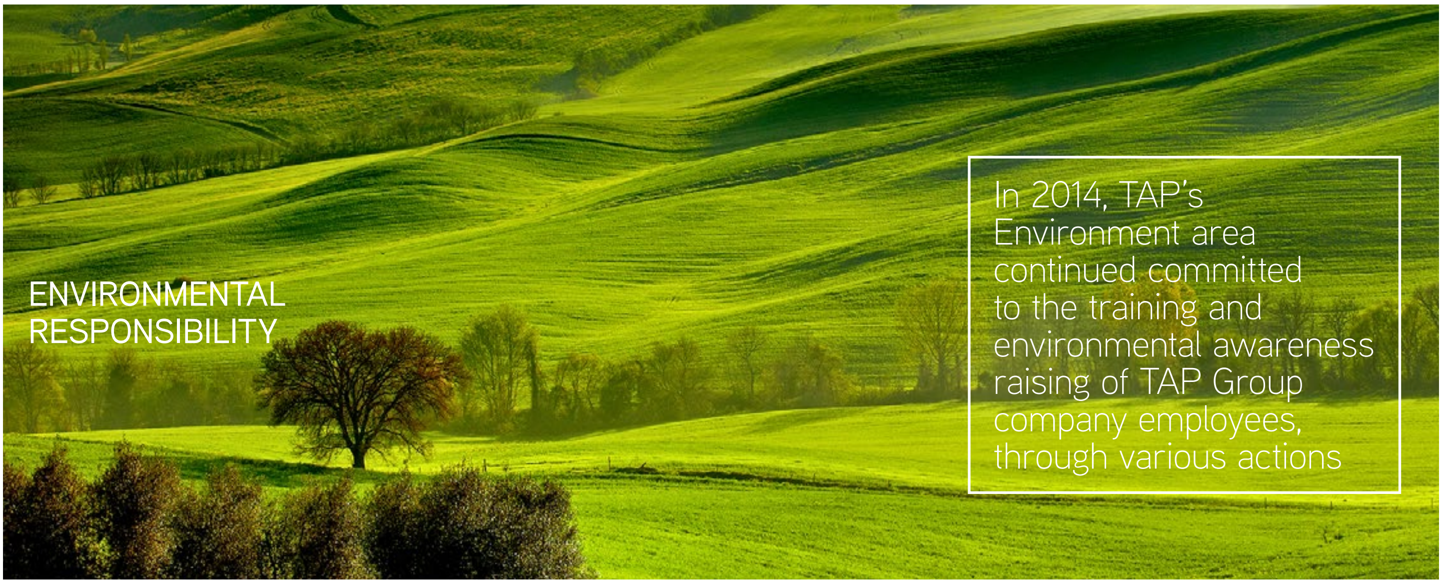
TAP plays the role of creating commitment, competence and contribution for the organisation, while simultaneously enhancing the personal and professional development of those who work at the Company, by offering them possibilities for growth and learning, encouraging and enabling them to develop their skills. In addition, and in order to reinforce one of the three integral pillars of TAP's mission – to be one of the best companies to work for –, various programmes were developed internally, aimed at recognising and promoting merit and which reflect the commitment to quality of the TAP brand, seeking to distinguish those employees who most stand out in conveying this value. In addition to these programmes, there are also social benefits that encourage personal motivation, such as the existence of the Healthcare Unit (internal medical clinic), the Nursery at the TAP Campus, the Canteen, the Social Support Service, Institutional Protocols, Health Insurance and Ticket Benefits.

In line with its commitment to citizenship and social responsibility, the TAP personality is reflected, in this area, in the practices developed by the Company, which are simultaneously focused on the creation of value for the business and on the promotion of well-being and balance between personal and professional life. Of particular note, in this context, is the investment in Teleworking and the celebration of collaboration protocols with social support institutions, through which people with a disability are integrated in various areas of the Company, performing functions suited to their special needs.

Within the scope of Organisational Citizenship Conduct, and aware of the current economic and social climate, TAP has been providing internships of various types, promoting the integration of unemployed young people.

In the interaction with society and within the scope of supporting the community, also worthy of notice in the TAP Group are volunteer activities aimed at promoting the solidarity and civic dimension of its Employees – Volunteers with Wings, aimed at developing initiatives that minimise the difficulties of those most in need; Assistance Team, which acts in peak operating and extremely irregular situations; Care Team, which acts in situations of possible emergency.





ENVIRONMENTAL RESPONSIBILITY

In 2014, TAP's Environment area continued committed to the training and environmental awareness raising of TAP Group company employees, through various actions

World Environment Day (5 June)

The good results achieved in 2013 in the majority of environmental performance indicators of the TAP Group were disclosed through an infographic, together with a note of thanks to each employee for their contribution. Through a pop-up with a quiz, placed on TAP's intranet, employees selected, from among the topics – Water, Energy, or Waste – available on the environmental barometer, Energy as the one that they considered most important for the Company.

European Mobility Week (16 to 22 September)

The response rate of employees to the survey on the usual mode of transport was very positive. The conclusion of the survey is that although the majority of people travel to work by private car, there is at least one factor where TAP's intervention could have a positive impact on travelling by bicycle, with a consequent reduction of the associated environmental impact – the creation of specific bicycle stations. In 2015, this aspect will be considered within the scope of the Master Plan of the TAP Campus, which will optimise common spaces of the Campus.

To mark the European Mobility Week at the TAP Campus

Survey on bicycle transport, conducted by the Environment area aimed at:

- Finding out what mode of transport employees use to travel between their residence and work;
- Confirming the real demand for bicycle stations;
- Promoting healthier modes of transport and with a lower carbon footprint.

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

In TAP–Maintenance and Engineering, the Savings Mission continues to play a crucial role in the environmental performance of the Business Unit, having achieved in 2014, as in previous years, results that reflect its level of commitment towards Sustainability. As a result, and regarding the energy performance of TAP–Maintenance and Engineering, the reduction target was achieved, with significant reductions in all of the considered sources, namely electricity, natural gas and jet fuel. In 2014, the 2nd biennium of the Energy Consumption Rationalisation Plan was concluded, proposing annual reductions of 1% in the areas covered by the Environmental License, and of 6% for the duration of the Plan (2011-2016). This plan, involving the improvement in illumination and thermal boiler efficiency, has presented consistent results and consumption reductions above projections – a reduction of more than 15% relative to 2013 and of more than 30% relative to the reference year of 2010.

The Environmental strategy of TAP–Maintenance and Engineering is based on its Environmental Policy, which was defined, signed and announced in 2014, and is operated through the missions defined in previous years and which are still relevant today: Waste Mission, Green Hangar Mission, Savings Mission and + Environment Mission. These remained as strategic pillars of the environmental policy of Maintenance and Engineering, complemented through investment in the training on environmental matters for employees.

The More Environment Mission and Green Hangar Mission sought to raise the environmental awareness of employees, reinforcing the investment in the disclosure of environmental contents. In addition, the page of the Environment Office at the Maintenance and Engineering Campus – current repository of useful environmental information, was updated, with widespread access for all employees of the Business Unit. The Green Hangar Mission involves the search for more sustainable equipment and materials. In this context, in line with the tendency already implemented at TAP–Maintenance and Engineering, some tests with industrial washing equipment were conducted, namely in the Component Maintenance area, aimed at lowering the environmental impact, by reducing liquid effluents and achieving economic gains in terms of time spent on the task, as well as in the consumption of products.

Under the Waste Mission, the works for the development of a Waste Management Plan for the Redoubt were initiated, with benefits for the Business Unit, which is the largest producer of industrial waste at the TAP Campus.

It is also important to mention the development of a new tool aimed at controlling chemical products, which brings together a vast body of information on the materials used at TAP–Maintenance and Engineering, with benefits both in terms of production, which acquires a new and expeditious manner of accessing the safety information of those materials, and in terms of Environmental Management, enabling better control of the quantities of hazardous substances stored and consumed in the Business Unit.

In 2014, the new Environmental License of TAP–Maintenance and Engineering was issued, valid until September 2022, proposing the monitoring of a higher number of chimneys and a change in the frequency with which the liquid effluents from the WWTP are monitored. The production of the Environmental Performance Plan 2014-2022 is underway, to be delivered until March 2015, scheduling the actions to be implemented in order to comply with the requirements set out in the Environmental License.

The environmental topics – which are of growing relevance but for which there are almost no industry indicators –, were for the first time included in the MRO Benchmarking Study, conducted by Oliver Wyman, in which the Business Unit participated once again, enabling the determination of the international position of TAP–Maintenance and Engineering in terms of its environmental performance.

KEY FACTS

During 2014, the Company continued its efforts to maintain a competitive positioning in the global market, with events of a structuring nature having taken place.

Reprivatisation process of TAP SGPS, S.A.

Background

The 3rd and 4th phases of the indirect reprivatisation process of the share capital of TAP–Transportes Aéreos Portugueses, S.A. (TAP, S.A.), through the reprivatisation of the share capital of TAP–Transportes Aéreos Portugueses, SGPS, S.A. (TAP SGPS, S.A.) were approved by the Council of Ministers, during 2012 (Decree-Law number 210/2012, of 21 September). The specific conditions of the operation were set out in the tender specifications, approved in the annex to the Council of Ministers Resolution number 88-A/2012, of 19 October, published in the *Diário da República*.

Under the scope of the 3rd phase of the reprivatisation process, which includes a preliminary process of collection of acquisition and subscription intentions among potential investors, Synergy Aerospace Corporation (Synergy) was admitted to participate in the subsequent phase of the direct sales process (Council of Ministers Resolution number 88-B/2012, of 18 October) having, subsequently, submitted a binding bid, which took place on 7 December 2012.

In compliance with the provisions of the tender specifications, TAP, S.A. issued a statement on conformity of Synergy's project and strategic commitments to the interests of the Company, with the special commission responsible for the monitoring of the process having issued an opinion, concluding that the applicable rules and legal procedures were complied with. Based on the appreciation of the binding proposal presented, the Government claimed that the same lacked elements required to reach a conclusive judgement, having thus decided to cancel the process, with the Company's Reprivatisation Process having remained on hold since that time.

Relaunch of the Reprivatisation Process – Chronology of main events

December 2014 – Approval of the indirect reprivatisation process of the share capital of TAP–Transportes Aéreos Portugueses, S.A. (Decree-Law number 181-A/2014 *Diário da República* number 248/2014, 1st Supplement, Series I of 2014-12-24).

January 2015 – Approval of the specification terms of the indirect reprivatisation process of the share capital of TAP–Transportes Aéreos Portugueses, S.A. (Council of Ministers Resolution number 4-A/2015 *Diário da República* number 13/2015, 1st Supplement, Series I of 2015-01-20).

February 2015 – Setting the date for commencement of information enquiries and deadline for submission of the binding proposal in the process of indirect reprivatisation of the share capital of TAP–Transportes Aéreos Portugueses, S.A. (Order number 1469-A/2015 *Diário da República* number 29/2015, 1st Supplement, Series II of 2015-02-11).

MAIN EVENTS

JAN

TAP launches new applications for mobile devices, presenting a completely renewed design, with a more appealing and modern image, better integrated in operating systems and, above all, more user-friendly.

TAP Portugal allows the use of personal electronic devices during all phases of flight, provided such devices are configured to flight mode or equivalent, i.e. provided the data communication and transmission (wireless and bluetooth) systems are deactivated.

FEB

TAP promotes Portugal in Estonia at the Tourism Fair of Tallinn as an excellent tourist destination.

MAR

With the launch of a campaign to promote the 10 new destinations of TAP from the start of the summer period, a new communication line is presented to the market, inspired by the range of the respective climates, which vary from hot to cold, dry to humid, traditional to exotic, and rural to urban.

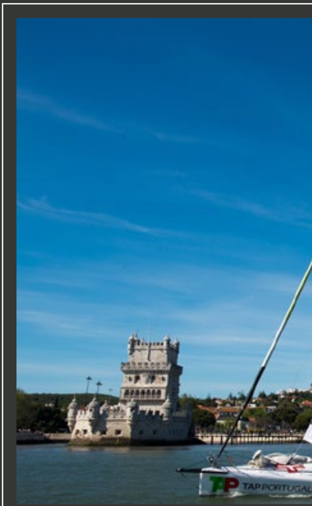
Cateringpor, a company of the TAP Group, is selected by Goodrest to supply the meals offered by CP to the passengers of the *alfa pendular* trains.

The founding date of TAP, 14 March, is signalled with the inauguration, at the Museum of Air (Sintra), of the *Commemorative Exhibition of the 69th Anniversary 1945 – 2014 / Tribute to Captain Silva Soares*.

The 2nd IATA Baggage Fraud Prevention Meeting is held, an event organised by TAP which currently presides over the IATA (International Air Transport Association) Fraud Prevention Group, bringing together specialists and representatives of the main worldwide airline companies.

TAP Portugal and C.P.– Comboios de Portugal, E.P.E sign a cooperation protocol, aimed at offering customers an easy-to-use quality interface combining Air Transport and Rail Transport, thus benefitting passengers from both companies.

APR



TAP promotes Shipping FlyTAP, associating the lonely navigator Ricardo Diniz, leaving in sailboat from Lisbon, heading for Salvador da Bahia.

One of the aircraft of the TAP fleet, an Airbus A320 that enters into the Company's service at the start of the summer period, is named after *José Saramago*. The initiative represents a significant honour for the Portuguese airline which, in this way, pays tribute to one of the greatest exponents of the Portuguese language, evoking the Nobel Prize across the skies of the world.

TAP and the Institute for the Promotion and Development of Latin America (IPDAL) sign a mutual cooperation protocol aimed at strengthening the partnership relationship built over the past few years, offering an integrated collaboration perspective.

MAY

TAP offers its Customers the possibility of checking in 72 hours in advance, with the exception of flights to and from the USA, due to an USA legal requirement.

TAP, in partnership with Newtour, develops actions to promote Portugal as a destination, bringing to Portugal 25 of the main Tourism agents that operate in the markets of the Czech Republic, Slovakia, Hungary, Romania and Serbia for a familiarisation journey.

JUN

Start of the operation to the Brazilian cities of Manaus and Belém, inaugurating in this way the first of the 11 new destinations that the Company launches over the summer period.

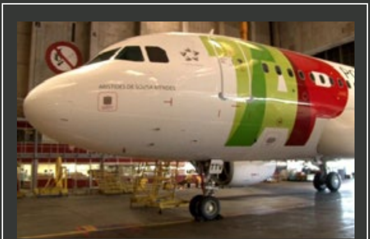
To mark Children's Day, a totally renewed site of the children's mascots Flip & Flap is launched, presenting new features and a more attractive design (http://flipflap.flytap.com).

JUL

Start of the operation between Lisbon and seven new destinations in Europe: Belgrade, Nantes, Oviedo, S. Petersburg, Gothenburg, Hannover and Tallinn. In addition to these cities, the Company also initiates the operation of flights to Columbia and to Panama.

Within the scope of the fleet reinforcement plan foreseen for the summer period, one of the new Airbus A320 aircraft and one of the new Airbus A319 aircraft enter into service, receiving the names of *Malangatana* and *Sophia de Mello Breyner*, in a symbolic tribute by the Company, respectively, to the plastic artist and Mozambican poet and to one of the most important Portuguese poets.

SEP



The second Airbus A319 aircraft that receives the name of *Aristides de Sousa Mendes* enters into the service of TAP, in tribute to the Consul of Portugal in Bordeaux during the invasion of France by Germany, during the Second World War.

NOV

TAP is present at the World Travel Market (WTM), the most important forum for the Tourism and Travel industry in the world, being held in London, promoting the services of the Company, the tourist destinations and the Portuguese products that are part of the in-flight service of the airline.

TAP and Startup Lisboa form a partnership for the launch of the TAP programme Creative Launch, Making Ideas Fly, designed to promote and support new companies and business ideas.

DEC

TAP adds eight new stop-overs in Europe to the list of stop-overs with mobile check-in availability, contributing, with its innovative stance, to the improvement of the travel experience of each passenger.

CONTINUED STRENGTHENING OF PRESTIGE IN THE MARKETS IN WHICH THE COMPANY OPERATES

Impact on the economy recognised in various regions of the world. Promotion of culture, values and products in a partnership of national scope

EUROPE

The Expectation of 2014
Title attributed to TAP in S. Petersburg (Pulkovo airport), relative to the expectations generated by the Company with its operation.

Amadeus Brighter Awards 2014
Distinctions attributed by a jury made up of three of the main Portuguese media bodies of the Travel and Tourism sector (Ambitur, Publituris and Turisver), to the executive chairman of TAP, Fernando Pinto, as *Manager of the Year in the Private Sector* and to the executive director Luiz da Gama Mór, as *Manager of the Year in Aviation*.

Marketeer Award
Special mention attributed by the Marketeer magazine, in the *airline* category, recognising TAP as the best company in the Marketing, Advertising and Communication area in 2013.

Honourable mention in the Large Format Digital Printing category
Special mention by the Papies Awards 2014 of the TAP stand present at *Greenfest* 2013 – the largest sustainability event of the country –, with the objective of showcasing the Company's social area.

Praise from the Commission for Equality and Against Racial Discrimination
Distinction attributed to TAP by the High Commissioner for Migrations, for the in-flight security video which, in the words of Rosário Farmhouse, former High Commissioner, *in addition to being a fine example for its intended purpose –disclosing the safety rules in force –, it took into consideration the age, gender, origin, skin tone and accent diversity in our Country, thus contributing significantly to the success of this noble mission of defence of the principle of equal treatment and fight against racism and xenophobia.*

TAP site with a positive performance
Special mention by DECO (Portuguese Association for Consumer Protection), following the analysis undertaken of the sites of airlines and travel agencies operating in the national market, having stated the following: *We analysed the site with regards to information and prices, and no irregularities were found.*

Best Airline Company
Classification received within the scope of Publituris Portugal Travel Awards 2014, an important recognition based on various assessment criteria, namely knowledge of the reality of the company, coherent communication policy, innovation capacity and media visibility.

Award of Distinction
Distinction attributed to TAP and to lecturers and researchers of the Catholic University of Portugal, within the scope of the 2014 World Public Relations Forum, in the *Academic Case Studies of the Global Alliance Comm Prix category*, distinguishing the *PR pyramid: Guidelines* for Social Media Management study, on the Company's management of its presence in the social networks.

TAP-Cargo, Best Air Cargo Company in three categories (Best Air Cargo Company for Europe, for the Americas and for Africa)
Trophies received within the scope of the Cargo, Transport and Business Awards 2014.

Navegantes XXI Career Award
Tribute paid to Fernando Pinto, by the Association of the Digital Economy (ACEPI), highlighting the work that the executive chairman has undertaken over the last 14 years, at the helm of one of the most important national companies. ACEPI emphasises the enormous transformational project of digitisation that Fernando Pinto has led and that has transformed TAP into a paradigm of the digital economy in Portugal and in the rest of the world.

Airline with the Best Reputation in Portugal
Distinction attributed by the Reputation Institute in its 2014 edition of the Portugal *RepTrak Pulse – Companies and Brands study*.

Prémios Marketeer 2014

SOUTH AMERICA

Leading European Airline Company for South America
Award attributed to TAP, within the scope of the World Travel Awards (WTA) – the Oscars of world tourism –, in recognition of the persistent effort made in promoting the best product in the connections between Europe and South America.

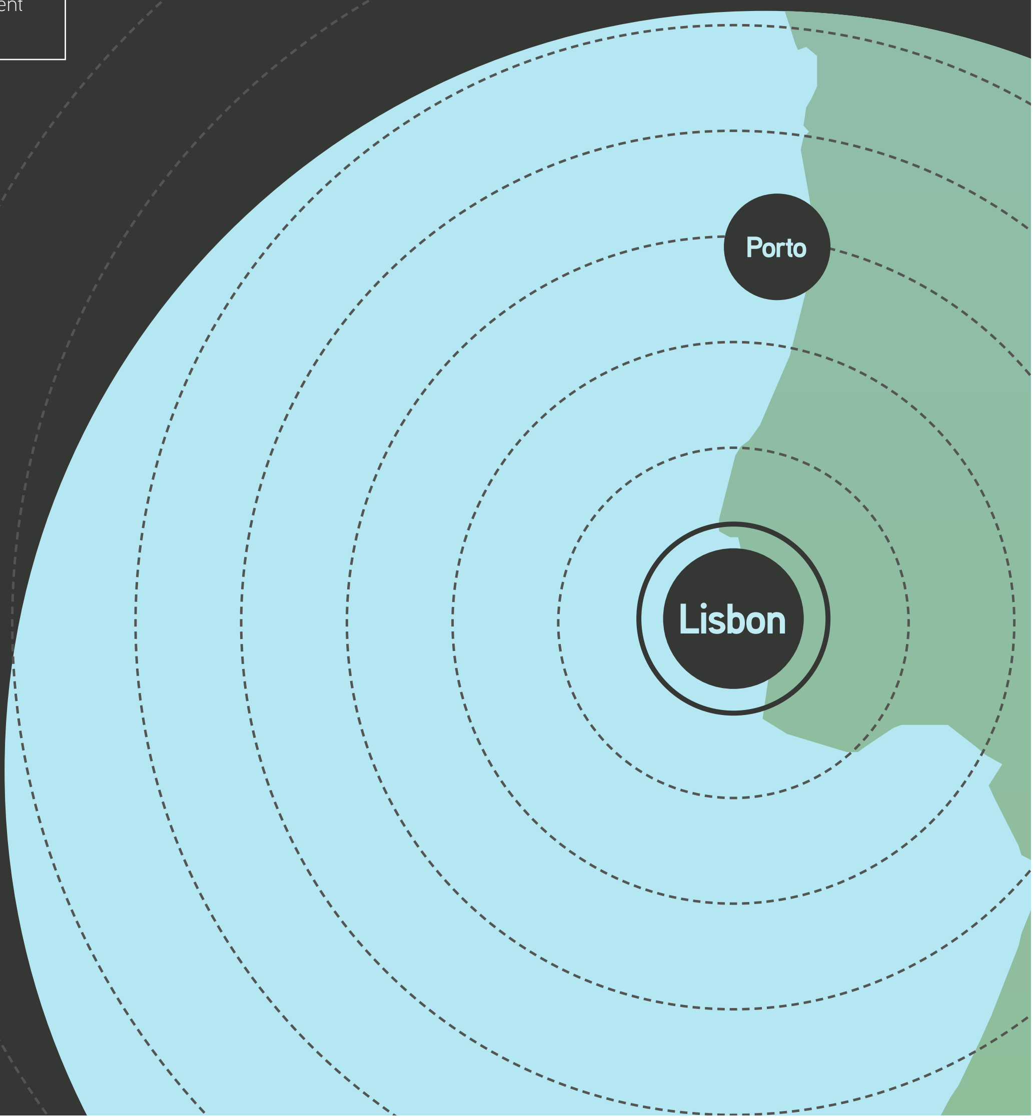
Tourism Personality in Brazil
Award attributed within the scope of the initiative promoted by Market & Events and FT Brasil (Folha Dirigida Group) magazines, highlighting personalities and entities that worked for the benefit of the development of tourism in Brazil.

AFRICA

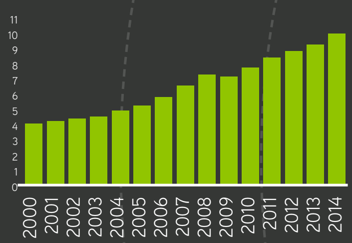
Leading European Airline Company for Africa
Award attributed to TAP, within the scope of the World Travel Awards (WTA) –the Oscars of world tourism –, in recognition of the persistent effort made in promoting the best product in the connections between Europe and Africa.

EAST

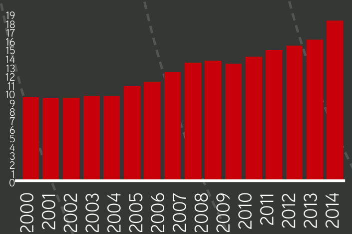
Best Boutique Airline in Europe and 3rd Best Boutique Airline in the World
Positionings attributed to TAP, by the Singapore Skift site, in a classification of the best companies in terms of economic luxury.



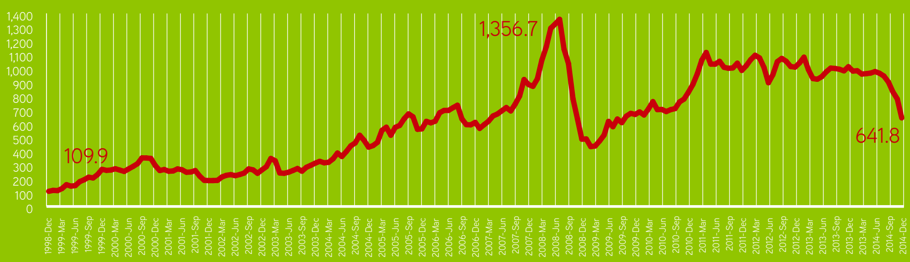
Passengers carried by TAP – Lisbon hub



Overall volume of passengers – Lisbon Airport



Price of Fuel
USD/ton.



Note: Quotation of Jet CIF NWE; source: PLATTS

SUMMARY OF PERFORMANCE

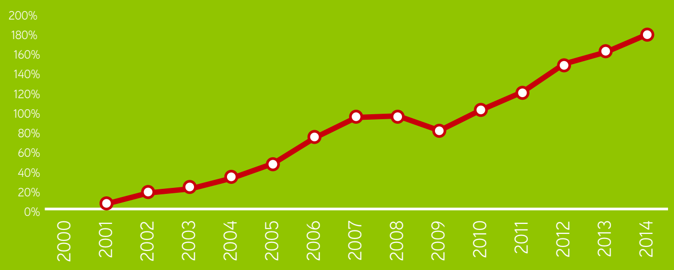
International framework marked by modest economic growth and uncertainty

Following the moderate economic recovery felt in 2013, a year strongly characterised by high levels of uncertainty – in particular, the sovereign debt crisis in the Euro zone or the differendum on the pace of fiscal consolidation in the United States –, 2014 registered moderate economic growth once again, with an increase in global economic activity of 3.3%. The year of 2014 was also marked by uncertainty, with developed countries having implemented fiscal and monetary policies to fight against the prolonged effects of the financial crisis, and the emerging countries having continued to demonstrate signs of an economic slowdown, many of which related to a reduction in the price of oil and of other commodities. It is estimated that the group of developed countries grew approximately 1.8%, with the US economy having grown above that which was initially estimated. However, the economic performance in other developed countries – most notably in Japan –, was below expectations, having resulted in the appreciation of the American dollar by approximately 6 percent and in the depreciation of the euro and the yen by 2 percent and 8 percent, respectively. The growth in emerging markets registered a slight decrease relative to 2013, having come to 4.4% (0.3 p.p. below growth in 2013). The slowdown of economic growth in China, the weak prospects for the Russian economy and the slower growth from commodity-exporting countries contributed to this slight deceleration. In terms of price evolution, in the second half of the year, there was a fall in the price of industrial raw materials, with crude oil prices having registered the biggest decline, to which the abandonment of supply management by OPEP contributed significantly.

Following a contraction of 1.4% in 2013, the Portuguese economy grew by approximately 1.0% in 2014, driven by the increase in consumption and private investment. However, deflationary pressures continued in the Portuguese economy (partly due to lower raw material prices), with inflation standing at -0.2%. As for unemployment, which in 2013 stood at 16.4%, it dropped below 14% in the third quarter of 2014, registering an annual average of 14.2%. Within the context of budgetary policy, the Portuguese government undertook auctions in the bond market following the end of the bail-out programme in May 2014, reflecting greater confidence in the access to financing in the markets.

Regarding air transport, this sector's profile was maintained in 2014, representing a strong contribution to the development of the global economy. Passenger demand in terms of total passenger-kilometres registered, at a worldwide level, an evolution of approximately 5.9% relative to 2013, in line with the growth verified in the last 30 years, while capacity increased by 5.6%. The flight load factor, at approximately 79.7%, stood close to the maximum historical levels, confirming the effort of airline companies in maximising the attraction of demand. In contrast, the Industry registered a fall in the average global yield of -0.9%, resulting in a loss of profitability. In Europe, the profitability of the region's airline companies is still conditioned by the development of activity in a market considered to be mature, where the expansion of demand is significantly more moderate (approximately 3.7%), and by the impact of the continuing economic crisis throughout the Euro zone. Regarding the air cargo market, in spite of having registered a flight load factor of 47.2% (up 1.9 p.p.) compared to 2013, a robust increase of 4.1% in total cargo transported was registered, surpassing the overall evolution of commercial exchanges in the same year by 1.1 p.p.. In the interim, aircraft fuel prices, although on a downward trend, but still significantly higher than those recorded at the beginning of the decade, continued to condition the Industry's

Transfer traffic through the Lisbon hub
Growth since 2000



Attractiveness of the geographic positioning of TAP's operating platform – the Lisbon hub
With a significant increase, in relation to the previous year, the number of passengers in transit through Lisbon airport reflected, in 2014 – fourteen years after the implementation of the strategy to create the hub –, an increase of 178% in relation to the initial value.

This performance, primarily supported by passengers travelling to the South Atlantic and Africa, demonstrates the attractiveness of the geographic positioning of the platform, consolidating its character as an intercontinental hub, supporting the operating network of TAP routes. On the other hand, the operation continued in Porto as the Company's 2nd operating hub, an activity which began during 2006.

profitability, representing around 33.0% of the total Operating Costs and Losses of the company TAP, S.A.. Compared to 2013, this figure increased by 3.9%, corresponding to 29.8 million euros, mainly due to the increase in capacity undertaken. The strong decline in oil prices, felt in the last quarter of the year, was reflected to a limited extent in fuel costs at TAP (estimated at 16.7 million euros) due to the time lag resulting from invoicing procedures established with fuel supply companies and the contracted hedging operations.

At TAP, an environment marked by a number of exogenous factors

At TAP Group companies, in an environment marked by a number of exogenous factors – namely an economic activity still modest in global terms combined with a significant economic slowdown in Brazil and an aggravated competitive context –, the achieved results reflected, in addition, the impact of the multiplicity of disturbances throughout the year. However, the Company continued the strategy to promote the increased profitability of the activities of its sphere of intervention. In this sense, actions were continued with a view to reduce costs and increase efficiency through the optimisation of existing resources. In the meantime, the ongoing increase of productivity and efficiency, the adoption of best practices, the simplification of processes and the intensification of aggressive sales policies were determinant factors in the Company's policy, as well as the continued development of an innovation policy, with a view to responding to Customers' needs and increasing the convenience of the services provided.

During the course of the year, seeking to explore all business opportunities, TAP pursued its strategy of Network growth, maintaining the policy of attracting long distance traffic, in an effort focused on growth and in the improvement of the Lisbon hub. In this sense, the inclusion of six new aircraft in the TAP Group's fleet enabled the launch of eleven new destinations – in Europe, Belgrade (Serbia), Gothenburg (Sweden), Hannover (Germany), Nantes (France), S. Petersburg (Russia), Tallinn (Estonia) and Oviedo (Spain); on the American continent, in addition to connecting to Bogotá and Panama City, TAP continued to grow in Brazil, opening the (triangular) route to Manaus and Belém –, and also allowed to increase frequencies in destinations whose offer was constrained.

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 2014, are as follows:

- In the context of the economic scenario described above, TAP Group companies recorded a consolidated net income of -85.1 million euros, which represents an aggravation of 79.2 million euros, in comparison to the -5.9 million euros recorded in 2013.
- Net operating income (before financing costs and taxes) came to 2.6 million euros, 41.5 million euros less than in 2013.

The following factors contributed to this result:

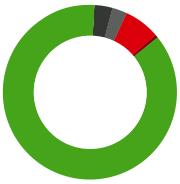
TAP, S.A. and a group of companies that carry out activities in areas linked to the Group's main businesses and in which TAP, SGPS, S.A. has shareholdings.

TAP, S.A. recorded a net income of -46.4 million euros, 80.4 million euros less than the 34.0 million euros recorded in 2013. Net operating income reached -6.5 million euros, 58.2 million euros less than in 2013, a figure strongly influenced by the effect of disturbances throughout 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 share capital, which includes a stake of 6% held by Portugália–Companhia Portuguesa de Transportes Aéreos, S.A.. In 2014, the company reached a positive net income of 2.4 million euros, higher than the result of 2.1 million euros recorded in 2013.

TAP–Manutenção e Engenharia Brasil, S.A. continued its path of improved results, and in 2014 completed the fourth year of the five-year Restructuring Plan. This year, the unit reported a net income of -22.6 million euros, 18.4 million euros better compared to the result obtained in 2013. Thus, the improvement of the company's economic and operational performance continued, with visible signs of sustainability of the continuous improvement trend.

TAP Group Turnover



- 86.8% Air Transport
- 3.4% Maintenance – Third Party Assistance Portugal
- 2.6% Maintenance – Third Party Assistance Brazil
- 6.7% Duty Free (LFP, S.A.)
- 0.2% Catering (CATERINGPOR, S.A.)
- 0.3% Other TAP, SGPS, S.A. Activities

From an operating point of view

- TAP, S.A. recorded a net operating income of -6.5 million euros, that is, 112.6% less than in 2013. Operating Revenue and Gains reached a total of 2,489.4 million euros, a value 9.8 million euros higher, that is, 0.4% more than the amount recorded in 2013. Total Operating Costs and Losses, excluding fuel, reached 1,622.0 million euros, 64.1 million euros more than in 2013, that is, 4.1% more, with the operation having registered a higher increase, of around 5.5%.

- Regarding the business performance of TAP, S.A., the Third Party Customers segment contributed with a total revenue generated in sales and maintenance services to Third Parties of 92.0 million euros, 21.7% more than in 2013 but still below that achieved in 2012. The MRO market scenario remains dominated by OEM and large organisations – such as Lufthansa Technik or Air France Industries & KLM Engineering –, with respect to engine and component activities, being characterised by businesses with a high financial component (availability of spare engines and stocks of rotational components, for example) and with respect to the value propositions for Customers. These factors have conditioned the business opportunities of TAP–Maintenance and Engineering Portugal which, nonetheless, seeks, through the establishment of strategic partnerships with some of these players, a means of increasing its market share.

- The Air Transport activity generated a total of 2,342.6 million euros in sales and services, a value that remained at approximately the same level (-0.1%) as in 2013. This result was significantly influenced by the behaviour of ticket revenues, which reached a total of 2,197.3 million euros, 0.9% less than the value recorded in the previous year, with the sharp increase in demand having almost offset the decrease in the yield. Of particular importance, in this context, is the behaviour of direct sales of TAP, which, with a 7.9% increase, represented, in 2014, 28% of total flight revenue. Sales revenue from TAP's online direct channel came to approximately 462.7 million euros, 13.5% more than in 2013, and corresponded to about 1.3 million tickets. This sales channel, whose revenues represent 17.9% of total flight revenue, presents itself as the fastest growing sales channel, as a result of the Company's strategic choice in online sales, with Brazil and Portugal being the markets with the largest weight in online sales revenue: 28.3% and 24%, respectively. Also contributing to this result was the Air Cargo business, where TAP recorded an increase of 7.2% in relation to the previous year, a result due to the general cargo recovery, during the 2nd half of the year, in the markets operated by TAP.

- 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 operation increased by 5.5%, and the demand expressed in RPK recorded an increase of around 7.0%. The overall passenger load factor thus stood at 80.6%, representing 1.1 p.p. more than in 2013. 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 situated in Africa and in the South Atlantic being highlighted, in this region, as the European airline company with the greatest penetration in the Brazilian market.

TAP GROUP KEY FIGURES

TAP, SGPS, S.A.
(Consolidation)

	2014 EUR million	2013 EUR million	var.
Net Operating Income (before interest and taxes)	2.6	44.1	-94.2%
Pre-tax Earnings	(78.8)	(0.4)	-78.4
Net Income of shareholders of the parent company	(85.1)	(5.9)	-79.2
Net Income of TAP, S.A.	(46.4)	34.0	-80.4
Net Income of SPdH–Serviços Portugueses de Handling, S.A.	2.4	2.1	10.8%
Net Income of Aeropar Participações, Lda. (Brazil)	(11.0)	(19.5)	8.5
Net Income of TAP–Manutenção e Engenharia Brasil, S.A.	(22.6)	(41.0)	18.4
Total Assets	1,560.4	1,695.2	-8.0%
Total Equity	(511.9)	(373.3)	-138.5
Active Staff of the Group (31 December)	13,268	12,856	412
TAP, S.A.*	7,323	6,889	434
Air Transport	4,984	4,554	430
Maintenance and Engineering	1,882	1,886	-4
TAP Serviços	427	419	8
Other	30	30	0
SPdH–Serviços Portugueses de Handling, S.A.**	2,255	2,262	-7
Remaining Companies	3,690	3,705	-15

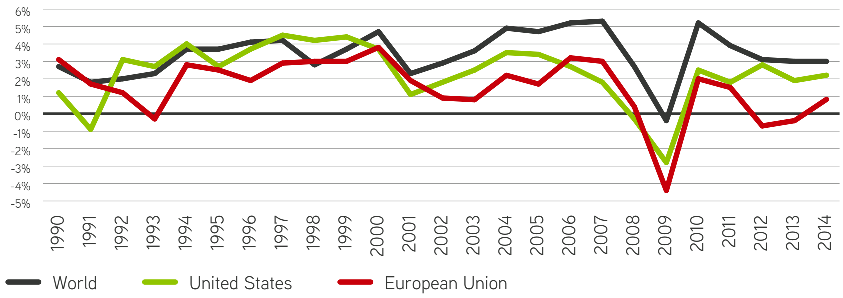
(*) Not including staff who are not placed and not active
(**) Associate Company

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



Profitability of the airline companies in Europe conditioned by a significantly more moderate expansion of demand and by the impact of the continuing economic crisis throughout the Euro zone

ECONOMIC CONDITIONS

International Economic Climate

Following the moderate economic recovery felt in 2013, a year strongly marked by high levels of uncertainty (for example, the sovereign debt crisis in the Euro zone or the *differendum* on the pace of fiscal consolidation in the United States), 2014 registered moderate economic growth once again, with an increase in global economic activity of 3.3%. The year of 2014 was also marked by uncertainty, with developed countries having implemented fiscal and monetary policies to fight against the prolonged effects of the financial crisis and the emerging countries have continued to demonstrate signs of an economic slowdown, many of which related to a reduction in the price of oil and of other commodities. It is estimated that the group of developed countries grew approximately 1.8%, with the US economy having grown above that which was initially estimated. However, the economic performance in other developed countries – most notably in Japan –, was below expectations, having resulted in the appreciation of the American dollar by approximately 6 percent and in the depreciation of the Euro and the yen by 2 percent and 8 percent, respectively. The growth in emerging markets registered a slight decrease relative to 2013, having come to 4.4% (0.3 p.p. below growth in 2013). The slowdown of economic growth in China, the weak prospects for the Russian economy and the slower growth from commodity-exporting countries contributed to this slight deceleration.

Among the developed economies, growth in the United States increased above expected levels, having grown 2.4% over the year – the highest value recorded since 2010 –, surpassing the majority of the advanced economies. The fall in unemployment (having reached ~6.3% in 2014, the lowest value since 2010), declining oil prices, and the stability of inflation (1.6%) contributed to this growth, having also resulted in an increase in private consumption by 2.5% – the highest value of the last 9 years. The majority of domestic industries registered gains, and private investment increased by 6.3% over the year, with a strong focus on non-residential structures and on equipment. These values are reflected in the consumer confidence indices, which have reached the highest values since 2008.

In China there was a slight decrease in annual growth to 7.4% (relative to 7.7% in 2013), having resulted in the implementation of policies designed to foster consumption and investment in the second quarter of the year. The other emerging economies also registered a contraction in economic activity, with particular emphasis on Russia and neighbouring economies, given the geopolitical tensions, and in Brazil and Sub-Saharan Africa, as a result of the fall in the oil price. India was the only emerging economy that was able to buck the trend, having registered growth of 5.8% in 2014, corresponding to an increase of 0.8 p.p. relative to the previous year. This growth was due to, on the one hand, the increase in industrial activity and in investment following the implementation of new reforms and, on the other hand, the favourable terms of trade resulting from the fall in oil prices.

The Euro zone, which contracted by 0.5% in 2013, grew 0.8% in 2014. The lower tax burden, the introduction of looser monetary policies and the improvement of credit conditions, as well as the reduction of spreads in those economies with the greatest difficulties, in addition to the lower interest rates in core countries, contributed to the growth over the period. However, the economic differences among the various countries of the Euro zone persist.

In particular, the two major trading partners of Portugal registered an increase in economic growth relative to the previous year. Spain, which in 2013 registered a contraction of 1.2%, ended 2014 with the economy growing 1.4%, boosted by the growth of exports and domestic demand, reflecting an improvement of financial conditions and an increase in the confidence of economic agents. As for Germany, in 2014 it registered growth of 1.5% (an increase of 1.3 p.p. relative to 2013) also due to the increase in exports, driven by a depreciation of the Euro (having reached ~1.2 USD – EUR at the end of the year, the lowest value in 8 years), whilst investment and public expenditure remained relatively low and domestic consumption remained constant. In spite of benefitting from an unemployment rate close to historical minimums (about 5%), geopolitical uncertainties led German consumers to adopt a more cautious attitude, causing a contraction in retail sales and in the registration of new cars. It should be noted that other large markets in the European economy, which are also destinations for Portuguese exports (namely France and Italy), are expected to prolong the economic stagnation registered in 2013 and also in 2014.

In 2014, there was an increased loosening of Euro zone monetary policy, with a combination of measures launched in June and September 2014 to address the low inflationary pressures felt over the period (0.5% of inflation, below the reference value of 2%). During the year, there was a cut in interest rates (having resulted in some negative interest rates) and the granting of new special loans to banks. In addition, there was a continued reduction of the budget deficit throughout the year, with the European Commission having shown openness to an easing of fiscal policy, in order to facilitate the stimulation of consumption.

In the second half of the year, there was a fall in the price of industrial raw materials, particularly energy, metals and agricultural raw materials. Crude oil prices registered the biggest decline (from a maximum of 115 USD/barrel in June 2014 to 47 USD/barrel at the start of January 2015, representing a fall of 60% over the six months), to which the abandonment of supply management by OPEP contributed significantly. As for the prices of agricultural prices, an average decrease of 3.4% was registered in 2014, partly influenced by the higher price of some specific products.

National Economic Climate

Following a contraction of 1.4% in 2013, the Portuguese economy grew by approximately 1.0% in 2014, driven by the increase in consumption and private investment. It is estimated that consumption increased by approximately 2% in real terms, benefitting from a recovery of household expenditure and improvements in the employment market and in available income, reflected in an increase in consumer confidence. However, inflationary pressures continued in the Portuguese economy (partly due to lower raw material prices), with inflation standing at -0.2%. As for unemployment, which in 2013 stood at 16.4%, it dropped below 14% in the third quarter of 2014, registering an annual average of 14.2%.

In addition, there was an increase in private investment – namely in machinery and equipment – by around 3.5%, to which the reform of corporate tax contributed positively. There was, however, a slight contraction of net exports during the period by approximately 0.2%, caused by a lower increase in exports than in imports (3.8% relative to 5.9%).

Within the context of budgetary policy, the Portuguese government was able to undertake auctions in the bond market following the end of the bail-out programme in May 2014, reflecting greater confidence in the access to financing in the markets. It is estimated that the budget deficit fell by 4.6%, resulting from an improvement in tax collection and efficient restrictions to state expenditure. As a result, the government debt-to-GDP ratio increased by about 1 p.p. to 129%.

Air Transport

In an environment characterised by heterogeneity of global economic conditions, in the air transport market there was a normal growth in demand, with this performance being driven by the behaviour of emerging markets. The overall flight load factor stood at around 79.7%, close to the maximum historical levels, supported by a growth in demand that was stronger than the expansion capacity.

In particular, European airlines transported over 369 million passengers, corresponding to 2.9% more than in 2013, 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 the number of passenger-kilometres, reaching 3.7% in Europe, 5.2% in the North Atlantic, 4.2% in the South Atlantic and 2.1% in the Mid-Atlantic. Likewise, the connections between Europe and Sub-Saharan Africa and the Far East showed increases in passenger traffic of approximately 2.3% and 4.8%, respectively. The connections between Europe and North Africa registered negative growth, which stood at 2.4%. The overall passenger load factor closed the year at 80.6%, exceeding the value recorded in 2013 by 0.3 p.p.. The improvement of the passenger load factor represented a performance that was extensive to the different regions, with the exception of connections between Europe and the regions of the American continent, namely the North Atlantic, Middle Atlantic and South Atlantic.

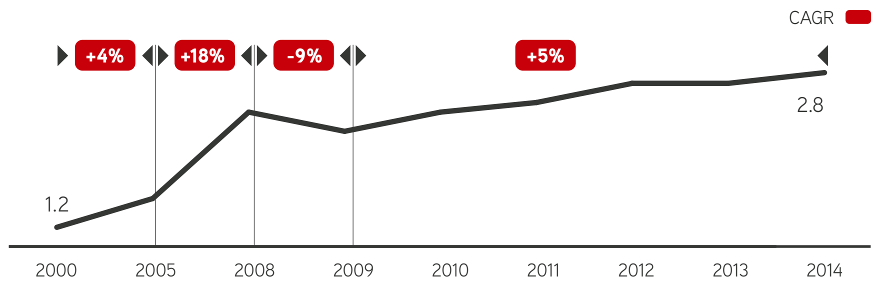
On a worldwide level, passenger demand, in terms of total passenger-kilometres, recorded an increase of around 5.9%, compared to 2013, higher than the average of 5.6% of the past 10 years, with over half of that growth having occurred for airline companies in emerging markets. For air cargo markets, under the influence of a widespread recovery in cargo markets only in the second semester, the year 2014 ended with a growth of 4.5%, although with the highest impact for carriers in the regions of Asia Pacific and the Middle East. Following the increase in capacity, of about 5.6% and 3.7%, in the transport of passengers and in the transport of cargo, the load factors came to 79.7% and 45.7% for each one of those segments. Underlying this evolution of demand, it is important to note the performance of airline companies in mature markets, such as Europe and North America, of 5.7% and 3.1%, respectively. In these regions, the rate of expansion was significantly slower than that recorded in the emerging market regions. Hence, there were increases of 13.0%, the highest, in the Middle East, and 5.8% in the Asia-Pacific region and Latin America. In Africa, 0.9% was the weakest growth among the regions.

Regarding the financial performance of the Industry, in the context of markedly lower fuel prices, particularly in the last quarter, a positive net result of around 19.9 billion dollars is estimated, globally, which is higher than the corresponding 10.6 billion dollars of 2013. It should be noted, as a result of the reduction in fuel prices, that there was a significant decrease in the yield globally, except in the United States, where there was an increasing trend.

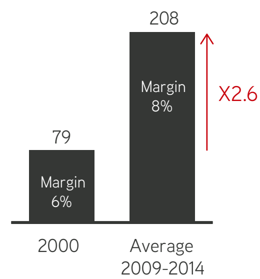
Since 2000, development of initiatives within the different contexts of each period

At the end of 2014, revenues and EBITDAR recorded values about 3 times higher than at the beginning of that period

TAP Group Revenue
EUR billion



TAP Group EBITDAR
EUR million



CORPORATE STRATEGY

Vision and long-term strategy

Throughout 2014, various factors underlined the need to rethink the long-term strategy of the Company: i) the high number of non-recurrent events, and the reduction of the yield, with a direct impact on the profitability of the Company; ii) the level of underinvestment, and impact on the fleet and quality of the product; iii) the need to match peers' cost-cutting efforts, which may jeopardise the cost advantage that TAP currently benefits from; and iv) the need to adapt TAP's commercial model to a new reality in the Industry.

Thus, at the end of 2014, TAP initiated the preparation of a Strategic Plan within the context of the ongoing privatisation process.

In the first axis of renovation and expansion of the fleet, the plan provides for the renovation and expansion of the long-haul fleet, based on the already scheduled acquisition of A350s, and the renovation and expansion of TAP's medium-haul fleet and regional fleet.

In the axis of modernisation of the commercial model, there is the redefinition of the commercial offer, based on a strong reinforcement of the sales of ancillary services, the redefinition of the TAP product for a greater alignment with Industry trends, and the carve-out of the Frequent Flyer Programme.

In a third axis, the improvement of the customer experience, with the development of the customer experience integrated programme based on a programme of digitisation and automation of customer-facing processes.

In the axis of consolidation of growth focusing on the hub, there is the consolidation of growth in Brazil and the definition of Latin America as a geographic priority in the expansion of the long-haul network, while maintaining efforts of growth in other geographies and growth of the network focused on the hub, with the development of new routes for Oporto and Funchal, based on their economic performance.

A fifth axis of strengthening of the operational improvement effort, provides for the launch of a programme of optimisation of the cost structure, with special focus on operating costs in order to maintain the competitive advantage it has, compared to its peers.

A sixth and final axis of repositioning of the MRO business, provides for the maintenance of the current focus of TAP–Maintenance and Engineering Portugal at the service of the TAP fleet (including PGA), with business for third-parties being relaunched, based on existing capacity and the completion of the turnaround of TAP–Maintenance and Engineering Brazil, including significant cost savings, productivity enhancements, and capacity increases in areas of greater potential.

Finally, this Strategic Plan will be supported by a sustainable funding strategy to meet the financial commitments underlying the Plan, by the development of a holistic human resources management programme (including talent management, mobility and change management) and by the launch of a more proactive strategy for managing the relations with the various stakeholders.

Strategic Plan 2015-2020

Strategic Axes

1. Renewal and expansion of all the fleets;
2. Evolution of the commercial model;
3. Automation and improvement of the Customer experience;
4. Consolidation of the Company's growth and increased focus on the hub;
5. Operating efficiency improvement;
6. Repositioning of the maintenance and engineering business units in Portugal and in Brazil.

KEY DEVELOPMENTS IN 2014

Over the course of 2014, TAP continued its growth programme and sought to strengthen its position as a reference company between Europe and the South Atlantic.

Continuation of the growth of the Route Network and exploitation of expansion opportunities

The introduction of new aircraft enabled the expansion of the Network, with the launch of eleven new destinations, as well as the consolidation of the current network through an increase of frequencies to destinations characterised by high demand. In 2014, seven new destinations were launched in Europe – S. Petersburg in Russia (3 flights per week), Belgrade in Serbia (3 flights per week), Tallinn in Estonia (3 flights per week), Gothenburg in Sweden (4 flights per week), Oviedo in Spain (6 flights per week), Hannover in Germany (4 flights per week) and Nantes in France (6 flights per week) –, two new destinations in Brazil (3 flights per week), during the World Cup Championship, through a triangular operation – Manaus e Belém –, and the first two destinations of TAP in Latin America (4 flights per week), also through a triangular operation – Bogotá in Colombia and Panama City in Panama.

Renewal of capacity aimed at maintaining unit cost gains

TAP, seeking to exploit the business opportunities that enable the continuous growth of the Network and consolidation of the current markets, introduced six new aircraft in its fleet in the second half of the year: two new A330, two new A320 and two new A319. However, although there was a reduction in unitary cost relative to 2013, the impact on efficiency resulting from the introduction of these new aircraft was limited, due to the increase in costs associated with aircraft charters, compensation for passengers, landing charges, catering and variable remunerations.

Commercial performance orientation to improve unit revenue

In 2014, the integration and consolidation of the new Revenue Management system PROS O&D II was completed, enabling TAP to make better use of the Network by differentiating the availability of seats for sale in flights by origin/destination and by point of sale (POS). The completion of the integration of this system made it possible to provide the selection of booking acceptance using a more diversified range of choice criteria, enabling a dynamic fine-tuning in real time of the provision of price and increasing the parity between demand and supply developments. As a result, the new system has already had a positive effect on the performance of TAP in 2014.

Guarantee a consistent focus on unit cost, through continued growth of awareness

In 2014, in spite of the reduction in unit fuel costs, total fuel cost increased relative to 2013 due to an expansion of the operation via the introduction of new aircraft in the fleet, and the consequent launch of 11 new routes. In addition, the increase observed in various cost items, as previously mentioned, prevented unit cost, in terms of total costs per kilometre flown, from registering a more significant decrease in 2014, and a permanent focus on cost cutting in the Company was maintained.

Refocusing the maintenance business at TAP–Maintenance and Engineering Portugal on third party customers

Although there was notable growth in 2014 relative to 2013, it was characterised more by cyclical rather than structural factors, with significant pressure being maintained by customers for service providers to assume greater risks at lower prices. In 2014, the market trend towards the establishment of large MRO service provision networks continued, led by both large MRO groups and by manufacturers. As a result, the difficulties felt by smaller traditional MRO providers, such as TAP–Maintenance and Engineering, in renewing their portfolios of services on offer have increased. In order not to miss the opportunity to take part in these strategies, it is fundamental to maintain high levels of management and technical competence in order to guarantee flexibility, efficiency and capacity to meet customer expectations.

Therefore, in the area of third-party works, in spite of the remarkable improvement relative to 2013, difficulties continued to be felt in returning to the revenue figures in the engine maintenance, repair and overhaul (MRO) business registered previously. Based on the efforts undertaken in 2014 and the results achieved, TAP–Maintenance and Engineering Portugal reached a contributory margin to the overall result of TAP of about three times more than the value budgeted.

In addition, with the entry, in March, of the new General Director of Maintenance and Engineering, a restructuring process based on a logic of three key strategic axes – Organisation, People and Systems –, was initiated, in order to reinforce the attribution of duties relative to macro processes, alignment with other TAP structures and the importance of creating a new Department structure for TAP–Maintenance and Engineering.

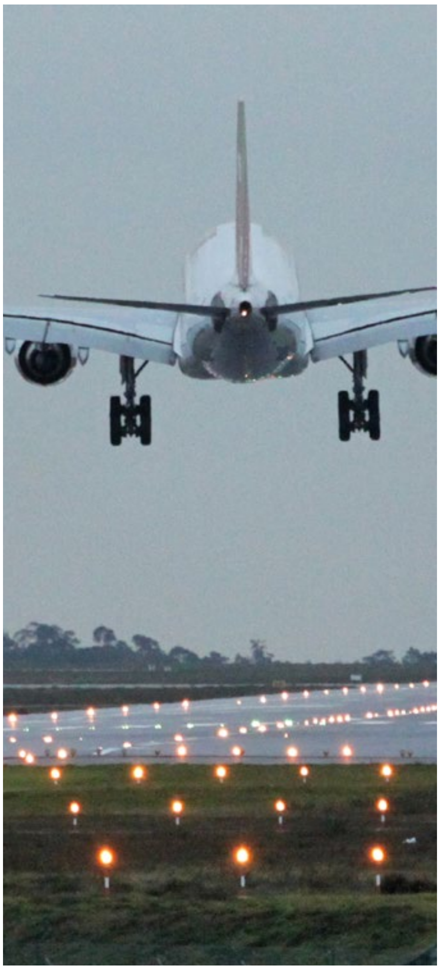
Achieve the complete turnaround of TAP–Maintenance and Engineering Brazil

TAP–Maintenance and Engineering Brazil took another significant step in 2014 towards achieving operating equilibrium. Operating income, in spite of still negative, registered a trend toward improvement. The growth of the portfolio of products and services and the interest shown by OEMs and MROs – which are world references – in establishing long-term partnerships, is noteworthy. On the one hand, these partnerships will allow TAP–Maintenance and Engineering Brazil to increase, in a sustainable manner, its revenue and, on the other, they will offer these reference organisations a door through which to enter the Brazilian market, via a reference partner in the local MRO market, namely TAP–Maintenance and Engineering Brazil. Lastly, it is important to highlight the work that has been undertaken to eliminate contingencies which have weighed on the company and constrained its activity. Furthermore, the company managed to eliminate approximately 75 million Brazilian Reais of contingencies in 2014, and initiated a number of court proceedings in favour of TAP.

€ 2 442.2
million
Sales and Services Rendered

90.2%
of the Group's Turnover

€-46.4
million
Net Income of TAP, S.A.



PERFORMANCE OF TAP GROUP COMPANIES

TAP, S.A.

In spite of the negative impact of a multiplicity of disturbances, TAP continued to comply with its commitment to contribute to the generation of value for the economy and for Portuguese society

Regarding the air transport business, this sector's profile was maintained in 2014, representing a strong contribution to the development of the global economy. On a worldwide level, passenger demand, in terms of total passenger-kilometres, recorded an increase of around 5.9% in relation to 2013, in line with the growth verified in the last 30 years, while capacity increased by 5.6%. The flight load factor, at approximately 79.7%, stood close to the maximum historical levels, confirming the effort of airline companies in maximising the attraction of demand. In contrast, the Industry registered a fall in the average global yield of -0.9% in 2014, resulting in a loss of profitability. Regarding the air cargo market, in spite of having registered a flight load factor of 47.2%, up 1.9 p.p. compared to 2013, a robust increase of 4.1% in total cargo transported was registered, surpassing the overall evolution of commercial exchanges in the same year by 1.1 p.p.. In the interim, aircraft fuel prices, although in a downward trend, but still significantly higher than those recorded at the beginning of the decade, continued to condition the Industry's profitability, in particular the carriers of the European region, where it is also worth mentioning the presence of additional permanent, structural challenges for the sector, namely in the regulatory context.

Similarly exposed to an environment marked by a number of factors, in particular the reduction in fuel prices during the third quarter and an aggravated competition context, both at a European and intercontinental level, TAP, S.A. ended the financial year of 2014 with a net income of -46.4 million euros, 80.4 million euros below the 34.0 million euros recorded in 2013. Operating income stood at -6.5 million euros, 58.2 million euros less than in 2013. The results achieved by the Group and more specifically by TAP, S.A., also reflect the negative impact of the multiplicity of disturbances that occurred over the course of the year. In particular, it is important to mention the disturbances observed between June and mid-July – due to the late arrival of new aircraft destined for the operation of new destinations, as well as the grounding of aircraft for longer durations than expected –, which were solved over the remaining summer period. Furthermore, the end of 2014 culminated with (the announcement of a strike, which had a significant negative impact on the company and on the Portuguese economy in general.

Fuel costs, which represented 33.0% of the Company's total Operating Costs and Losses in 2014, grew 3.9%, which corresponds to 29.8 million euros. This increase was essentially due to the increase in capacity, of which -16.7 million euros are attributable to the price effect. The Air Transport activity generated a total of 2,342.6 million euros in sales and services rendered, a value that remained at approximately the same level as in 2013. This result was significantly influenced by the behaviour of ticket revenues, which reached a total of 2,197.3 million euros, 0.9% less than the value recorded in the previous year, and the sharp increase in demand, of the order of 7.0%, almost offset the decrease in the yield. Of particular importance, in this context, is the behaviour of direct sales of TAP, which, with a 7.9% increase, represented 28% of total flight revenue. Sales revenue from TAP's online direct channel came to approximately 462.7 million euros, 13.5% more than in 2013, and corresponded to about 1.3 million tickets. This sales channel, whose revenues represent 17.9% of total flight revenue, presents itself as the fastest growing sales channel, as a result of the company's strategic choice in online sales, with Brazil and Portugal being the markets with the largest weight in online sales revenue: 28.3% and 24%, respectively. Also contributing to this result was the Air Cargo business, where TAP recorded an increase of 7.2% in relation to the previous year, a result due to the general cargo recovery, during the 2nd half of the year, in the markets operated by TAP.

In turn, the aeronautical maintenance activity of TAP–Maintenance and Engineering Portugal, in the Third Party Customers segment, recorded a total of 92.0 million euros, representing 21.7% more than in 2013 but still below that achieved in 2012. The MRO market scenario remains dominated by OEM and large organisations – such as Lufthansa Technik or Air France Industries & KLM Engineering –, with respect to engine and component activities, being characterised by businesses with a high financial component (availability of spare engines and stocks of rotational components, for example) and with respect to the value propositions for Customers. These factors have conditioned the business opportunities of TAP–Maintenance and Engineering Portugal which, nonetheless, seeks, through the establishment of strategic partnerships with some of these players, a means of increasing its market share.

Main Indicators of TAP, S.A.

	2014 EUR million	2013 EUR million	var.
Operating Revenues and Gains	2,489.4	2,479.6	0.4%
Operating Costs and Losses	2,419.8	2,325.8	4.0%
Net Operating Income	-6.5	51.7	-58.2
Net Income	-46.4	34.0	-80.4
Total Assets	1,898.6	1,859.6	2.1%
Total Equity	19.2	114.0	-83.2%
Active Staff (31 December)*	7,323	6,889	434
Air Transport	4,984	4,554	430
Maintenance and Engineering	1,882	1,886	-4
TAP Serviços	427	419	8
Other	30	30	0
TAP fleet composition (average)	58.7	55.0	6.8%
Flight Hours (Sched. oper. using own aircraft)	263,991	255,113	3.5%
Departure punctuality up to 15' (%)	66.5	73.8	-7.4 p,p,
Regularity (%)	98.7	99.1	-0.4 p,p,

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

Expanding and capitalising on business opportunities, by reinforcing the importance of the Lisbon hub in the connections of Europe to a growing number of destinations

During the course of the year, the policy of attracting long distance traffic was maintained, 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, promoting the consolidation of connections between Europe and Brazil and Africa. In this sense, the inclusion of six new aircraft in the TAP Group's fleet enabled the launch of eleven new destinations – Manaus, Belém, Bogotá, Panama City, S. Petersburg, Belgrade, Tallinn, Gothenburg, Oviedo, Hannover and Nantes –, and also allowed to increase frequencies in destinations whose offer was constrained.

It is also important to highlight the impact of the participation of TAP in the global multi-hub system of the STAR Alliance alliance, which has permitted benefiting from the incoming traffic provided by the other members. Nine 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 77 aircraft, 6 more aircraft (2 long-haul aircraft and 4 medium-haul aircraft) than in 2013. 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. The total number of passengers transported thus reached 11.414 thousand, 711 thousand more than in 2013, with increases having been recorded in most sectors of the network. The operation to Brazil is particularly noteworthy, representing 38.4% of the total network, a size similar to the operation in the European region.

An attitude of permanent search for innovation opportunities

At TAP, the attitude of permanent search for innovation opportunities, as a dynamic factor of the company's competitiveness, has led to the introduction of innovation in products, services and processes, which has enabled the Company to differentiate itself from the competition. In 2014, TAP continued to promote the changes it deemed necessary, according to the requirements of its strategic positioning, in a pioneering attitude with respect to the use and fostering of new technologies. In this regard, various products and services were launched, with the following examples being noteworthy: investment in the improvement of Customer relations – Mobility and the Customer, namely online check-in and mobile devices; management of the relationship with suppliers; and, within the scope of Flight Operations, the integration of additional monitoring mechanisms – FDCC (Flight Dispatch Control Centre).

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

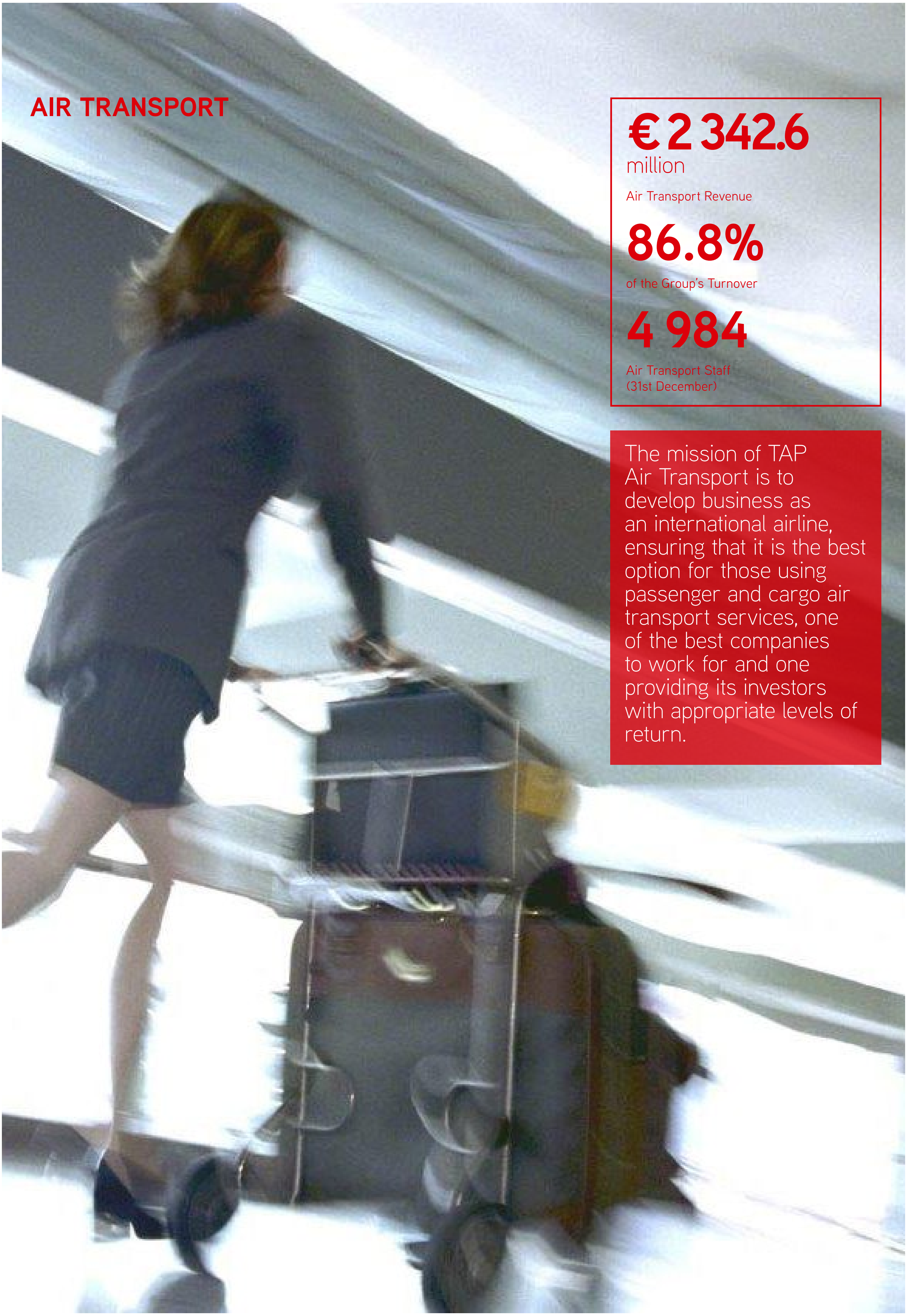
TAP's capacity to attract increasingly significant traffic volumes, reflected in the strong growth of its sales in international markets, contributed to reinforce the company's vocation to serve the national economy, and affirm its increased participation in promoting the Tourism sector. In addition 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 the Country, throughout its entire operation network, as well as through the activity of the Company, as an important entity in promoting national products.

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 2,400.9 million euros in 2014, corresponding to 1.1% (26.6 million euros) more than in 2013.

Increasing employment creation

In line with the development of the strategy followed by TAP, in 2014 there was an increase in employment creation, through the hiring of 626 highly qualified workers and the departure of 205 employees, mostly due to retirement and on one's own initiative. This increase was driven and authorised, given the Company's growth plans.

AIR TRANSPORT



€ 2 342.6
million

Air Transport Revenue

86.8%

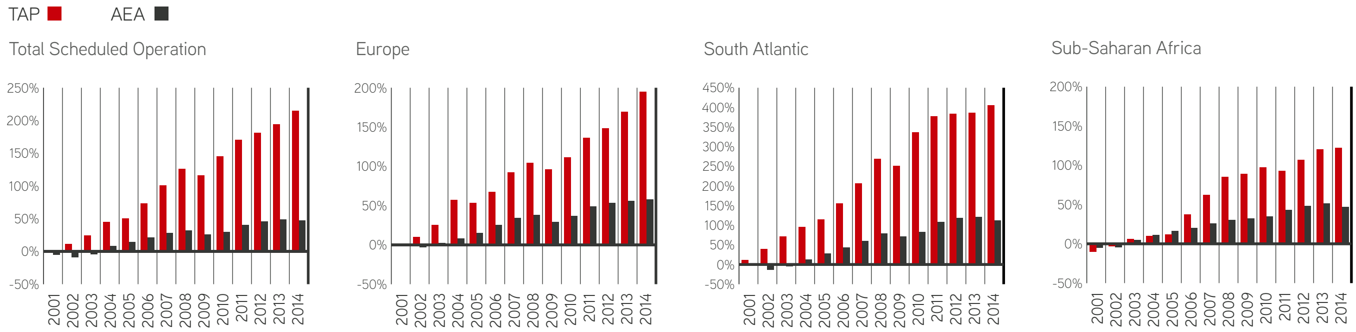
of the Group's Turnover

4 984

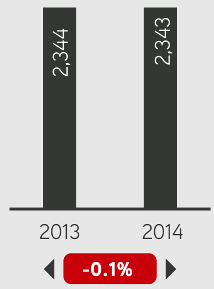
Air Transport Staff
(31st December)

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



Air Transport Revenues
Sales and Services Rendered
EUR million



Growth in the Air Transport activity

At TAP, the growth in demand proved to be higher than the average identified for the sector, standing at approximately 7.0%, expressed in passenger-kilometres (RPK).

However, in the Air Transport activity, total sales and services rendered reached 2,342.6 million euros, an amount similar to that of the previous year, as a result of circumstances marked by a series of factors.

The air transport business, the core business of the TAP Group, represented 86.8% of the Company's total turnover in 2014.

AIR TRANSPORT

In Europe, the profitability of the region's airline companies remained constrained, both by the impact of the continuous economic crisis in the entire Euro zone, and by the development of the activity in a market that is considered mature, where the expansion of demand is significantly more moderate, with the European regular carriers of the AEA (Association of European Airlines) having recorded a growth of 4.1% (passenger-kilometre).

However, while this evolution reflects the market's capacity to remain substantially unshaken by the poor economic conditions associated to the crisis observed in the entire Euro zone, the weak development of yields presents yet another challenge to be overcome in the long awaited recovery of the final result of the Industry.

MAIN ASPECTS OF THE COMMERCIAL POLICY

During 2014, TAP continued on its path towards strengthening the provision of the most appropriate travel solutions for its passengers, always driven by increasing Customer satisfaction and constant differentiation in relation to the competition.

In the development of its strategy, the Company upheld its main objective of implementation of a rigorous and effective management of equipment and resources, giving priority to the following aspects.

FOCUS ON OPERATION PROFITABILITY – EXPANSION OF THE OPERATION

The new aircraft enabled opening new destinations and increasing frequencies for destinations whose offer was becoming constrained

TAP continued its efforts driven by growth and the improvement of the Lisbon hub, and the Porto hub as the 2nd operational hub, focusing on the consolidation of the connections between Europe, Brazil and Africa.

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 and São Paulo 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 and São Paulo during daytime.

In the second half of the year, six new aircraft joined TAP's fleet: two A330, two A320 and two A319, enabling the expansion of the operation, as well as increased frequencies for destinations whose offer was becoming rather constrained.

Thus, the operation to Manaus and Belém started up in June, with the timing of the launch of this operation having been determinant to respond to the increased traffic between Europe and Brazil, at the time of the World Football championship. In July, the Company's first route in Latin America was launched, with the opening of the Bogotá and Panama City operation. Also in July, seven new destinations in Europe were launched: S. Petersburg, Belgrade, Tallinn, Gothenburg, Oviedo, Hannover and Nantes.

Adjustment of the operation to demand

Mainland Portugal	Porto	Reduction of 7 weekly flights, to a total of 59, as a result of better aircraft turnaround and the excessive supply on this route
Europe	Berlin	Addition of 5 weekly flights, to a total of 12
	Bucharest	Addition of 1 weekly flight, to a total of 6
	London	Addition of 5 weekly flights, to a total of 54
	Manchester	Addition of 4 weekly flights, to a total of 11
	Milan	Addition of 2 weekly flights, to a total of 24
	Munich	Addition of 5 weekly flights, to a total of 19
	Oslo	Addition of 3 weekly flights, to a total of 10
	Rome	Addition of 6 weekly flights, to a total of 32
	Warsaw	Addition of 1 weekly flight, to a total of 6
	Venice	Addition of 3 weekly flights, to a total of 10
	Vienna	Addition of 4 weekly flights, to a total of 11
Africa	Accra and Sao Tome	Redesign of the operation: Lisbon-Accra-São Tomé (3 weekly flights); Lisbon-Accra (4 weekly flights) in an A320
	Luanda	Reinforcement of the operation in specific periods
	Praia	Addition of 2 weekly flights, with a total of 7
	Sal	Addition of 1 weekly flight, with a total of 7
	Sao Vicente	Addition of 1 weekly flight, with a total of 3
South Atlantic	Belo Horizonte	Reinforcement of the operation in specific periods
	Natal	Reinforcement of the operation in specific periods
	Porto Alegre	Reinforcement of the operation in specific periods
	Rio de Janeiro	Reinforcement of the operation in specific periods
	Salvador	Reinforcement of the operation in specific periods

Optimisation of revenue with greater efficiency of the management of space

The implementation of the new Revenue Management system PROS O&D II was completed and consolidated during 2014. TAP thus positioned itself at a more evolved level in terms of flight revenue management, having begun to provide the selection of booking acceptance using a more diversified range of choice criteria. These criteria, enabling the dynamic fine-tuning in real time of the provision of price, enable, at any given time, a selection of bookings that are more adjusted to the nature of demand and its evolution.

With these developments, TAP thus armed itself to compete in a more balanced form and at the same level of competition, progressively aggressive, that it faces in practically all the markets in which it operates. The results are already visible in the better and more efficient use of sales space, with increased load factor, associated to a higher number of passengers.

Characteristics of the new Revenue Management O&D driven System

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.

Marketing expenses following market trends

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

COMMUNICATION WITH CUSTOMERS

Golf

The practice of golf maintains significant annual growth. Portugal, due to its temperate climate, has invested in this type of infrastructure and is today, with over 85 golf courses, considered one of the most interesting golf destinations. Two Portuguese golf courses are ranked among the 100 best of the world, according to the classification of Golf Digest – San Lorenzo in 38th place and Vilamoura Old Course in 84th place. During the cold and snowy seasons, when golf courses are closed in Europe, preventing the practice of this sport, it is Portugal that over 400,000 golf players head to every year. In 2014, TAP promoted the holding of two tournaments:

- 7th Victoria Open – at Aroeira
- 37th TAP Open – with accommodation at Vilamoura and the courses at Quinta do Lago and Vale de Lobo

Participation of TAP in the Lisbon International Tourism Exhibition (BTL) 2014

Once again, TAP was present at the Lisbon International Tourism Exhibition (BTL), where eleven new destinations of the Company were presented, associated to the concept *Connected to the world with arms wide open*, symbolising the brand's values.

This was a unique opportunity for TAP to provide information on the activities, projects and singularities of two of the regions now served, Belém do Pará and Manaus, to tourism professionals, namely hosted buyers, and the general public.

TAP participated in the BTL with a new stand, having presented the new destinations of the Company's route network.

COMMUNICATION WITH CUSTOMERS

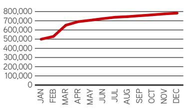
Social Networks

Facebook

At the end of 2014, TAP's official page on Facebook had over 780,000 fans, having recorded an increase of more than 300,000 fans since January.

In demographic terms, the top 5 countries where TAP's fans come from are Portugal, Brazil, the United Kingdom, France and Switzerland, with the predominant age group being between 25 and 34 years old.

Followers

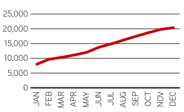


Instagram

In 2014, Instagram proved to be the social network which has enabled greatest engagement with TAP's followers. Maintaining the logic of monthly managers, who are TAP employees chosen by the marketing area to show their daily backstage environment at the Company, and focusing on exclusive games and quizzes for this platform, the profile increased by 122%, reaching 20 thousand followers in December.

TAP's Instagram was also nominated in the Lusos Awards.

Followers

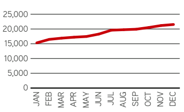


Twitter

Twitter's growth has pursued a progressively upward trend. In 2014, it recorded a 33% increase in followers, surpassing 21 thousand.

The number of mentions made by Customers continues to rise, and they increasingly use Twitter to resolve their problems, especially in times of crisis.

Followers



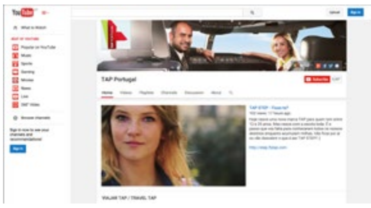
Youtube

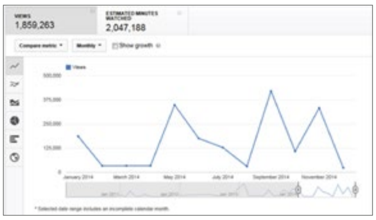
TAP's Youtube channel recorded an increase of 1,726 subscribers in relation to 2013.

We highlight, as the most viewed videos, the TAP destination promotion videos, which were part of the investment campaigns in this channel aimed at specific countries (Serbia, Romania, Hungary and the Czech Republic, among others), the Christmas message video (2013), the flash mob at Miami Airport (2013), the 2014 battle mob promoting new destinations in Chiado, and the renovation of the economy class of the A340 (2012).

Top 5 countries which most viewed TAP's channel: Serbia, Portugal, Romania, Hungary and the Czech Republic.

With the launch of the series *Montra da Lusofonia* (Lusophony Showcase), dedicated to TAP's in-flight service products, a strategy is beginning to be mapped out for the creation of contents combined with a greater frequency of publication of videos on the channel, with the expectation that 2015 will be a year of investment in YouTube.





Evolution of the viewings on youtube.com/tap, throughout 2014.

FLIP and FLAP have a new home

TAP's mini-customers now have available a totally renovated website of their mascots. With the aid of the world map, Flip and Flap invite the young ones to explore the Company's destinations in an entertaining way, through educational games, cartoons and attractive illustrations. In order to make the travel experience more personalised for children, it is possible to create a personal account so that they can become *Little Explorers*. Based on this personalised profile, the children can benefit from exclusive advantages such as collecting explorer embossed stamps, the reward for each accomplished challenge, or participate in pastimes.

The main objectives of the preparation of this new website, which was placed online in May, were to: increase the traffic, reaching more children; increase the group of older children (6-10 years old); retain the loyalty of users, encouraging their return to the website; reduce the number of single visits; and transform the website into a reference in the Portuguese children's universe.

2014 was a year of consolidation and growth of TAP in the world of the social networks and also of innovations

The new profiles on Pinterest and Linkedin have complemented an already successful presence on Facebook, Twitter and Instagram. In 2014, TAP remained on the podium of the Socially Devoted Portuguese brands on Facebook and Twitter, a seal of prestige that has been attributed by Social Bakers to the Company since 2013. The management of TAP's social networks also received the Award of Distinction in the Global Alliance Comm Prix and, in December, the Lusos Awards attributed the bronze trophy to two actions conducted on TAP's Facebook (the pastime *Let your dream fly* and the action in partnership with the FlyTAP expedition, *Message to Portugal*).

HOLDING OF CAMPAIGNS

Digital marketing

TAP's investment in online campaigns in search engines aimed at increasing sales, stood at over 1.8 million euros, 8% more than in 2013. It is estimated that this sum will lead to 375,742 direct online bookings, corresponding to an increase of 19% in relation to the previous year. In this way, and strengthening its presence on Google and other search engines, the Company has managed to attract demand and business opportunities.

CUSTOMER LOYALTY POLICY

Victoria Programme

Throughout the year, numerous campaigns were sent to Victoria customers in the different markets, both through the website tapvictoria.com and via e-mail marketing.

These campaigns varied between TAP destination/price campaigns, product and service communication campaigns (gift voucher, automatic notification service) and promotions/products of the actual Victoria Programme and its partners (mile redemption campaigns, Member Get Member campaign, earn or use miles campaigns with partners, new partner services).

In addition to the campaigns mentioned above, we also highlight the communication of information relative to the STAR Alliance network and its member companies, as well as to the kids segment, through the Flip and Flap mascots (events, new website).

Victoria closed the year of 2014 with over 1.6 million members, having recorded a monthly subscription of around 14 thousand new members.

Corporate Programme

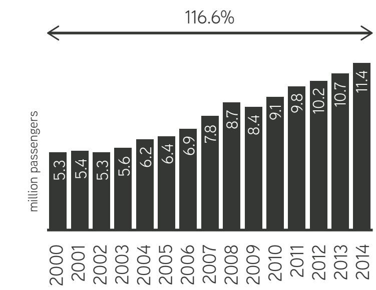
At the end of 2014, the Corporate Programme had around 6 thousand customer companies, approximately 1,050 more companies than in the previous year, corresponding to +17.5%, with the activity rate of customer companies being approximately 52%.

PERMANENT FOCUS ON IN-FLIGHT SERVICE

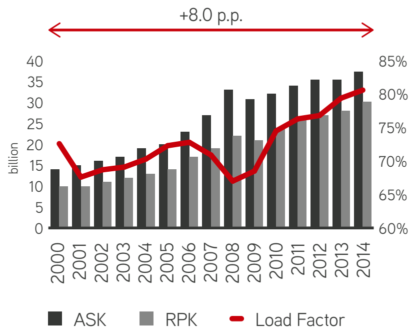
Development of the redesign of the executive class in-flight service

In the new tap | executive, the in-flight service has been redesigned, involving new meals and a new table setting.

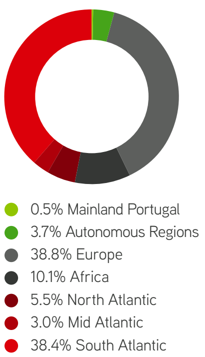
Carried Passengers
Scheduled flights



Capacity, Traffic and Load Factor
Passenger-Km and %



Traffic (RPK) by Route Network Sector
Scheduled flights



ROUTE NETWORK

In the operation of the Route Network, 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 scheduled operation increased by approximately 5.5%, with growth of demand of 7.0%. As a consequence, the passenger load factor increased by 1.1 p.p. to 80.6%. The total number of passengers transported reached 11.4 million (+6.6%), with ticket income having reached a total of 2,197.3 million euros, 0.9% less than in 2013.

Around 109 thousand services were provided during the operation. Note should also be made of the presence of over 55 thousand flights operated by other companies, under code-share agreements. The Company flew approximately 264 thousand hours with its own aircraft and over 55 thousand hours with Portugália aircraft, adding up to a total of 2.8% more than in 2013. The number of kilometres covered corresponded to 190.1 and 30.0 million, respectively.

MEDIUM-HAUL NETWORK

Medium-haul traffic represented 43.0% of the total Route Network in 2014, when expressed in passenger-kilometres (RPK), representing an increase of 0.7 p.p. relative to 2013

- In the **Autonomous Regions**, following a strict analysis of the operation, with a view to better matching supply and demand, the offer for this sector of the Network decreased by 1.3%, with demand having increased by approximately 3%, improving the overall passenger load factor by 3.2 p.p. to 75.5%.

  The Autonomous Regions recorded a weight of 3.7%, that is, 0.1 p.p. less than in 2013.

- In **Europe**, corresponding to 38.8% of total demand, the region is the top most important sector in TAP's Network. However, also taking into account the demand of Mainland Portugal and the Autonomous Regions, the European region as a whole accounted for 43.0% of the Company's total demand in 2014.

  The increased supply in this sector of the Network, of around 5.1%, was entirely compensated by the increase in demand, which came to 9.5%. As a consequence, the overall passenger load factor increased by 3.2 p.p. to stand at 79.1%.

- In **Mainland Portugal**, following a better distribution of the operation between Lisbon and Porto during 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 of around 3.0%. In view of the 1.9% higher demand, there was an increase in the overall passenger load factor of around 3.2 p.p., with the representativeness of this sector of the Network being maintained at around the same level, at approximately 0.5%.

LONG-HAUL NETWORK

Long-haul traffic accounted for 57,0% of the total Route Network in 2014, representing 0.7 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 around 0.2%. In view of the increase of 1.1% in demand, the overall passenger load factor increased slightly by 0.7 p.p. to 77.3%.

  The representativeness of the region, in the entire Network, stood at 10.1% or 0.6 p.p. less than in 2013.

- In the **North Atlantic** the 10.5% growth of demand aimed at this sector of the Network surpassed the growth of the offer of 7.2%. As a result, the passenger load factor increased by approximately 2.5 p.p. to 85.4%. Thus, the weight of this sector's traffic in the total Network increased slightly relative to 2013, to stand at 5.5%.
- In the **Mid Atlantic**, the increased offer for this region, of around 56.7%, was not accompanied by the increased demand of 47.0%. As a consequence, the overall passenger load factor declined by 5.3 p.p. to 80.6%. Its representativeness in the total Network showed a slight increase of 0.8 p.p., relative to 2013, standing at 3.0%.
- In the **South Atlantic** region, the increased offer for this region, of around 5.3%, was higher than the increase in demand, which stood at 3.9%. As a consequence, the overall passenger load factor fell slightly, reaching 83.1%.

Position of leadership in Brazil

The South Atlantic is the most representative sector of the long-haul route Network, reaching 38.4%, a figure similar to that of the Europe Network sector.

The intensity of the operation directed at this sector of the Network, reflecting both the reinforcement of frequencies and the opening up of connections to new points, demonstrates the Company's decision to specialise in traffic between Europe and the South Atlantic.

Nathan Phillips Square, Toronto, Canada

Collaboration with partner companies

The intensification of relations with STAR Alliance member-companies continued, in particular with the increased number of flights, destinations or connection points served in code-share with the partners AIR CANADA, AEGEAN AIRWAYS, ALL NIPPON, BRUSSELS AIRLINES, CROATIA AIRLINES, LOT, SWISS and TURKISH AIRLINES, with the extension of code-share with AIR CANADA to the new direct flights between Toronto and Lisbon, in aircraft of the counterpart.

As a result of the increase in the number of destinations offered by TAP in own aircraft during 2014, the connectivity between TAP and its partners was improved and enhanced in many points, through the diversification of the offer available to passengers, who thus benefitted from the increased number of code-share destinations between TAP and its partners.

In a continuous effort to reinforce the range of benefits, namely those arising from the continuous expansion and improved coverage of TAP's network of destinations offered to its Customers, negotiations were concluded successfully with the company COPA, a Panama counterpart and STAR Alliance member, with the code-share agreement scheduled to begin in the near future, at the start of 2015, alongside the Frequent Flyer Programmes interconnection agreement already in place.

It is also important to mention the implementation of the new code-share and Frequent Flyer Programmes interconnection agreement with the Brazilian counterpart GOL, which TAP believes will allow it to more appropriately meet Customer expectations in the Brazilian market, whose importance within the existing Network has increased consistently over the past few years.

Meanwhile, the negotiations to implement close commercial partnerships with other Alliance Member companies, in particular ETHIOPIAN and Air INDIA, are in their final stages, with implementation expected to occur during the 1st quarter of 2015.

In addition, various activities and projects under the STAR Alliance continued to be intensified and deepened, in order to maximise the use of all of the potentialities, synergies and benefits generated by the interaction of its different members, among which the inauguration of the new common Terminal of STAR Alliance at Heathrow is noteworthy, due to the additional advantages offered in terms of service quality level and interconnectivity to the passengers of the 23 member companies operating there.

		Change on previous year		
Region	**Traffic Volume** (Passengers)	**Capacity** (ASK)	**Traffic** (RPK)	**Load Factor**
Mainland Portugal	578,232	-3.0%	1.9%	66.6%
Autonomous Regions	984,256	-1.3%	3.0%	75.5%
Europe	7,091,116	5.1%	9.5%	79.1%
Africa	739,395	0.2%	1.1%	77.3%
North Atlantic	284,626	7.2%	10.5%	85.4%
Mid Atlantic	132,884	56.7%	47.0%	80.6%
South Atlantic	1,603,190	5.3%	3.9%	83.1%
Total	**11,413,699**	**5.5%**	**7.0%**	**80.6%**

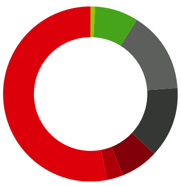
Cooperation and Partnership Agreements* 2014

Portugal	
Mainland Portugal	Brussels Airlines, Emirates, Lufthansa, Sata International, Swiss, Turkish Airlines, Ukraine International, United Airlines, US Airways (from March to October)
Autonomous Regions	Sata International
Europe	
Austria	Aegean Airlines, Austrian Airlines, Brussels Airlines, Ukraine International
Belgium	Austrian Airlines, Brussels Airlines, Etihad Airways, Finnair, Thai Airways, Ukraine International, United Airlines
Bosnia and Herzegovina	Austrian Airlines
Bulgaria	Austrian Airlines, Lufthansa
Croatia	Croatia Airlines, Lufthansa
Czech Republic	LOT - Polish Airlines, Lufthansa, Ukraine International (since March)
Denmark	Lufthansa
Finland	Finnair, Lufthansa
France	Brussels Airlines
Germany	Aegean Airlines , Air China, Brussels Airlines, Croatia Airlines, Etihad Airways, LOT - Polish Airlines, Lufthansa, Thai Airways, Turkish Airlines, Ukraine International (from March to October), United Airlines, US Airways
Greece	Aegean Airlines, Lufthansa, Swiss
Hungary	LOT - Polish Airlines (from March to October), Lufthansa
Italy	Aegean Airlines, Air China, Alitalia, Austrian Airlines, Croatia Airlines, Egyptair, Etihad Airways, LOT - Polish Airlines, Ukraine International
Netherlands	Etihad Airways, Finnair, LOT - Polish Airlines, Ukraine International, United Airlines
Norway	Lufthansa
Poland	LOT - Polish Airlines, Ukraine International (since March)
Romania	Austrian Airlines, LOT - Polish Airlines, Lufthansa
Russia	Siberia Airlines
Serbia	Austrian Airlines
Slovakia	Austrian Airlines
Spain	Aegean Airlines, Air Canada (from March to October), Air China, Austrian Airlines, Croatia Airlines (from March to October), Egyptair, Thai Airways, Turkish Airlines, Ukraine International
Sweden	Brussels Airlines, Lufthansa
Switzerland	Aegean Airlines (since March), Air China, Austrian Airlines, Croatia Airlines, Etihad Airways, Finnair, Swiss, Thai Airways, Ukraine International, United Airlines
Turkey	Turkish Airlines
Ukraine	Ukraine International
United Kingdom	Aegean Airlines, Air Canada, Etihad Airways, South African Airways, Ukraine International, United Airlines
Middle East	
United Arab Emirates	Emirates, Etihad Airways
Africa	
Egypt	Egyptair
Ghana	South African Airways
Morocco	Etihad Airways
South Africa	South African Airways
North Atlantic	
Canada	Air Canada, Sata International
U.S.A.	Air Canada, Sata International, United Airlines, US Airways
Mid Atlantic	
Mexico	United Airlines
South Atlantic	
Brazil	GOL (since November)
East	
China	Air China
Hong Kong	Emirates, Lufthansa
Malaysia	Emirates
Singapore	Emirates, Lufthansa
Thailand	Emirates, Thai Airways

* Operation by code-share partner airline

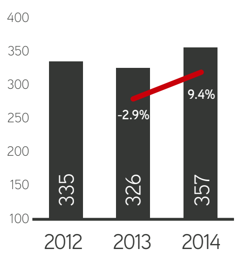
The Mission of TAP–Cargo is to provide a reliable service for the collection, transport and delivery of goods and parcels on the aircraft of TAP and its partners, in a timely manner, suited to its Customers' needs and at competitive prices

Carried Tons
by Route Network Sector



- 1% Mainland Portugal
- 8% Autonomous Regions
- 15% Europe
- 13% Africa
- 7% North Atlantic
- 3% Mid Atlantic
- 53% South Atlantic

Cargo and Mail Traffic
million RTK



Variation

New Projects

- Cargospot – New upgrades and enhancements in Business Intelligence and Revenue Management
- e-freight
- Mail System – Specification analyses to go-live in April 2015

CARGO

Cargo volumes increased 6.2% in 2014

Although the year 2014 started in negative ground, the second half was crucial to the business and the Company ended the year with over 6.2% tons of cargo, compared to the previous year. The Brazilian market, where TAP grew 31%, was the largest contributor to this growth.

The weak start of the year was due to several factors, however, the decline in the automobile industry in Brazil, one of the Company's major cargo flows from Europe to that country, was presented as the main cause.

During the second half, there was a widespread recovery of cargo on the markets operated by TAP and was also new business captured. The performance of the Brazilian market for Portugal is also instrumental, as mentioned above. These facts place TAP in 2014 with a growth above the European average.

Apart from Brazil, TAP increased significantly on other markets, such as, Netherlands (+33%), Belgium (+25%) and Germany (23%). These four markets were responsible for over 42% of the total volume transported in 2014.

For the new destinations of TAP started in 2014, the one which stood out in cargo perspective was Colombia, both in export or import. This market had a significant demand for the several European countries and kept on a lesser scale, interesting trade flows, in particular to the Netherlands and Spain.

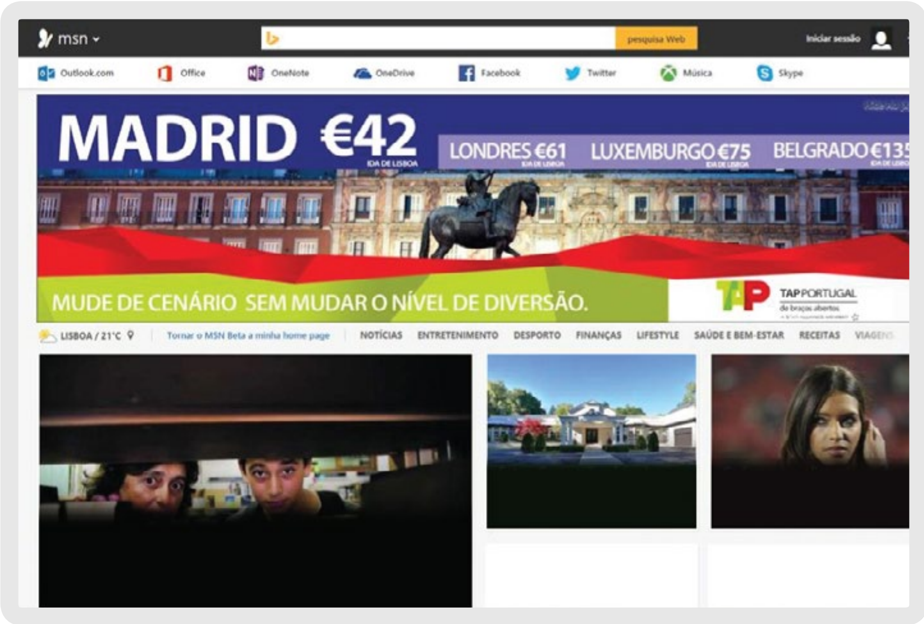
Through the Lisbon Hub, TAP–Cargo continued the consolidation of the excellent strategic positioning which holds between Europe and South America and Africa, with more relevance to the markets of Brazil and Angola but also directly linking the entire TAP network.

In pursuit of customer satisfaction, TAP–Cargo continued to develop activities in the entire range of products: general freight, mail, precious cargo, express cargo, controlled temperature shipment, wide format cargo, live animal, among others. In 2014, temperature control in cargo transport reached its maximum with a 21% growth over the previous year, consisting mainly of imports to Brazil of this type of cargo so specific and delicate.

New technologies continued to be the top priority of investment. With the recent and versatile Cargospot system, new revenue management processes have been implemented in most markets, using the system Pricing and Business Intelligence modules. New Track & Trace features were made available to clients in particular for the use in tablets and smartphone devices.

The EC and national customs authority in Portugal determined, additional electronic information required between their own system and the airlines. These new standards became the role model and are essential for business continuity.

The Company has maintained a close relationship with IATA, whose recommendations follow strictly. With this view TAP–Cargo continues to coordinate the development of e-freight in Portugal, under the supervision of IATA.



E_COMMERCE

Presence of the flytap.com portal in 54 markets

During 2014, TAP's e_Commerce accounted for a turnover of close to 478 million euros, corresponding to a year-on-year growth of 13%, reflected in a total of 1.6 million passengers.

The numbers presented by this sales channel, which already accounts for 17.4% of the total revenue of markets, clearly reflect the choice of a strategy of growth, geographic expansion to new areas and growing consolidation of TAP's position in various online markets.

With reference to the markets with the highest performance in terms of turnover, it is important to highlight Brazil, where TAP continues to record growth in the order of 13%, maintaining the leadership of the online markets relative to sales results. Special note should also be made of the important growth recorded in Germany (43%), the USA (35%) and France (34%).

The mobile sales channel, inaugurated in 2012, recorded significant growth during its second year of activity, with sales revenue of around 17 million euros, which already accounts for 3.5% of total sales in digital channels, having also been redesigned in order to optimise its use.

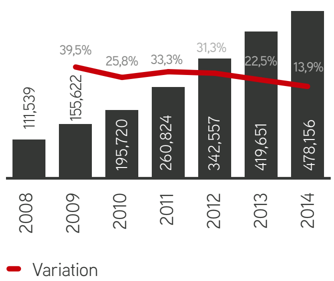
The flytap.com portal is now present in 54 markets, having been inaugurated in 2014 in Colombia, Hong Kong, Panama and Uruguay.

The launch of the new TAP Agents portal in the Spanish market and of the new TAP Cargo portal was equally noteworthy.

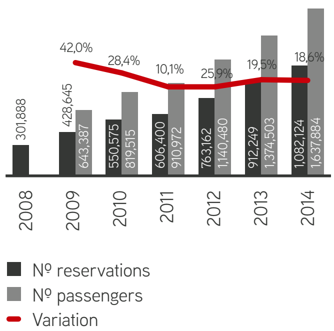
Under flytap.com, during 2014, there was a strong dissemination of promotional campaigns, a total of 40, having resulted in an increase of 80% in revenue relative to a similar number of initiatives in the previous year.

Regarding the affiliation programmes, which account for 8% of online revenue, TAP continued its strategy of growth and consolidation of the network of affiliates in various markets. In this regard, in 2014, partnerships with new platforms (e.g.: Tradedoubler in March) and metasearchers (e.g.: Kayak in February) were developed and efforts were made to consolidate partnerships with existing platforms (e.g.: opening of new markets for the remarketing SaleCycle e-mail, in June).

Online Revenues
EUR thousand



Online Bookings



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.

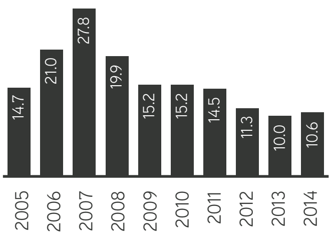
CUSTOMER SERVICE

Main functions

- Define the ground handling service levels, regulate and coordinate their implementation, with a view to ensuring operational safety and service excellence;
- Directly and/or indirectly manage ground handling services in all operational aspects (passengers, ramp, load control, cargo, mail, and additional services of De-Icing/Anti-Icing, Drinking Water and Fuelling), and safety, at all airports where TAP operates;
- Manage the operation of the Lisbon Hub, ensuring punctuality and optimisation of transfer flows, with maximum levels of safety and quality in operational and commercial terms;
- Manage the process of transfers across the TAP network;
- Manage the treatment of irregularities;
- Ensure the quality of ground handling, in a uniform and consistent manner, across the network;
- Promote the development and implementation of measures for service improvement, aimed at excellence in passenger experience.

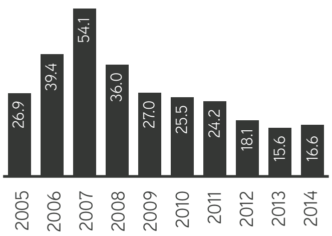
Left Behind/1,000 passengers

Network

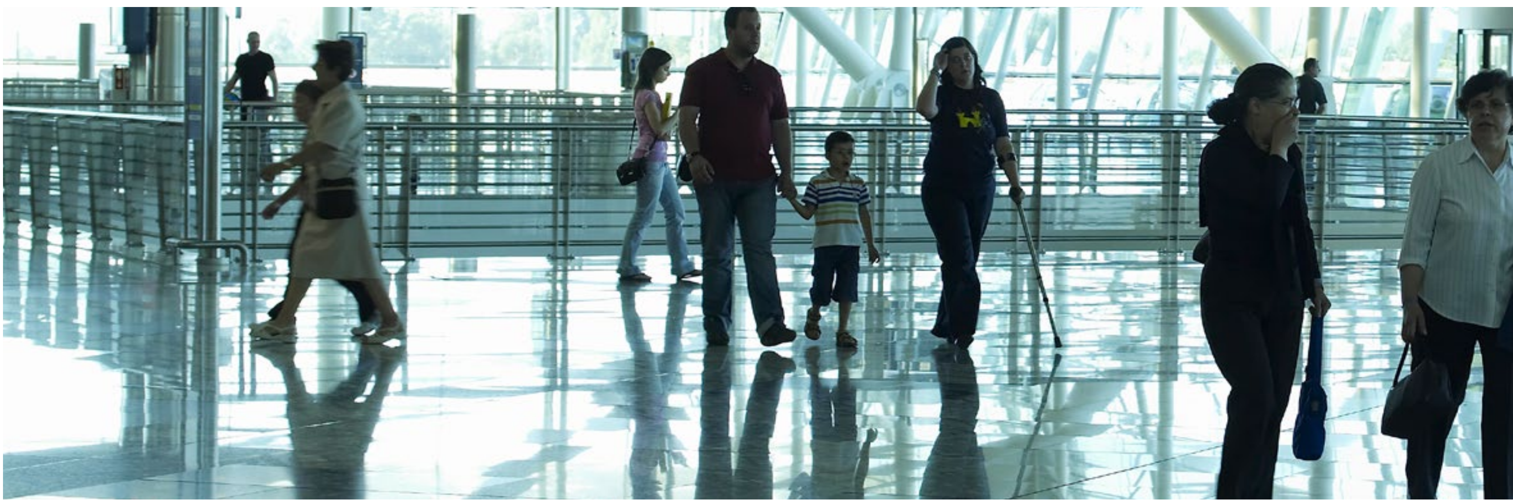


In the TAP network, 10.6 left behind/1,000 passengers.

Lisbon hub



In the Lisbon hub, 16.6 left behind/1,000 passengers.



2014 projects

Project Punctuality 90+ – Work group encompassing the different Company areas, coordinated by the Customer Service Department (DSC), seeking to improve the punctuality within TAP's network, an initiative whose results were noticeable over the course of 2015.

Enroute stop-overs management – Opening of eleven new stop-overs: Hannover (HAJ), Oviedo (OVD), S. Petersburg (LED), Nantes (NTE), Manaus (MAO), Belém (BEL), Bogotá (BOG), Panama City (PTY), Belgrade (BEG), Tallinn (TLL), Gothenburg (GOT), with suspended operations for the stop-over of Bissau (OXB) being maintained.

CITP (Common IT Platform) - Amadeus Altea Project – Following the policy already initiated in previous years, the DSC continued the process of implementing the Amadeus Altea Departure Control System in stop-overs from abroad, having coordinated the migration of twelve additional stop-overs (Europe: HAJ, NTE, BEG, TLL, GOT and LED| Americas: MAO and BEL| Africa: SID. RAI, VXE and BVC), ending the year with 89% of the stop-overs of the online TAP network in the Amadeus Altea system.

Daily Performance Monitor – Implementation of a monitoring dashboard, enabling TAP's network operation to be tracked in real-time with a particular focus on punctuality and aircraft turnaround times.

ULD Outsourcing – TAP ceased to have its own ULDs (containers and pallets), with an external company having become fully responsible for their management through an outsourcing contract in pooling with other companies. In addition to the immediate savings in management, repairs, acquisition and assembly of ULDs, the use of lightweight equipment that reduces fuel consumption, permitting annual savings of approximately 350 thousand euros, was also agreed.

Lisbon Hub and Continuous Improvement – The DSC's Continuous Improvement area developed and supervised the implementation of projects that are determinant for the optimisation of the performance of the Lisbon Hub and the entire TAP network, namely:

- New cleaning contract in Lisbon: Detailed definition of the services to be rendered, differentiation between night-stop and rotation cleaning, inclusion of waste management and a new SLA;
- Passengers Notification: Proactive notification of passengers via e-mail and SMS relative to check in opening, boarding gate changes, flight delays and changes in cases of irregularity;
- Inform GS Hub Control: Implementation of the following modules:
  - Netline system integration – PGA crew control, both local (sign-on) and in transfer;
  - Special cases, including ramp return, flight return and diverted flights;
  - GS Connect – management and monitoring of transfer passenger flows, as well as proactive performance in short connections and misconnections;
  - GS BIS (Business Intelligent Solution) – Issuance of reports to prepare the operation (identifying, on a timely basis, any potential bottlenecks for a proactive performance), dashboards, and operational and service quality reports for debriefing.
- Mobility project: Enabled better, real time data access to TAP's ground teams:
  - New radio solution with multiple channels and integrated telephones;
  - Mini iPads with access to different operating systems, with emphasis on: Altea DCS/CM Roaming and Inform GS Web Hub. These tablets were also provided to LHR, MAD, ORY, BCN, GRU and GIG stop-overs, with access to local systems and to Altea DCS/CM.
- Improvements in the luggage processes at the Hub, through the following implementations:
  - MyBag V2, with detailed integration of aircraft loading and permitting the sending of relevant information to destination stop-overs after flight departure;
  - Outsized bag drop control, preventing situations of fraud with potential impact on revenue;
  - Implementation of the new BRS version, BagManager 6, ensuring a more precise control of transfers and no-load luggage identification due to irregularities, permitting their resolution on a timely basis.
- New check-in processes:

  Following the trend in the Industry and in line with the development of the self check-in strategy implemented in 2013, the DSC has extended the availability of the use of the different self channels – kiosks, web and mobile – which are now available at all the online stop-overs of the TAP network. The acceptance period was also extended to 72 hours prior to departure.

  In Lisbon, the percentage of self check-in passengers was 68%, while only 32% of passengers went through the traditional check-in. This result permitted reducing the processing time per passenger and, consequently, the queue waiting time at the airport.

  - Bags ready to go: printing of luggage identification tags available at all kiosks in Lisbon Airport;
  - Activation of VDB (Voluntary Denied Boarding) module, across the TAP network: possibility of automatic search of volunteers as a result of overbooking levels and TAP's commercial rules, a feature also available from the kiosks;
  - Automation of collection of emergency contacts at Brazilian stop-overs, either during physical check-in, or in the self channels: discontinuation of paper records, and streamlining of acceptance and boarding processes.

Luggage irregularities

After six consecutive years of significant improvements in luggage performance, TAP registered a slight increase in irregularities. This increase was mostly due to the punctuality problems registered during the summer period and strike periods, such as the one on 1 December 2014. It is worth noting that the latter resulted in about 6,000 left behind bags.

In Lisbon, the percentage of self check-in passengers is 68%, while 32% use the traditional check-in

FLEET

During 2014, 6 aircraft were added to TAP's fleet (2 long-haul, and 4 medium-haul aircraft), enabling the opening of various new routes and the consolidation of current markets. The increased fleet size resulted in a 2.2% growth in the total number of flights, and a 4.1% increase in the number of seats offered, compared to the previous year.

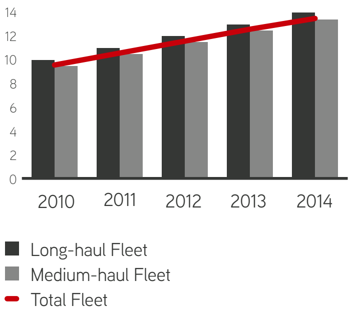
Although the entry into operation was scheduled for 1 July 2014, various reasons led to significant delays in the reception of some aircraft, with the completion of all the phase-in processes having only been completed during the month of September. Various factors, including the late entry into operation of some aircraft, resulted in a high and abnormal number of irregularities during the summer of 2014, which significantly affected the Company's operational performance over that period.

By the end of the year, the fleet of the TAP Group, which includes the fleets of TAP and PGA, comprised 77 aircraft. The TAP fleet is composed of 61 aircraft (43 medium-haul and 18 long-haul), and the regional fleet of PGA, in a total of 16 aircraft (including 2 aircraft under ACMI of OMNI\White).

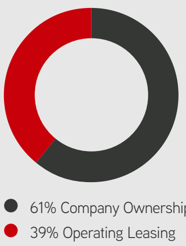
During 2014, the aircraft operated with PGA's colours under an ACMI regime were changed, from the previous 19-seat B1900D to the 48-seat ATR45. This change, in addition to the significant increase in the number of seats offered, actually contributed to the improvement of the product offered to passengers, comprising more modern and comfortable aircraft.

During the phase-in of the four additional medium-haul aircraft, new slim-type seats were introduced that, due to being more ergonomic, provide more space for passengers while the distance between rows remains the same. These new seats also permit a significant reduction in cabin weight, resulting in an annual reduction of fuel consumption and carbon dioxide emissions. At the same time, a new branding concept was introduced in the interior of medium-haul aircraft cabins.

Average Fleet Age



TAP Fleet Financing
31 December 2014



Of the total 61 aircraft comprising the TAP's fleet, in operation, on 31 December 2014, 37 were owned by the Company and 24 were under an operating leasing regime.

- **Owned by the Company**
  15 A319; 5 A320; 2 A321; 11 A330 and 4 A340;
- **Operating leasing**
  6 A319; 14 A320; 1 A321 and 3 A330.

Composition

Number of Aircraft on 31 December

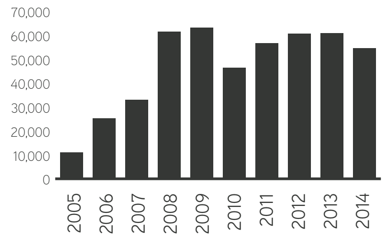
	Units		Average Age	Ownership	Rental	2015 Additions
	Dec/13	Dec/14				
Medium-haul						
A319	19	21	15.4	15	6	
A320	17	19	10.8	5	14	
A321	3	3	13.7	2	1	
Long-haul						
A340	4	4	19.9	4	0	
A330	12	14	12.1	11	3	
Total	**55**	**61**	**13.4**			

Average Daily Utilization

Block Hours/Day

	2009	2010	2011	2012	2013	2014
Medium-haul						
A319	10.40	10.18	10.76	10.82	11.40	11.01
A320	10.45	10.65	10.95	12.32	12.35	12.10
A321	10.85	10.88	11.56	11.94	12.75	12.57
Long-haul						
A340	10.97	13.40	14.37	13.54	13.95	13.00
A330	13.56	13.83	14.66	15.56	14.99	15.11

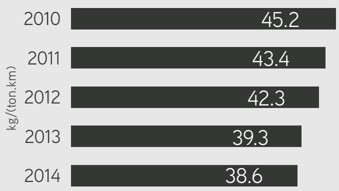
Reduced Annual CO_2 emissions since the start of the project
(ton.)



Jet fuel prices

The monthly average jet fuel price in January 2014 decreased by 3.1% relative to the monthly average registered in December 2013. In spite of this decline, jet fuel continued to be traded at high values, reflecting the persistent trend over the three previous years. The geopolitical tension in Ukraine and the conflict in Iraq led to a slight increase in jet fuel prices in the second quarter of 2014, with a slight decrease beginning in the third quarter. The trend observed in the previous quarter continued over the fourth quarter, with a monthly average price of 641.83 dollars in December 2014, i.e., -36.7% compared to December 2013. This decrease in jet fuel prices was essentially due to the increased offer, especially in the USA, as well as the lowest consumption observed in the Chinese market.

FB/100TK



FB/1000 ASK

FUEL SAVING

The TAP Portugal Fleet

In 2014 the TAP fleet (TAP aircraft) transported 10,020,650 passengers for a total of 12,713,289 seats offered, representing a maximum aircraft physical capacity use of 0.79%. These figures are the highest in the airline's history, and were obtained with 78,535 flights (78,732 if we include Flight and Ramp Returns), which consumed 900,000 tons of JET A1. The fuel burned per Ton-Kilometre and per Available Seat-Kilometre has maintained the decreasing trend that has been observed since 2010.

Although the Ton-Kilometre and Available Seat--Kilometre indicators have evolved favourably, the same was not true for fuel consumption, when estimated with the operational conditions equivalent to those of 2013.

Actual Fleet ICAO	Representative Flight Sample	Sample Fuel Burned [Kg]	Savings FB_FH [ton]	Savings FB_FH_perf. [ton]
A319	99.07%	171,557,441	588	405
A320	98.93%	187,663,169	1,144	518
A321	99.27%	37,402,052	111	-67
A332	98.32%	376,673,231	782	962
A343	97.88%	117,275,439	575	231
Total	**98.92%**	**890,571,332**	**3,199**	**2,049**

SAVINGS_FB_FH – Fuel savings - AZFW*FH
SAVINGS_FB_FH- Fuel savings - AZFW*FH*Performance
AZFW – Actual Zero Fuel Weight
FH - Flight hours

In 2014 more than **2,049** tons of fuel were consumed, taking as reference the operating conditions of 2013, and ignoring the performance degradation between 2013 and 2014. Considering the performance degradation, an increase in fuel consumption of **3,199** tons was obtained

This fuel consumption degradation vis-à-vis 2013 was essentially due to the following factors:

- Introduction of new routes with high quantities of fuel to the alternative airport, namely the routes LIS-MAO and MAO-BEL;
- High rate of operational irregularities that led to shortened flight times to make up for the initial delay;
- Increase of the total number of delayed flights.

The Portugália Fleet

In 2014, the process to improve the set of fuel consumption optimisation measures was continued. In this context, best practices continued to be followed, resulting in a constant review of the company's fuel policy:

- Efficient practices in aircraft operation;
- Programme of periodic washing of aircraft;
- Weight reduction through new painting, windshield element – titanium *versus* stainless steel and renewal of thermal blankets;
- Concordance of the panels and polishing of the fan blades; reduction of pressurisation leaks in the cell.

These measures contributed to the reduction of 6 tons in CO_2 emissions. On the other hand, it is important to point out the constant improvements made in the common platform with TAP, aimed at the standardisation of the fleet performance analyses.

	17 years before	2014
Member-Airline companies	5	27
Daily departures (thousand)	6	19
Destinations	578	1,321
Countries served	106	193
Aircraft		4,561
Employees (thousand)		410

STAR ALLIANCE

STAR Alliance – the harmonisation of service standards and the best possible connections between the various continents

In 2014 the Alliance celebrated its 17th year of activity, with its initial start-up having occurred when the founding companies understood that the growth of globalisation would be accompanied by an increasing need for international travel to a wide range of destinations. In offering air carriers means to ensure the efficient performance of their corporate goals, guaranteeing Customers the harmonisation of service levels and the best connections possible between the different continents, the Alliance also provided member companies with the benefits of economies of scale, through increased market share and expansion of the network of destinations. Its incorporation was based on two concepts: the concept of partnership, whereby a Customer from any member company of STAR Alliance is a Customer of all member companies, receiving an identical service, and the concept of hub-and-spoke operation, i.e. the global reach of the Alliance sustained by connections between the various hubs of the member companies.

In these seventeen years of activity and with a size five times greater, STAR Alliance is the world's leading alliance of aviation companies and the most highly distinguished, with a truly global reach, targeting the international frequent traveller. Its network of globally respected members are committed to keeping the highest Industry standards in terms of customer service, safety and technical infrastructure. Over this period, STAR Alliance has expanded into a network of 27 companies, with 4,561 aircraft that transport 654 million passengers on more than 19 thousand daily flights to 1,321 airports, using more than 1,000 lounges, serving more than 193 countries and employing 410,274 workers.

Technological development and new members

In 2014, STAR Alliance continued its strategy of moving the Alliance companies into a single common area (*Move Under One Roof*). This programme, of which the latest example is Terminal 2 of Heathrow airport in London, inaugurated in June, has been under implementation for many years and is already in operation in twenty airports around the world, allowing member companies to reduce operational costs and provide their respective customers with greater comfort, making possible uninterrupted travel between destinations, and thereby improving service quality through the use of common spaces in the major airports.

Furthermore, it is worth noting in 2014 the admission of Air India as the newest Alliance member, a company that after absorbing Indian Airlines has assumed the role of main player in the Indian market, and can now fly to one of the 12 international airports and make connections to more than 60 destinations within the country (the 5th largest domestic market), thus allowing the company to more easily reach any business centre. STAR Alliance has thus become the first alliance to integrate an airline company from this region of the globe as a member.

Global travel conventions

Conventions Plus – A STAR Alliance service that helps to make organising and attending international conferences easier offering access to member airlines' schedules and discounted fares in one handy place.

Meetings Plus – Allows for a much more effective service travel to attend business meetings. With a single agreement that includes up to 27 member airlines, a single point of contact is set up to supervise all of the required reservations.

Corporate Plus – A universal solution for global business travel, permitting the organisation of trips for employees of multinational companies who fly around the world on a regular basis. *Corporate Plus* was created to remove the difficulties and problems of numerous negotiations with the most varied airlines, resulting in a single contract covering all STAR Alliance member companies, and in a single negotiation. STAR Alliance has recently introduced improvements to this product, intended for participants or congress participants and organisers of meetings and conventions, which translate into a set of benefits, namely, enhanced rate options, the elimination of online reservation fees, the offer of a new support programme for organisers, and the introduction of a more simplified contracting scheme. The discounted rates available for participants was enhanced with the introduction of additional reservation classes, featuring discount levels between 4% and 20%.

Terminal 2 Heathrow, London

Regions	Main hub airports
Europe	
Adria Airways	Ljubljana
Aegean Airlines	Athens
Austrian Airlines Group	Vienna
Brussels Airlines	Brussels
Croatia Airlines	Zagreb
LOT Polish Airlines	Warsaw
Lufthansa	Frankfurt, Munich
Scandinavian Airlines	Copenhagen, Stockholm, Oslo
Swiss	Zurich, Geneva, Basel
TAP Portugal	Lisbon, Porto
Turkish Airlines	Ankara, Istanbul
Africa	
Egyptair	Cairo
Ethiopian Airlines	Addis Ababa
South African Airways	Johannesburg
North Atlantic	
Air Canada	Montreal, Toronto, Vancouver
United Airlines	Chicago, Denver, Los Angeles, San Francisco, Washington, D.C.
Mid Atlantic	
Avianca-TACA	Bogotá, San Salvador, Lima
Copa Airlines	Panama City
Asia	
Air China	Beijing, Guangzou/Shenzen
Air India	New Delhi
All Nippon Airways	Tokyo, Osaka, Nagoya
Asiana Airlines	Seoul Incheon
EVA Air	Kaohsiung, Taiwan
Shenzhen Airlines	Shenzhen
Singapore Airlines	Singapore Changi
Thai Airways Intl	Bangkok, Chiang Mai, Hat Yai, Phuket
Southeast Asia / Australia	
Air New Zealand	Auckland, Los Angeles

TAP SERVIÇOS

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.

With the knowledge that TAP Serviços Customers operate in increasingly competitive markets, both in terms of prices and solutions, the continuous improvement process, from the viewpoint of efficiency and quality, was intensified in 2014.

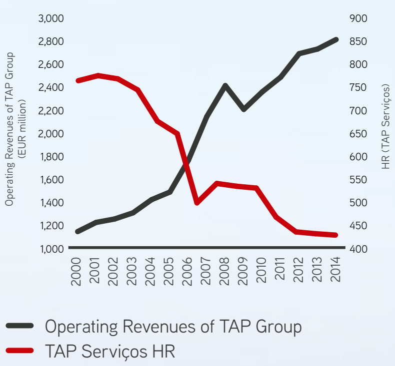
An organisational model of shared services

Ten years after its creation, TAP Serviços continued its mission in 2014 of providing support to the other TAP Group Business Units and companies, in a progressively more efficient manner, through standardised processes involving best practices and supported by adequate information technologies, in an attitude of permanent innovation. In accordance with the defined relations model, TAP Serviços maintains shared responsibility protocols with its Customers, with service level agreements and performance indicators having been established.

These actions have resulted in:

- The concentration of qualified resources and the effective management of those resources
- Faster processes and enhanced operating efficiency through the standardisation of processes and better access to information;
- Sharing and exchange of knowledge;
- Focusing on the core business, with greater emphasis on the Customer;
- Significantly decreasing costs, through economies of scale, and the reduction of duplications and redundancies in a more competitive environment.

TAP Serviços Efficiency



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.

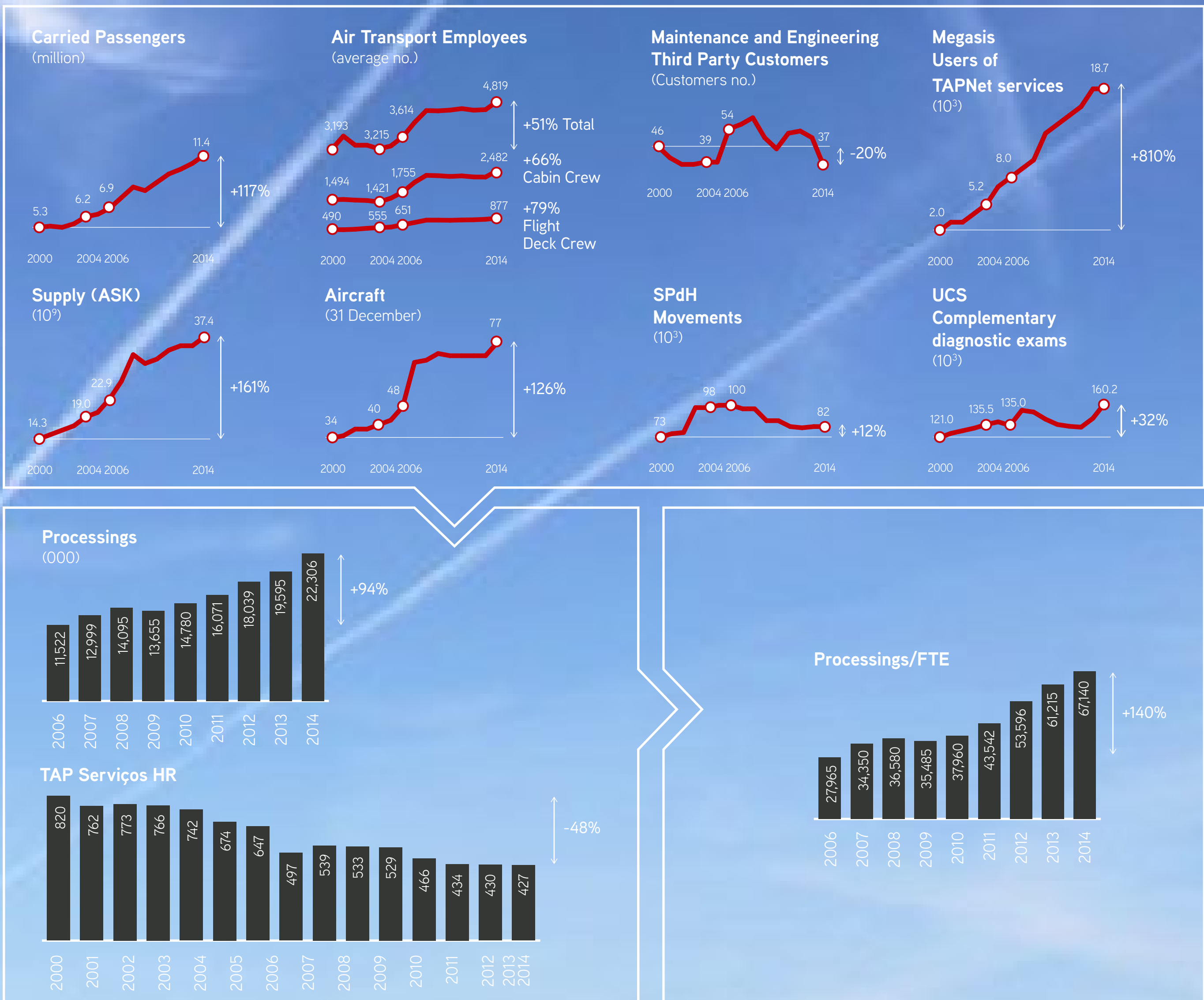
Administration and Management of Physical Resources – To define and guarantee the provision of support services to the governing bodies, ensure the effective management of the installations and equipment, security and safety, environment, insurance, documentation and general support services, necessary 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



MENÇÃO HONROSA
PRÉMIO
BOAS PRÁTICAS
no sector público

FINANCE

Various short-and long-term financial operations were conducted.

In the middle of the year, various short-term credit lines were contracted, some of which were used to reinforce cash flow while others were maintained as available funding.

Similarly to the last few years, various risk hedging operations relative to the exposure of TAP to aircraft fuel prices were planned and undertaken, resulting from market monitoring. CO_2 allowance price protection operations were also carried out. Similarly, the various financial, monetary and exchange rate markets in which TAP operates regularly were also monitored. The current operations required for the normal conduct of activity continued to be undertaken, for example negotiation of exchange rates in the multiple currencies in which receivables are denominated.

Efforts to optimise financial activity were continued, with several procedure and system improvement initiatives continuing to be developed, in partnership with the areas responsible for the support information systems. This is a continuous process, whose implementation effort has proven to be very positive, giving support to the constant improvement registered in the various efficiency metrics monitored in this area.

Lastly, it is worth noting the additional efforts, at the end of the year, to prepare for the Privatisation of the Company, a process to be conducted over the course of 2015, as well as the works to carve out the FFP (Frequent Flyer Programme).

HUMAN RESOURCES

Human Resources, as business partners and change facilitators, have the mission of contributing to ensure business survival; this largely depends on their personnel, and consequently on how their share of work adds value and competitiveness.

The Human Resources Business Partners of the different Business Units of TAP, who operate in close association with HR Operations and with Talent Management, guarantee proximity to the day to day of the business and its leaders and, simultaneously, a broad commitment to TAP's strategies as a whole.

HR Operations – Staff Administration and Remunerations, the Travel Office and HR Management Information – have focused their action on securing continuous improvements to the quality of the services provided. In this sense, the Staff Administration and Remunerations area has been developing the Shift Planning/Portal Overtime and Shift Change tool, simplifying the shift change process, the analysis and approval flow of overtime. The Travel Office has optimised the filing of business travel requests via the central IT system, which will contribute to the paper free policy within the sector, and help establish priorities. FlyStaff processes continued to be improved with the implementation of a new version, containing three new functionalities: 1) ticket issue and reservation changes up to 1h30 before flight departure; previously this was possible only more than 12 hours before flight departure; 2) automatic reimbursements; 3) display of Hotels with discount according to destinations requested.

In 2014 Talent Management continued the practices aimed at reinforcing its rationale of Attracting, Developing, Training and Support people for the business, always in terms of the optimisation of processes and resources.

LABOUR RELATIONS

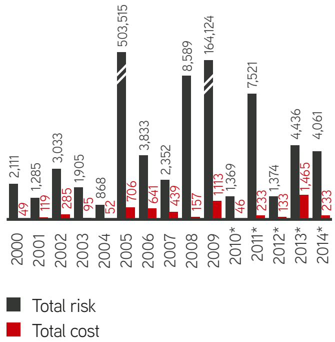
Within the Labour Relations Area, the institutional relations with the Supervising Bodies, the Labour Administration and the organisations representing workers (Staff Commission Bodies and Trade Unions) where assured.

Particular emphasis was placed on the identification and monitoring of the provisions contained in the State Budget for 2014 applicable to TAP and other Group companies, namely in regard to remuneration matters and recruitment of employees.

A global analysis was conducted on the validity periods of the applicable Company Agreements, aimed at developing a plan for their termination and review.

Legal and employment related advisory services were assured to the TAP Group Business Units and companies, including the investigation of disciplinary proceedings cases, taking precautions against situations potentially able to result in legal suits or regulatory offence procedures.

Labour Dispute – Risk and Cost
EUR thousand



(*) TAP Group companies: TAP, S.A., SPdH, S.A., UCS, S.A., Megasis, S.A. and Portugália, S.A.

Within the labour dispute area, very encouraging results continue to be registered, with an average success rate of 92%, considering the risks/overall costs with reference to the period from 2000 to 2014.

LOGISTICS

The Logistics Area continued to offer a service of excellence, through sustainability practices, continuous improvement, and an appropriate management and selection of Suppliers.

These criteria are decisive success vectors, ensuring competitive advantages that are reflected in the performance of the area vis-à-vis its internal customer.

Criteria of rigour, transparency and ethics ensure a strong commercial relationship with the partners of this area, never losing sight of the objective of increasing the efficiency of the negotiation/acquisition process.

The assessment of the financial risks of Suppliers and Service Providers is processed using a Business Information Scoring tool.

Warehouse Area – The online uniform request portal was implemented with the designation of Uniform Store, allowing any worker of the cabin and flight deck crew area to request uniforms and accessories online, without having to go to the TAP campus. This tool provides for a more efficient management of stocks, reducing backlog and delivery times, and consequently, providing internal customers with significant added value.

Customs Office – This sector maintains its activity of provider of customs services support to the TAP Group business units and companies. In addition, periodic audits are conducted involving the physical counting of goods belonging to TAP service providers in Lisbon Airport, whose responsibility before the customs and tax authorities belongs to TAP.

Other – Upon management request, a Purchases and Sales Manual was prepared for the Companies of the TAP Group (100% TAP capital) approved by the Executive Board of Directors (meeting held on 12 June 2014 – Minute number 175).

ADMINISTRATION AND MANAGEMENT OF PHYSICAL RESOURCES

It is important to mention the major activities and projects undertaken during 2014 by the Administration and Management of Physical Resources Department.

Facilities and Equipment – The project to define the Strategic Master Plan for the TAP Campus was kicked-off, to be conducted in 2015, and intended to optimise the use of spaces, define the spatial organisation of the use of soil, the infrastructure networks, and the fundamental elements of the buildings. This Master Plan includes other projects, such as the Safe Parking Project, which integrates various elements of the Administration and Management of Physical Resources Department, and within which the parking areas will be identified, delimited and classified based on safety criteria.

Within the scope of Facility Services and with the help of an external entity, an assessment was conducted of the Maintenance Organisation and Management (O&GM) status, with the purpose of verifying the compliance levels for the maintenance of TAP's technical infrastructures, facilities and equipment. The study is based on an assessment of the risk, the availability of systems, equipment and infrastructures, and the adequacy of the IT procedures and tools in use. The findings of this study will be implemented within the request for tender to be held in 2015, and will result in a review and change of the scope of the services provided.

The energy and water consumption reduction programme (electricity and natural gas) initiated in 2010 was continued in 2014, with projects to install LED lighting, replacement of air conditioning units (more efficient from the energy standpoint, and complying with community legislation prohibiting equipment with fluorine gases that have a greenhouse effect), and replacement of existing equipment with energy saving equipment (such as timed taps, and inefficient tubes with evident water losses, among others). As a result of this programme, the consumption of electrical energy remained stable, while the consumption of gas and water registered a decrease of 5% and 8%, respectively.

The project to improve the image and optimisation of spaces was conducted in 2014 and will continue in 2015, aimed at promoting functionality and productivity, adapting the spaces to the brand image of TAP and/or the Business Units and Companies Associated to the TAP Group, and using technically and economically sustainable solutions whose definition was based on the cost-reduction guidelines established for the Company. In this context, a pilot study was conducted in building 27, whose findings indicated the need for the implementation of changes in the functionality and typology of work spaces, based on best practices and benchmarking models.

Within the scope of the 2014 interventions and work plan, strategic projects for the Air Transport Business Unit were initiated and conducted and will be continued in 2015, namely, the project of the new Lounges (Lisbon Airport), the project to renovate the Hub (Lisbon Airport), and the project to relocate the Porto Crew Terminal (Sá Carneiro Airport). Landlord works were conducted, the most significant of which were the replacement of roofs of the annexes to hangar 6, covering an area of more than 5,000m2, which corrected non-conformities detected in the intervention areas, and increased the energy efficiency and natural lighting levels of the spaces with the installation of translucent panels. Other works, such as changes to the image and comfort levels of the external spaces of the Areeiro Crew Terminal (Lisbon Airport), and the structural reinforcement of the pavement of the cleaning and NDT sector in building 23, allowed the non-conformities detected within the scope of Occupational Health and Safety (SST) to be solved, and the spaces to be adapted for optimal use.

Insurance Management – The maintenance of the joint negotiation strategy for insurance contracts for the Companies of the TAP Group has permitted, in some insurance branches, the obtainment of reductions that varied between 2.5% and 5% of the insurance premium, namely in Motor Insurance and Health Insurance, maintaining the same insurance coverage, capital and benefit levels. In work accidents, personal accidents, life, and asset insurance branches, even considering adverse risk or market conditions, it was possible to secure unchanged cost levels.

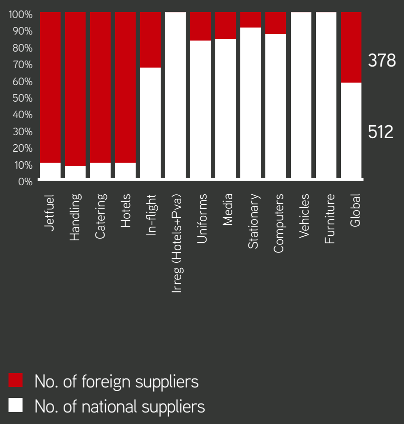
In Aviation Insurance (hulls, liabilities, spares – regular, war and terrorism risks), the consolidation of the joint approach policy to the Aviation Insurance Market within the scope of the Group of Air Carriers that TAP has been a member of since 2005 enabled TAP, in 2014, to occupy the 6th position in the benchmark of lowest total costs per passenger (comprised by 30 worldwide air carriers, whose aviation insurance negotiations occur on the same date as TAP's).

Security – It is important to mention the absence, in 2014, of any Security events worthy of notice, i.e. which have in any way jeopardised the Security of TAP's operations in the various stop- -overs of the company.

The constant transformation of the aviation business requires a management model from the Logistics Area that is increasingly adapted to the challenges of the business of TAP and to the diversified markets in which the Company operates.

In the procurement relative to categories of goods and services, whenever the specificity permits, and always taking into account the equality of circumstances (price/quality relationship), 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 number of Suppliers per purchase category



Also noteworthy was the start of the ACC3 certification process as of July, which allowed TAP to transport Cargo and Mail from some airports in countries considered third-party, the majority of which in Africa, to European airports, upon validation of the applicable security measures. According to the Road Map approved by INAC, this process will continue until July 2016.

The reduction of the number of inadmissible passengers (INAD`S) bound for national territory, which give rise to fines, was also achieved in 2014, having fallen from 107 in 2013 to 98 in 2014 (-10%), which allowed for an equivalent reduction in costs.

The Annual Audit Plan scheduled for 2014 was fully completed (8 audits), having achieved its main objective with a 20% reduction in the number of Non-conformities, compared to 2013. Among the audited stop-overs, 50% were stop--overs TAP began to operate in 2014.

The number of Security training activities ministered by the area's instructors increased by 12% compared to 2013, having also recorded an increase in the number of trainees by about 45%, from 831 in 2013 to 1,208 in 2014.

In the Installation Security area, the strategy to implement security and monitoring systems for higher risk areas of TAP's facilities was consolidated, with the purpose of mitigating and reducing the risks of illicit interference and acts of vandalism.

Some monitoring and control measures were also implemented at TAP's facilities, with the purpose of reducing the number of violations, namely parking and non-authorised accesses of people and vehicles.

Environment – The Environment area continued committed to training and awareness raising on the environment for workers of the TAP Group companies, through the following actions:

World Environment Day (5 June) – The good results achieved in 2013 in the majority of environmental performance indicators of the TAP Group were disclosed through an infographic, together with a note of thanks to each employee for their contribution. Through a pop-up with a quiz placed on TAP's intranet, the workers were able to select the environmental topic that they considered most important for TAP – Water, Energy or Waste. In this *environmental barometer*, employees elected the topic of Energy as the most important for the Company;

European Mobility Week (16 to 22 September) – To mark the European Mobility Week at the TAP campus, the Environment area has conducted a survey on *bicycle transport*, with the following objectives:

- Finding out what mode of transport employees use to travel between their residence and work;
- Confirm the real demand for bicycle stations;
- Promote healthier modes of transport with a lower carbon footprint.

The workers' adhesion to this initiative was very significant, with the survey concluding that although the majority of people go to work by private car, there is at least one factor where TAP's intervention could have a positive impact on travelling by bicycle, with a consequent reduction of the associated environmental impact – the creation of specific bicycle stations. In 2015 this aspect will be considered within the scope of the Master Plan of the TAP Campus, which will optimise the common spaces of the Campus.

For more information, see the chapter "Environmental Perspective" in TAP's Sustainability Report.

Fire Prevention and Other Risks – Management of a system to minimise the risks of fire, explosion and spillage of chemicals, protecting people and assets, and ensuring the continuity of the company's activity.

In 2014 the Safe Parking Project was initiated, whose purpose is to promote an appropriate occupation of the parking lots at the TAP campus, in line with the Zero Risk goal, and is being developed by a multidisciplinary work group of the Department, including the Fire Prevention and other Risks area. In 2015, the group will identify and delimit critical areas where, for security reasons, vehicles cannot be parked – *zero tolerance areas*.

Since training is a fundamental element for a correct response in emergency situations, various simulation drills were conducted with both the teams that work on the TAP campus, and the occupants of buildings and hangars.

Periodic audits to the facilities and equipment maintenance service provider, within the scope of fire safety equipment maintenance, were reinforced in order to guarantee their proper operation and compliance with the regulations in effect.

To complement the operationalisation of the evacuation plan from the training rooms in the Professional Training building, initiated in 2013 with the placement of an emergency briefing and an emergency kit in the training rooms, instructors were provided with an e-learning training action, and a video on the evacuation plan that instructors can use at the beginning of each training action.

Administration Services – In the Document Management area, the new Recording, Scanning and Mail Forwarding (RDEC) system was implemented, which for documentation dematerialisation processes enabled the capture of about 70% of the documentation in physical media, enabling a more effective management of the resources related to documentation management and control, greater speed of delivery of information and best practices (also at an environmental level) through a significant reduction in the circulation of paper within the Company. Regarding *document digitisation systems*, there was a growing interest by areas of the Company in the adoption of digital file systems, to the detriment of the occupation of spaces with physical files, increasing by about 40% the number of documents handled via integrated document management processes, thus providing for higher levels of information security and access speed.

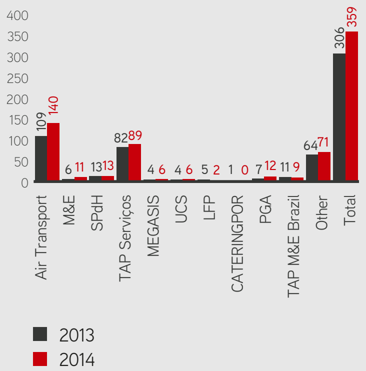
Contract Support and Management – With responsibility for the operating management of several transversal service provisions (canteens, vending, mobile communications, nursery, office machinery, archive custody, microfilming, digitalisation, reception of visitors and telephone service, courier services), the following market consultations were conducted in coordination with the Logistics Department of TAP Serviços: for the provision of nursery services, with a view to implementing the new management model in the beginning of the 2015-2016 academic year; also in coordination with the other Business Units, for the provision of Canteen and Vending Services, with the new contract having entered into force in June. It is worth noting that this Canteen service that the Company provides to its Employees, as per the terms of the respective Company Agreements, allows for 3 daily meals (an average of 3,000 daily meals, from 11:00 AM to 5:00 PM, every day of the year). Within the scope of encouraging healthier eating habits, the development, in partnership with UCS, of campaigns integrated in the More Health Project was continued. In partnership with a Group of the distribution area and TAP's Volunteers with Wings (VCA), various solidarity vending machines were installed at the TAP campus and at the Crew Terminal in Lisbon Airport. These machines support VCA partner associations, by donating fresh fruit to children of those institutions, corresponding to 5% of their turnover. Through this project, in 2 months, about 6,000 fruit items have already been offered. Regarding the Nursery services it was also possible to respond, once again, to the increased demand, by receiving in the beginning of the 2014-2015 school year a total of 383 children (+5% than 2013).

INTERNAL AUDIT

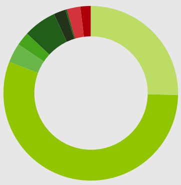
Internal Audit, within the scope of the global objectives of the TAP Group, with a view to reinforcing the quality of the Internal Control Systems by the effective performance, timely information and performance compliance benchmarks, and continuing the work already underway, has increased the effectiveness and efficiency of its actions involving the monitoring of the different operations and activities conducted by the companies and Business Units of the Group. The TAP Group's core business, focused on Air Transport, has seen its activity branch off into new routes, new destinations, new offices, with a significant increase of aspects that require monitoring of the highly complex mitigation and risk management actions. Internal Audit has responded to this multiplicity of challenges by increasing its coverage of air transport activities: Registered Office, Representations and Stop-overs (resulting in a 28.4% increase in the number of actions), along with the need to respond to new realities arising from the regulatory standards applicable to corporations – state-owned companies.

In this case, the increased coverage for the analysis of the contracts established in the different areas, representing a substantive compliance scope, registered a 22.1% increase relative to 2013. It is worth noting that the control and audit system was implemented, from the viewpoint of performance, effective information and compliance, based on the following four pillars: appropriate control environment, efficient risk management, information and communication management system, enabling the support of the monitoring system, a fundamental pillar of the Continuous Auditing process. Internal Audit has based its performance on independence, technical competence, assessment and validation of the

Number of Audits Carried out



Contracts by B.U./Group Company
Representativeness of the audit analysis



structural processes, models and metrics applied within this methodological Continuous Auditing instrument, which have led to an increased monitoring of the performance of the different businesses and areas of the companies of the Group.

LEGAL OFFICE

During 2014, in addition to the ongoing legal counselling given in the analysis of hundreds of contracts, partnerships and agreements derived from the Company's different departments and some associates, we highlight:

- Preparation of the reprivatisation process;
- Analysis and proposals of measures and follow-up of TAP's integration in the European system of Public Accounts;
- Permanent legal counselling given to the Executive Board of Directors, with respect to the TAP/ PASOGAL contract and contracts with SPdH;
- Credit/financing opening contracts;
- Contracts with foreign leasing entities;
- Backing of dozens of legal proceedings concerning passenger rights;
- Successful completion of numerous lawsuits;
- Successful completion of various proceedings concerning administrative offences..

STRATEGIC PLANNING AND PERFORMANCE

Within the context of the business model of TAP Serviços, aimed at the consolidation of a culture driven by the fulfilment of objectives, 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 relations with 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.

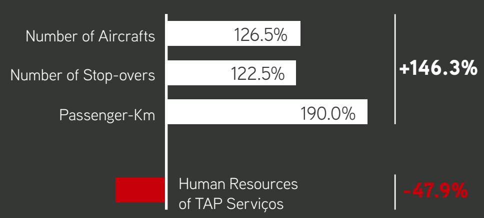
Constituting an objective of TAP Serviços – the continuous achievement of efficiency and productivity gains for its Customers in all their management processes within the business support areas, the Business Unit performance measurement was continued. This procedure, which covers the systematic performance measurement, involves the disclosure of a set of reports, distributed at each management level, on the fulfilment of the defined objectives as well as on the operational performance of each area (efficiency, cost, efficacy, timings and quality).

During the year, compliance with the Service Level Agreements (SLA) held with various Customers – Business Units/Group Companies – was monitored, adapting them to any applicable specificities.

In addition to these initiatives, the area continued to develop its mission, by providing advisory services to the Board of Directors, whenever requested and in a proactive way, by combining the know-how of TAP's Business Units, preparing studies, analyses and issuing opinions of a qualitative nature. Accordingly, the preparation of studies and benchmarking analyses on the air transport business was continued, under the scope of competitive intelligence activities, which have translated into the ability to define, collect and analyse information to support decision making.

Finally, it is important to mention the additional effort, at the end of the year, in the preparation for the Company's Privatisation, involving the coordination of the flow of information, as well as of the needs arising from the preparation of the process, to be conducted in 2015.

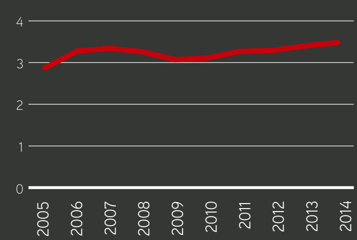
Evolution of the efficiency of TAP Serviços with the growth of its Customers' activity
2000-2014



Knowing and accompanying the evolution of Customers (internal Customer of the Company) perceptions on the services offered has made an important contribution to the improvement of TAP Serviços procedures.

Very Satisfied – 4
Satisfied – 3
Dissatisfied – 2
Very Dissatisfied – 1

Overall Satisfaction



MAINTENANCE AND ENGINEERING

€ 92.0 million

Revenue with Sales and Services rendered from Maintenance to Third Party Customers

3.4%

of the Group's Turnover

1 882

Maintenance and Engineering Staff (31st December)

The mission of TAP-Maintenance and Engineering is to provide maintenance and total support services to aircraft, constituting a partner in the achievement of the objectives of its Customers and basing its activity on a set of values that embody Customer satisfaction, Shareholder return, professional and personal development of its Employees, harmonious integration in society and respect for the Environment.

Global Strategy

Reorganisation of TAP–Maintenance and Engineering

With the appointment of a new General Director of Maintenance and Engineering, a reorganisation process was initiated based on the following logic: Processes; Organisation; People and Systems.

This methodology made it possible to clarify the attribution of duties relative to macro processes, reinforce the alignment with other TAP structures and create a new Department structure for TAP–Maintenance and Engineering.

Improvement of the third-party maintenance business at TAP–Maintenance and Engineering Portugal

Although there was notable growth in 2014 relative to 2013, it was characterised more by cyclical rather than structural factors, with significant pressure on value propositions that lower risk for Customers at competitive prices being maintained, requiring financial capacity from service providers. The market will trend towards the establishment of large MRO service provision networks, led by both large MRO groups and by OEMs that, capable of controlling the product chain from-cradle-to-grave, not only protect their know-how but also establish themselves as new and strong competitors to traditional MRO organisations, hindering their ability to regenerate their portfolios of products and services, which will tend to incorporate smaller MROs with less financial capacity, such as TAP–Maintenance and Engineering, which fit in with their market conquering strategy, based on a network logic, extending the portfolio offering, while at the same time they are more competitive in terms of prices via the synergies thus obtained. In order not to miss the opportunity to take part in these strategies, it is fundamental to maintain high levels of management and technical competence so as to guarantee competitive levels in terms of flexibility, efficiency and capacity to meet customer expectations.

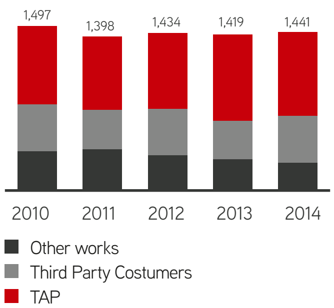
This context explains, to a large extent, the major difficulties of TAP–Maintenance and Engineering in returning to the revenue figures achieved in the engine maintenance, repair and overhaul (MRO) business a few years ago and, at the same time, in using up the installed capacity, in spite of an improvement having been registered in 2014 relative to 2013, with financial results surpassing expectations, although falling short of the number of events budgeted.

This explains a contributory margin of TAP–Maintenance and Engineering to the result of TAP of about three times more than the value budgeted.

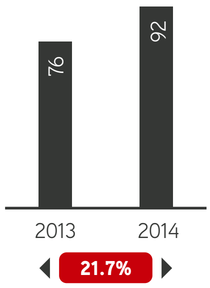
In addition to the normal sales efforts to achieve the objectives set out, it is important to highlight the improvement of the billing and collection processes with the clear purpose of better contributing to TAP's treasury situation.

MAINTENANCE AND ENGINEERING

Maintenance Workforce
(000) Man-Hour



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



Activity

The Third Party Customer segment of Maintenance and Engineering contributed with 92.0 million euros, representing 21.7% more than in 2013 but still 20.1% below that achieved in 2012. The MRO market scenario remains dominated by OEMs and large organisations, such as Lufthansa Technik or Airfrance Industries & KLM Engineering, with respect to engine and component activities, being characterised by businesses with a high financial component (availability of spare engines and stocks of rotational components, for example) with respect to the value propositions for Customers. These factors have conditioned the business opportunities of TAP–Maintenance and Engineering which, nonetheless, seeks, through the establishment of strategic partnerships with some of these players, a means of increasing its market share.

Marketing & Sales

From an Engine Maintenance perspective, the change of the traditional negotiation model, based on direct and exclusive sales of maintenance services, continued in 2014 towards a model increasingly based on the presentation of proposals involving long-term financial conditions. As a result, the engine maintenance business can be seen increasingly less as an operating activity and more as a financial activity, requiring an own high financial capacity or financial support from specific partners. It was possible to conclude some new contracts, namely with KUWAIT AIRWAYS, ALBASTAR and CARIBBEAN AIRWAYS, corresponding to 30% of the number of Engine Shop Visits (ESV) undertaken in 2014 in the Engine workshop. Regarding Aircraft Maintenance, an activity recognised by the European partners as a good alternative to in-house works, the A330 market presented good results, with six major inspections in customer fleets, namely AF KLM and BRUSSELS AIRLINES, having been performed.

It is also important to mention the launch of the Care2 Customer programme aimed at highlighting the customer proximity policy and recognising the best customers. This year, AirEuropa was distinguished.

Engines

The Third-Party Customer segment registered a strong contraction in activity in 2014, when compared to the previous year. Although Maintenance and Engineering provides services for two of the three main products of the Narrow Body fleet, it was not possible to achieve the values set out in the budget, which proved too ambitious in light of the current rules in this market. In fact, some international tenders were awarded to maintenance companies with a strong financing capacity, which allows them to subsidise the activity of their Customers, both through the offer of substitution engines and stock financing, two factors that are essential for guaranteeing the continuity of the operation of an airline company.

As a result of the growing need to repair thrust reversers, it became necessary to increase the installed repair capabilities, as well as acquire reservation units to initiate a sequential recovery process of these units in TAP's entire fleet. This process is now stabilised, permitting significant savings.

During the year, the certification process of the A319, A320 and A321 fleets as True Engine was initiated. The individual certification of the engines is being conducted with each visit to the workshop. This classification is attributed to the operators that only place original parts in their engines, thus permitting a more extensive and efficient post-sales support.

Lastly, over the course of 2014, various Planning and Control process improvement projects were initiated, with the objective of achieving even more competitive repair times.

Components

The Components Maintenance area continued the development of improvements with the objective of increasing customer, TAP and Third-Party satisfaction, namely with respect to reduced costs, improved TAT (Turn Around Time) and greater speed and flexibility in its response capacity to various requests.

In this context, the development of the product portfolio was continued, having resulted in the investment in new equipment and the development of new testability, reparability or general revision capabilities, namely:

- Testability and reparability for RMP (Radio Management Panel) units, series C12848 (entire fleet);
- Testability and reparability for the Probe Heat Computer unit of the A320 fleet;
- General revision of the Retraction actuators of the main landing gear of the A320 fleet;
- Capacity of oxygen bottle regulators extended to all equipment used in the fleet;
- Addition of various units of the Water System;
- Development of the reparability capacity for the in-flight entertainment system monitors, family 2000e (long-haul).

Engineering/improvement processes developed or reviewed
TAT reduction programme for a set of units considered critical for the operation. The IDGs (Integrated Drive Generators) are particularly noteworthy;
Remodelling of the Oxygen Workshop;
Review of the test media of the rescue equipment (Escape Slides and Slide Raft Cylinders) with the objective of reducing TAT;
Investment in a fixed CO_2 and N_2 lines facility, which resulted in an increased capacity of available gases and reduced times for loading pressurised bottles. In addition, the improvement of user safety was also addressed;
Creation of workshop capacity for life jackets that are used in the entire fleet, through the installation of vacuum packaging means, which are more efficient and of better quality;
Development of medium-size/large test equipment for the NATO gear repair project (Final test press, Drag Brace Test);
Organisation of the stamp system for qualified workshop technicians, aimed at accelerating the process of individual identification in work documents);
Development of workshop performance analysis methodologies with specific implications on TAT and material requisition and supply processes;
Renewal of product portfolio, eliminating products that are obsolete or are not commercially viable;
Implementation of a project to modify the Mechanical Support machines, improving safety for operators.

Component Maintenance participated in the process to define the equipment to be integrated in the future A350 fleet, namely Chairs and Galley Inserts. This area also participated in the retrofit campaigns of various units, FMGCs (Fleet A320 Fam), FMGEC (A340), SEC (A320 Fam) and FCDC (A330), involving the reprogramming of OBRMs (On-Board Replaceable Modules).

Aircraft

The Aircraft Maintenance area ensured the maintenance of the TAP fleet having carried out a total of 346 inspections, which represents an increase of 19 inspections relative to 2013, with 20 major inspections being noteworthy due to their weight in terms of workforce and hangar use. Also noteworthy is the additional effort resulting from the entry into service of 6 aircraft, 2 A319, 2 A320 and 2 A330, which required a great deal of work in terms of engineering and planning. In addition, regarding the 2 A330, the Cabin Refurbishment, replacement of the IFE system and installation of the Crew Rest were carried out at TAP.

Similarly to previous years, due to limitations of physical capacity of the hangars and of workforce availability, 8 major inspections of Wide Body TAP and 2 A310 of SATA were also contracted from TAP–Maintenance and Engineering Brazil. In addition, 5 major inspections of Narrow Bodies of the TAP fleet were contracted from other MROs.

Regarding the Operating Dispatch technical reliability, the total value of the fleets stood at 98.23%, which represents a slight reduction relative to the value registered in 2013 (98.55%). It is important to mention that there was a significant increase in the number of flights in the summer period and, as a result, very short rotation times, combined with major limitations of human resources and the ageing of the TAP fleet. Regarding the work carried out for Third-Party Customers, 47 inspections were conducted, among which 11 were major inspections, representing about 35% of the total. These major inspection works included carriers such as SATA, the French Air Force, Brussels Airlines, KLM, AF and Lufthansa. The search for the improvement of processes is thus maintained through the sharing of information on best practices and industry requirements and the obtainment of significant invoicing for Maintenance and Engineering.

The maintenance of the two A340 of the FAF (French Air Force) continued to be assured in its entirety, with a dispatch reliability of 98.91%, having been, once again, highly praised by the Customer.

One of the most important projects, developed in 2014, in terms of the Organisation of the Base Maintenance, was the application of the Constraints Theory. A significant reduction of approximately 21% in the TAT of the Cs was achieved, in 11 major aircraft inspections of the TAP fleet where this methodology was applied. At first, the so-called WIP (Work in Progress) was calculated, which establishes the maximum capacity of aircraft that can be intervened simultaneously. From that point onwards, phase scheduling at the start of the 3 major inspections was introduced, with the attribution of more resources in the initial phase of each inspection, to anticipate the knowledge of the state of the aircraft and permit the swift acquisition of materials and improve the control and planning of all the inspection phases. Within the scope of the continuous improvement projects developed, it is also important to mention optimisations in the preparation, elaboration and control process of the Work Packages, with definition and control of the execution times for each of the areas intervened in the process. Also noteworthy is the automation introduced in the material requisition process, relative to the *protocoled* inspection works.

In terms of equipment and facilities, stairs were acquired to facilitate access to aircraft under inspection. A platform was also built in Hangar 6, dedicated to the repair works of passenger chairs when removed from aircraft.

Regarding projects to improve the reliability of aircraft handling and control, based on access to Business Intelligence Reporting, a fortnightly analysis of a set of reliability data was implemented by the different Engineering areas of Maintenance and Engineering and of the Trouble Shooting of MA/MO, identifying the evolution of the reliability of each fleet in the last fortnight associated to the delays that prompted it. The comparison with the moving average of TAP of the last 2 years and with the overall industry average is performed, enabling the identification of deviations so as to trigger correction and improvement actions.

With a view to reducing hydraulic leaks, one of the main causes worldwide of reduced operational reliability, a programme was implemented in which a series of periodic inspections was defined, material and tool kits were developed to be placed at TAP Stations, and training sessions related to this topic were held. To reduce delays in the replacement of aircraft wheels, tools to measure the wear on tyres were acquired and a process to measure, register and programme wheel replacements was optimised.

With the objective of improving the service rendered to passengers, in terms of IFE, a team was formed to calculate the current maintenance costs of this system, in terms of aircraft workforce, workshop costs and associated materials. The manufacturer of this system was consulted, and proposals for a possible partial or full outsourcing of the maintenance of the system have already been obtained, associated to the guarantees in terms of reliability obtained, the so-called Seat Availability. At present, with the aim of identifying the best option, the current level of Seat Availability is being calculated, as a reference to compare reliability and costs relative to the proposals received.

Human Resources

TRAINING – A total of 615 training sessions were carried out, over a total of 59,471 hours. This training was held in classrooms and on-the-job, involving the participation of 7,276 trainees. Relative to 2013, and in line with the guidelines of the Department on the increase in training efficiency, the decreasing trend was maintained, both in terms of training volume (-37,020 hours) and participation of the number of trainees (-5,112 trainees).

STAFF – The average number of staff was 1,881 employees, some 1% below the level of the previous year, having reached, on 31 December 2014, 1,882 employees, corresponding to 4 fewer employees than at the end of 2013. During the year, 74 employees left the company while 65 were taken on, with 11 employees having been made permanent staff members (this value does not include direct entries from abroad to the permanent staff).

SAFETY AND HEALTH AT WORK – In January 2014, the Safety and Health at Work (SST) campaign entitled *Safe Attitude* was launched, with the following main objectives: raise the awareness of employees to the adoption of a safe attitude; provide for the security of the entire TAP–Maintenance and Engineering population; promote the use of collective and individual protection equipment and reduce occupational accident rates. With the objective of reinforcing the safety culture, some initiatives were developed: holding of a lecture; dissemination of various safe attitude promotion messages through an information bulletin distributed via e-mail and through posters and the broadcast of awareness raising videos on good safety practices at work. In 2014, a reversal of the trend observed in recent years was registered, with a decrease in the number of occupational accidents (about 3%).

Safety Management System

The consolidation of the Safety Management System of TAP–Maintenance and Engineering continued in accordance with the outlined implementation plan, having been adjusted according to the areas specified by Annex 19 of ICAO which in the meantime entered into force. The development of the Risk Management System was the most significant phase of the SMS in 2014, with the holding of the Risk Challenger and the preparation of the Risk Management procedures. The Safety Assurance activities also continued, with the performance of the third Safety Audit by the auditors of the Audit Office of TAP–Maintenance and Engineering.

In this Business Unit, the Risk Management System has been operated in a comprehensive and transversal manner, involving multiple areas, which include not only operational safety (*Safety*) but also personal, commercial, compliance, financial, and reputational risks, among others.

The training in Risk Management was extended to all employees with management positions, included in the Manage and Develop Teams II course. The objective is to raise awareness on risk assessment procedures, explaining the tolerability and acceptance criteria, addressing the possible need to implement barriers and mitigation actions, and referring to the methods used to control and manage residual risk.

Regarding the need to understand maintenance occurrences more in depth, thus enabling their adequate analysis, the Safety Office of TAP–Maintenance and Engineering created and disclosed a new poster that appeals to the participation of all employees on the Safety Reporting programme.

The risk assessment and acceptance criteria, improved by the Safety Office of TAP–Maintenance and Engineering, during 2013 and approved by the Safety Review Board of this Business Unit, were applied to activities during 2014. In addition, within the scope of the enhancement of the Risk Management process, a Seminar on occurrence investigations is scheduled to be held at the start of 2015.

Quality certification

TAP–Maintenance and Engineering received various renewal audits by accredited entities, such as the IOSA audit (IATA scope), the Bureau Veritas audit (ISO 9001:2008 and EN 9110:2010 standards) and the IPAC (Portuguese Accreditation Institute) audit of the Calibrations Laboratory, as part of the certification under the NP EN ISO / IEC 17025:2005 Standard. During the year, other quality audits were conducted by the aviation authorities and their customer operators, essential for the maintenance of various approvals within the scope of its activity.

In 2015, the manuals, regulations and procedures of the Business Unit affected by the implementation of the new EASA Air Ops Implementing Rule (EU Regulation 965/2012) and of Regulation (EU) 376/2014 (Occurrence Reporting) will continue to be altered, namely with greatest impact on EASA Part M, and the study of the structural alterations to be implemented for the introduction of the Management Systems will be conducted. Within the scope of IOSA, a permanent audit plan, based on this benchmark, with the application of the Enhanced-IOSA procedures, will be implemented. The application of the Enhanced-IOSA procedures in audits to contracts and suppliers of materials and services, including maintenance providers, merits special attention.

National and international certifications

Portugal	IPAC (*Inst. Port. de Acreditação*): NP EN ISO / IEC 17025:2005
Portugal / EU	INAC / EASA: EASA Part-145 INAC / EASA: EASA Part-M Subpart G (CAMO) e Subpart I INAC / EASA: EASA Part-147
France	French Air Force / DGA: AQAP 2120 / ISO 9001:2008
EU	EASA (European Aviation Safety Agency): EASA Part-21 Subpart J (DOA)
USA	FAA (Federal Aviation Administration): 14 CFR Part 145
International	IOSA (IATA Operational Safety Audit): IATA Bureau Veritas: NP EN ISO 9001:2008 / EN 9110:2010
Brazil	ANAC: RBAC 145
Tunisia	DGAC Tunisia : Acceptance of EASA Part 145
Trinidad and Tobago	TTCAA : TTCAR No 6
Angola	INAVIC : NTA 5 and Acceptance of EASA Part 147

INFORMATION SYSTEMS AND TECHNOLOGICAL DEVELOPMENT

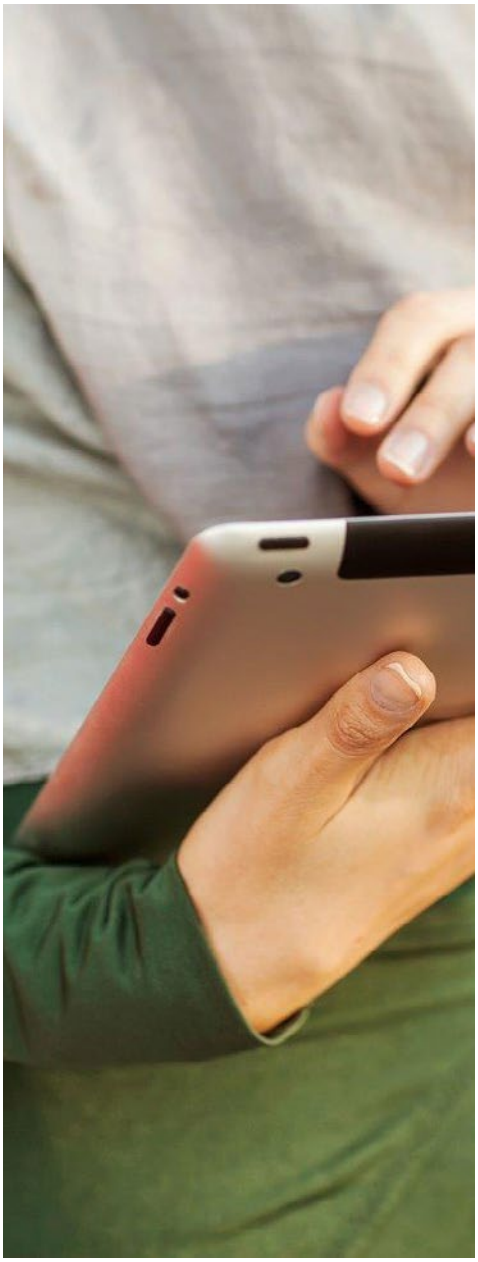
To respond adequately to its main challenges, TAP needs to systematically innovate its processes and use increasingly better and more efficient technological solutions. This continuous need for innovation requires a high level of partnership between the business units and information technologies. This collaborative relationship has driven the evolution of the Customer Experience concept, through the implementation of the 360º Customer View concept, as well as the start of the Digital Customer Experience, a new approach to the Customer. Keeping abreast of this change, in 2014 TAP continued to develop its Revenue Management system, with the entire network of destinations now being managed according to an O&D – Origin & Destination – philosophy. The context of continuous innovation that TAP has promoted, as well as the proliferation of the possibilities of access to the information of its systems have fostered the renewal, evolution and conformity of the Company's business processes, which also required the formalising of methods for information management and security.

TAP continued the evolution of the Customer Experience concept, a process that reflects the life cycle of the Customer and how he perceives the products and services that the Company offers. The 360º View consolidates the Customer information collected at the different contact points and relationship channels with TAP, permitting his centralised and unique identification, including his interaction with the Company and guaranteeing a transversal view of the Customer throughout the entire organisation. A better relationship between TAP and its Customers is thus promoted, adapting it to the respective profiles and experiences of interaction with the Company. In today's world, personal mobile devices proliferate and this generation is always online.

The traditional Customer is giving way to a Customer that is always connected, more demanding and powerful. The need thus arises to address the Digital Customer Experience, covering the life cycle of the multi-channel Customer, making available information and customised content in real time, within the context of the experience that is being lived by the Customer. In this regard, TAP has to evolve in order to involve its customers in a new way, meeting their expectations, offering personalised and simple digital experiences at any time and any place.

This new Customer also offers opportunities in new markets, which require new ways of exploiting and optimising the product offered by TAP. In this context, the implementation of the Schedule Connect in 2014 allows TAP to optimise its code-share agreements and exploit new opportunities, offering a more extensive network of destinations to its Customers. In addition to the transformation of the Customer and the increase in offer, revenue management is also now Customer-focused. In the past, revenue optimisation was carried out individually, per flight. By extending the concept of O&D control to all of its routes, TAP now manages and optimises its revenue based on the entire route of its Customer.

The different Company areas seek to systematically optimise and modernise their processes, executing them in a more efficient and effective manner. Information technologies play a fundamental role in this optimisation, proposing new methods for executing processes – namely, automation –, and implementing new solutions or renewing existing ones. The evolution in Revenue Accounting (possibility of calculating monthly revenue on the 3rd working day of the following month) or the implementation of the Uniform Store (possibility of online management of crew uniforms carried out by crew members themselves) are good examples. TAP has operations in a broadly regulated market, and is required to comply with legal and certification requirements from various Industry entities. In addition, it is also mandatory to continually ensure the maintenance of the conformity of the business support solutions with these requirements. As significant examples, it is important to mention the adaptation of the FDCC (Flight Dispatch Control Centre) for certification of Flight Operation processes in conformity with IOSA (IATA Operational Safety Audit), as well as of ARAMIS (Passenger Revenue Accounting System) and MIRA (Maintenance and Engineering invoicing system) to guarantee the conformity of both with the rules required by the Tax Authority.



The information used by the different systems that support the Company's business is a fundamental asset of the Company. The information must be appropriately catalogued, in order to minimise its duplication, promote its consistency and leverage swifter implementations of new solutions. The security of information is a concern of the Group and aims to ensure its confidentiality, integrity and availability. This security is guaranteed through the implementation of a strategy in line with the business, legal and Industry requirements, in order to ensure that the risk profile of the information technology assets is adequately protected.

MOST SIGNIFICANT DEVELOPMENTS UNDERWAY IN THE COMPANY

TAP, S.A.

Air Transport

- **Air Transport Mobility** – Emphasis on the Customer relationship, maintaining a dynamic and innovative presence in mobile applications – smartphones and tablets –, with the extension of the offer of free applications for all mobile platforms (Tablet/PC).
- **Flight Dispatch Control Centre** (FDCC) – Monitoring of the flight documentation generation process, made available to the pilot (Briefing Package and Electronic Flight Bag), and automating manual procedures, with improved efficiency and less susceptibility to human error. Adaptation of the FDCC for IOSA (IATA Operational Safety Audit) certification of the Flight Operation processes.
- **Smile** – Implementation of Smoogle, an Enterprise Search solution, allowing the near real-time indexation of the information managed and maintained in Smile (complaints management application used by TAP's Talk to Us).
- **ATHOS** (Business Intelligence) – Evolution of models on information clusters relative to causes of delay, bookings and departures, variable operating costs and fuel.
- **PROS** (Revenue Management System) – Completion of the implementation of the O&D (Origin & Destination) logic for the entire TAP network and start of the analysis works for the implementation of O&D III based on future sales.
- **Crewing migration system** – Start of the analysis, completion of requests, benchmark and planning of the project to substitute the current Compass suite that serves the crewing, scheduling and Aircraft processes of TAP.
- **Migration of PSP** (Payment Service Provider) – Change of the payment service provider in order to cover the majority of credit card payments of direct sales, integrated in a single entity, and to facilitate TAP's PCI-compliance certification processes.
- **Schedule Connect** – Solution that leverages the TAP flight distribution processes and the optimisation of Code-Shares with partners.
- **Airport Operational Information** – Operational information relative to airports to where TAP can fly on a regular operation or as an alternative and provision of this information to the EFB (Electronic Flight Bag), facilitating the self-briefing.
- **Customer Notifications** – Solutions that provide the passenger with information, in real time, on his flight, through email, SMS and push notification.
- **Pre-paid Xbag** – Advance payment of excess baggage, ensuring an advantage for the passenger and greater convenience at the airport.

TAP–Maintenance and Engineering

Developments within the integrated platform of information systems – COSMOS

- **SIRIUS** – Management of external and internal Customer complaints, supporting the entire complaints life cycle: register, flow of analysis, assessment and customer response.
- **PERSEUS** – Management of chemical products: characteristics, location and technical and safety documentation. RFID interface under development for control of shelf-life.
- **TAURUS** – Real-time management of AOGs.
- **MOBILITY @ LINE MAINTENANCE**
  - Module of (in/out) Messages.
  - Module of notifications/changes in the system or in the TAP corporate system, COMPASS, which are integrated in the application in online mode.
  - Access to the Maintenance Daily Report with broadcast.
- **MTMS** (Mobile Tools Management System) – Real-time management system of tools and GSE (Ground Support Equipment) using RFID technology. Permits internal management, flows for repair entities, and quick inventory, among other features.
- **MIRA** – Certification by the Tax Authority of the financial system of TAP–Maintenance and Engineering.
- **PEGASUS** – IT strategic analysis: assess and understand the current situation and determine the future potential, in total alignment with the strategy of the Business Unit.

TAP Serviços

- **ARAMIS** – Calculation of monthly revenue on the 3rd working day of the following month. Redesign of the Sales module of ARAMIS, a Revenue Accounting solution, which involved the redefinition of the business process and the automation of processes. Certification of ARAMIS in order to comply with the rules in force for the billing systems and obtain the respective certificate required by the Tax Authority.
- **ELECTRONIC INVOICE** – Electronic invoice in the area of dispatch of orders, status of invoices, payment notices and reception of invoices, whereby the sending of invoices in paper format is replaced with the electronic format. Associated to this process, a consultation portal for suppliers was implemented, increasing efficiency in the communication with TAP.
- **UNIFORM STORE** – Online management of uniforms which allows employees to manage their uniform in a quick, secure and confidential manner, by streamlining the consultation of the catalogue and the placing of orders by crew members.
- **Upgrade of the FORMARE system** (e-learning support platform) – Renewal of image, installation of a module for mobile equipment and optimisation of functionalities providing greater efficiency in distance training.
- **Rollout Salary Processing for Delegations** (Cape Verde + Switzerland + London) – Start of integration and unification of the processing of salaries of TAP delegations, having been implemented in the delegations of Cape Verde and Switzerland and initiated for the United Kingdom.

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

- **FDM** (*Flight Data Monitoring*) – System for monitoring the flight data of PGA. Permits the analysis of data and the proactive detection and management of risks, contributing to the improvement of safety on flights.

TAP–Manutenção e Engenharia Brasil, S.A.

- **Extension of the application of performance assessment to TAP–Manutenção e Engenharia Brazil** – Automation of the performance by competences assessment process for non-managers, making the process more efficient through the elimination of existing paper circuits and reducing the time spent on its administrative management.

SPdH–Serviços Portugueses de Handling, S.A.

- **Implementation of the GAP solution** (GroundForce Applications Platform) – Platform of consolidation and distribution of information on flights, passengers and airport, ensuring the support to the activity of Groundforce, including integration with the systems of management and allocation of resources, control of activities and cargo warehouse.

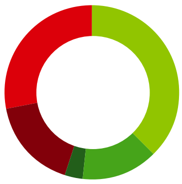
UCS–Cuidados Integrados de Saúde, S.A.

- **Intranet** – Development of the Intranet of UCS, covering the support of DGS Certification, internal procedures and Human Resources.
- **Voice Infrastructure** – Implementation of a Contact Centre according to the standards that regulate the operation of call centres.

HUMAN RESOURCES

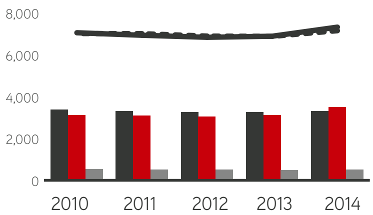
Secure motivation and involvement of people to create business value, as partners and change agents

Employees of TAP Group companies (%)
31 December



- 55.2% TAP, S.A.
  - 37.6% Air Transport
    - 6.9% Flight Deck Crew
    - 19.5% Cabin Crew
    - 11.2% Ground Staff
  - 14.2% Maintenance and Engineering
  - 3.2% TAP Serviços
  - 0.2% Other Staff of TAP, S.A.
- 17.0% SPdH, S.A.
- 27.8% Remaining Companies

Active Staff of TAP, S.A.
31 December



In order to fulfil its mission, the Human Resources (HR) practices are based on a model intent on the optimisation of resources, innovation, use of synergies and in the quest for coherence and continuity of its actions, seeking to align HR management with the value chain, adapting to the new paradigms that arise in the market, with the Company having presented itself, in 2014, with the slogan *Connected to the World through People*.

Continuing to ensure the HR Model, the **HR of the Business** – the Human Resources Business Partners of the different business units of TAP – is responsible for ensuring close proximity to the day to day of the business and its leaders, and simultaneously, establishing a broad commitment to TAP's strategies as a whole, in close association with HR Operations and Talent Management. The **HR Operations** area (Staff Administration and Remunerations, Travel Office and HR Management Information), in order to achieve continuous improvement at the level of faster responses, service quality and resources optimisation, has reinforced the quality of the rendered services through the implementation of new tools. Thus, the Staff Administration and Remunerations area has continued the salary processing of two Representations Abroad, working to develop a tool named Shift Planning/Overtime and Shift Change Portal, aimed at simplifying the shift change process, the analysis and approval flow of overtime. The Travel Office continued to invest in the improvement of the FlyStaff processes, with the new version having introduced three new functionalities: 1) ticket issue and reservation changes up to 1h30 before flight departure; previously this was possible only more than 12 hours before flight departure; 2) automatic reimbursements; 3) display of Hotels with discount according to destinations requested. In addition, seeking to automate and place the business travel requests in chronological order, the input of requests in the central IT system was optimised, also enabling the reduction of paper. The mission of **Talent Management**, which is to *Identify, Develop, Train and Support people in order to create value for the business and boost the balance between personal and professional life*, recognises the importance of the involvement of the Company's employees, guiding practices in order to offer professional growth and enhancement opportunities, thus adding value and competitiveness to the business.

Responding, in an effective and differentiated way, to the challenges represented by the organisational competitiveness we are witnessing today, as part of an intensely competitive industry as the one in which TAP currently develops its activity, requires the development of HR processes and programmes capable of meeting the best market benchmarks. In the same vein, the Company seeks to attract and recruit the best people to work, train, develop and support them in their different dimensions, both personal and within the organisation, while at the same time contributing to add value to the business and to a more stable balance between personal and professional life.

Recruitment and Selection (Attract) – From a perspective of considerable gains for the organisation in the medium/long-term, TAP seeks to conduct effective recruitment and selection processes with valid tools, considering that the growing demand and sophistication of consumers must correspond to stricter standards for recruitment, development and retention of employees, with the ability to adopt the proper attitudes. TAP has a Recruitment and Selection department with recognised processes, adapted to specific technical knowledge requirements. Furthermore, even in the functions with a higher technological focus, the Company sees technical competences as only part of the requirements, believing that technical capacity begins as a *commodity* and that the employees' *Attitude* will make the difference, and for this reason, TAP is consciously positioned in the market with the slogan *TAP – with arms wide open*! to convey the Company's Values. In 2014, the process to scan individual employees' psychological assessment files was initiated, with the purpose of reinforcing the paper free policy, and at the same time, the structuring of a computer tool/platform to facilitate the integration of the recruitment and selection processes was started.

Development of HR (Develop) – The different procedures related to the mapping and assessment of functions were consolidated, under the coordination of the Remuneration and Benefits Management area, and with regards to the annual definition of goals, coordinated by the Performance Management. Annually, benchmark data enable the comparison with the reference market for TAP, being comprised of tools and studies that, in partnership with renowned companies in both the local and international market, guarantee a competitive internal and external adjustment.

The Employer Branding discipline, integrated in Talent Management, has boosted TAP's image as *the best company to work for*, and has affected the continuity of concrete actions, such as the internal and external recognition of employees. With a focus on the sharing and creation of knowledge and communication, the HR Conference Cycle highlighted, in particular, the topic of *Globalisation and Growth Strategies*. Meanwhile, in the HR Workshops featuring national and foreign speakers, the work on concepts such as *Stress and Uncertainty Management, Positive Vision of the Future, Involvement, Teamwork, Progress and Organisational and Individual Hope* continued, with a total of 29 conferences held, attended by about 4,570 employees (11,503 training hours). Furthermore, it is worth noting the resumption of the commemoration of *My 20 years with TAP*, a motivational programme intended to honour the employees who have worked for TAP for 20 years. Within the scope of the promotion of the TAP Personality, another edition of the Congeniality Programme was held, which has been running in the Company for more than 10 years, in which a record number of 657 congeniality card were offered by passengers, reflecting the customers' recognition of the TAP attitude and personality.

Social Service (Support) – With the mission of supporting and advising employees on the most varied day-to-day situations, seeking to promote their development and well-being, helping them to optimise resources to enable them to overcome difficulties, and promoting greater autonomy and responsibility, the area responds to issues related to the employee's personal life that affect his/ /her performance, including financial difficulties. The Social Service also acts in life quality programmes, via the creation of life quality and dependence prevention circles, as well as being responsible for the development and promotion of the *Embrace Life* – Retirement Planning – project, aimed at providing support in the transition from professional life into retirement.

TAP Group Staff

On 31 December 2014, The TAP Group (TAP, S.A. and other companies) had 13,268 workers, 412 more than on 31 December 2013. This was essentially due to increases in the company TAP, S.A., namely, in the personnel of the Air Transport Business Unit, and on a smaller scale, in the personnel of the TAP Serviços Business Unit. There was a reduction of 4 workers in the personnel of the Maintenance and Engineering Business Unit.

Thus, in the headcount of TAP, S.A. (7,323 employees) there were increases in the Air Transport Business Unit, namely Cabin Crew and Flight Deck Crew, (+290 Flight Attendants and Stewards, and +86 pilots) and Ground Staff (+54 workers).

The personnel of the associated company SPdH–Serviços Portugueses de Handling (2,255 employees) and the remaining companies (3,690 workers) was reduced by 7 and 15 people, in this case due to the following variations: Cateringpor (+8), LFP (+4), Megasis (+1) and Portugália (+8), TAP–Manutenção e Engenharia Brasil (-35) and UCS (-1).

At the end of the year, TAP, S.A. held 55.2% of all employees of the Group; SPdH–Serviços Portugueses de Handling held 17.0% and the Other Companies 27.8%. The average number of active personnel in TAP, S.A. totalled 7,153 employees, of which 534 were located abroad, which is 5 workers less than the value recorded in 2013.

Talent Management I Vocational Training (Train) – From the professional development standpoint, and with the objective of increasing employee skills and meeting the organisational goals, TAP has invested in employee development, endowing them with knowledge, practices and procedures aimed at their valuation, as well as of their role and the Company itself. Due to their specialised and qualified know-how in the aeronautical activity, TAP gives preference to the use of internal trainers, who act as instructors, mentors and coaches for the younger workers. In 2014, 449,500 hours of training were provided, corresponding to an average of 61 hours per employee, representing a 58% increase relative to 2013. Investment in e-learning training has continued, with 235 courses held, representing 20,492 hours of training provided to 5,929 trainees.

Volume of Training

	TAP, S.A.			TAP Group		
	2013	**2014**	**Var.**	**2013**	**2014**	**Var.**
Training Actions	2,932	3,020	3.0%	5,360	5,750	7.3%
Participants	22,649	23,145	2.2%	36,495	36,213	-0.8%
Training Hours (000) man-hour	284.9	449.5	57.8%	777.1	823.0	5.9%

TAP Group Staff

31 December 2014

	Employees	% Total	Variation	
Ground Staff, Portugal	968	7.3%	5.1%	47
Ground Staff, Abroad	509	3.8%	1.4%	7
Total Air Transport – Ground Staff	1,477	11.1%	3.8%	54
Cabin Crew	2,589	19.5%	12.6%	290
Flight Deck Crew	918	6.9%	10.3%	86
Total Air Transport Flight Crew	3,507	26.4%	12.0%	376
Air Transport Staff	**4,984**	**37.6%**	**9.4%**	**430**
Maintenance and Engineering Portugal Staff*	**1,882**	**14.2%**	**-0.2%**	**-4**
TAP Serviços Staff	**427**	**3.2%**	**1.9%**	**8**
Other Staff of TAP, S.A.	**30**	**0.2%**	**0.0%**	**0**
Total TAP, S.A.**	**7,323**	**55.2%**	**6.3%**	**434**
Total SPdH, S.A.***	**2,255**	**17.0%**	**-0.3%**	**-7**
Remaining Companies	**3,690**	**27.8%**	**-0.4%**	**-15**
Total TAP, SGPS, S.A.	**13,268**	**100.0%**	**3.2%**	**412**

(*) Includes staff Abroad, of a total of 17 employees, in 2014 and 27 in 2013
(**) Not including non-placed and non-active staff
(***) Associated Company

OTHER ACTIVITIES OF TAP GROUP

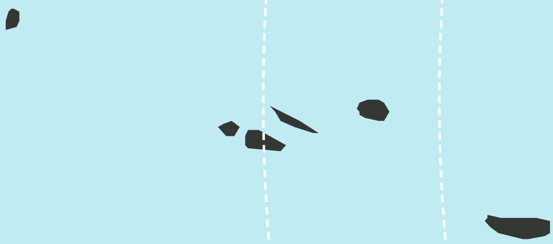
With regards to the remaining shareholdings held by TAP, SGPS, S.A., it is important to mention the development of activity in areas related to the main businesses of the Group – Air Transport and Maintenance and Engineering –, which work through their services to enable a better control of the service 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..

Other TAP Group shareholdings, on 31 December 2014

EUR thousand

		Stake of TAP	Amount of TAP Share Capital	Net Income
Portugália, S.A.		**100%**	**15,000.0**	**(987)**
Aeropar Participações, Lda. (Brazil)		**100%**	**0.2**	**(11,044)**
	TAP–Manutenção e Engenharia Brasil, S.A.	98.64%	207,057.7	(22,603)
TAPGER–Sociedade de Gestão e Serviços, S.A.		**100%**	**2,500.0**	**5,280**
Catering	Cateringpor–Catering de Portugal, S.A.	51%	1,785.0	1,555
Airport Shops and In-flight Sales	LFP–Lojas Francas de Portugal, S.A.	51%	280.5	7,150
Information Systems	Megasis–Soc. de Serv. e Eng. Inf., S.A.	100%	500.0	103
Health-Care Services	UCS–Cuidados Integrados de Saúde, S.A.	100%	500.0	9



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.

PORTUGÁLIA–COMPANHIA PORTUGUESA DE TRANSPORTES AÉREOS, S.A.

General Meeting Committee

Chairman
Alda Maria dos Santos Pato

Secretary
José Carlos de Azevedo 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
João Alexandre Velez Caldas

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.

Among the various events in 2014, it is important to mention the vocational training with the Air Crew (ATO–Approved Training Organisation) Certification obtained in October. Regarding the DGERT certification, the process was presented in August, having been completed in early 2015. With these certifications, as part of the activity and growth plan of the training area, the company has strengthened its training area, in line with its internal needs. In the same context, the maintenance and engineering area obtained approval for the On-the-job training procedure within the scope of Part 145. The Safety area continued to be under the spotlight. The Safety Promotion processes were improved in the Organisation, namely with the reissue of the Safety Bulletin, now published in a new format, with more comprehensive and diversified contents. The company has met the goal of 10 reports per 1,000 flights, a crescent evolution of the reporting culture. Investments were also made to improve the FDM software via the SMART FDM tool, as well as training in the areas of Accidents/Incidents investigation, and FRMS Fatigue Risk Management Systems.

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 2014, 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 company conducts intense operations, particularly in terms of the wider aircraft capacity use, as compared to those practised in other world fleets that operate with Embraer 145 and Fokker 100.

In order to consolidate the Human Resources (HR) Policy in the TAP Group, PGA continued to invest in Human Capital projects. The option to migrate IT systems was continued in order to streamline the administrative process, seeking to eliminate paper. With the intention of compiling decisive information for HR development, the preparation of a Manual of Functions was begun at PGA, which will include a description of the existing functions. The manual will specify the requirements for access to the function and the continuous training required for correct employee performance and development, as well as the mission, responsibilities and main activities of the function, among other elements. In 2014, the performance and potential management model was consolidated, in which the network of goals was increased, resulting in a higher number of employees with individual objectives defined. The possibility of increasing the number of appraisers per employee was also created, through the use of partial and main appraisers. This modality, adopted by some areas, resulted in a wider and more complete assessment scope.

With the purpose of enhancing the development of PGA employees, a competences model was elaborated, specifying per professional category and according to the seniority level, the most appropriate competences for the performance of the respective functions.

The total Employees of PGA, on 31 December 2014 was 564. It is also noteworthy that 31% of Employees are less than 35 years of age, and 47% have a seniority of more than 10 years.

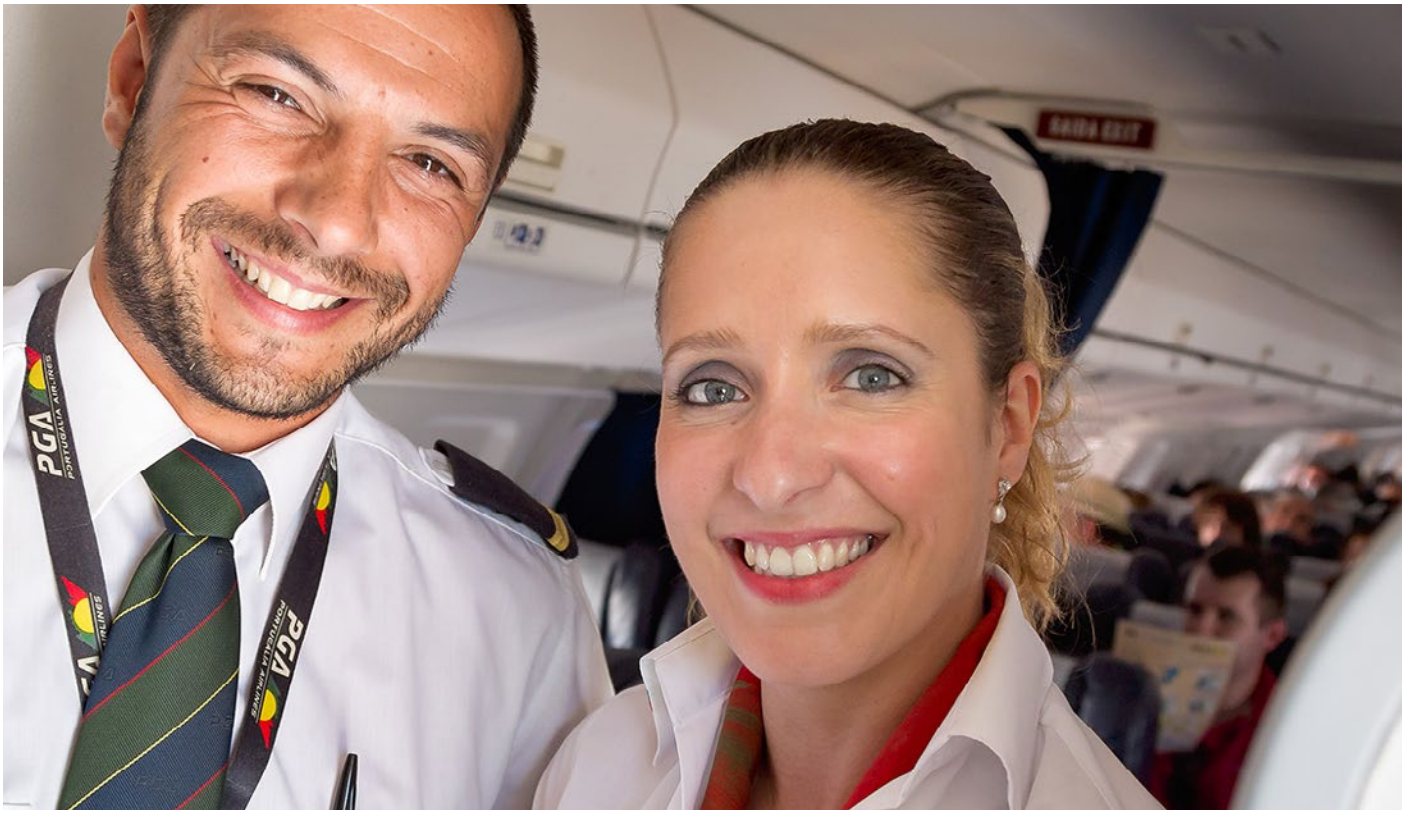
Operating performance

In 2014, the operation registered a slight decrease of 0.1% (block hours).

Maintenance and Engineering

In 2014, the recovery of the personnel of Aircraft Maintenance Technicians, qualified at training and certification levels, continued. The aircraft operated by PGA make it more difficult to recruit already qualified labour, therefore the company has continued its intensive basic training (in partnership with TAP's training area) and type training programmes (benefitting from internal EASA Part 147 certification). Due to the new European aeronautical legislation requirements, it was also necessary to implement an on-the--job training programme for the technicians that have their first aircraft endorsed on their license, a procedure approved by INAC (July) and that has been used, allowing for a +10% increase in the number of employees with certification capacity. This programme will continue in 2015, namely to address the potential departure of qualified technicians. The stabilisation of staff in 2015 permits looking forward to an increase in the services rendered to third parties in all of the capacities of the Maintenance and Engineering Department: Part M – aeronavigability management; Part 145 – basic maintenance, line maintenance, component maintenance, labour assignment; and Part 147 – type training. These services will also allow this area to become a revenue centre, contributing towards the increase in productivity, as it renders more feasible the balance between available labour versus necessary labour in an activity marked by seasonality (in the summer period the fleet has to operate at maximum capacity, such that no heavy inspections are carried out). In parallel, the increased scope of component maintenance contributes to the reduction of costs, by using internal labour to repair components that are currently sent by third-parties for repair. From the operational performance standpoint, the use and average age of PGA's fleet pose significant challenges to the maintenance of excellent indicator values. However, as of IATA 2014 Summer, an improvement was registered in dispatch reliability and non-scheduled stoppage figures compared to the previous IATA periods, with technical cancellation rates below 1.1%.

The result of the operating plan corresponded to the requirements of the TAP Group, with an approximate value of 50,000 BH, maintaining technical reliability at 98.5%, which is in line with other European operators of this aircraft type. Considering the commercial commitments with



the Summer operation and planned maintenance Slots, the Maintenance and Engineering area had to hire third-parties for F100 C checks, conducting in house all the E145 C checks, and the Structural Mid Life programme (30,000 fc). In PGA's hangar, 7 Embraer C+5,000 FH Checks and five workshop visits for reactors of the Embraer fleet are scheduled for 2015. For the coming year, the objective(s) of the Engineering area involves: reducing the inventory of components and materials by placing them on the market for sale or possible negotiation exchange with Embraer (Pool); reducing transport costs; internal awareness raising of the management of No go items and cost associated to AOG transport; reducing the maintenance cost of TAY reactors, avoiding the general overhaul, and opting for the alternative of long-term leasing at competitive prices. For the AE3007A engine, the maintenance cost driver is the replacement of both LLPs and hardware, reconciling them in order to maximise their wing life.

Quality

Safety: The Safety Promotion processes were improved through the reissue of the Safety Bulletin, with the objective of enhancing the reporting culture having been met, as previously mentioned, reflected in the crescent evolution of the reporting culture in PGA. Over the course of the year, improvements were made to the FDM software, strengthening the mechanisms and processes associated to this area, with intensified training in the area of Accidents/ Incidents investigation and FRMS Fatigue Risk Management Systems.

In-flight Service: By maintaining the quality standards, the passenger's general satisfaction with the quality of the in-flight service offered by PGA is also secured.

Environmental Policy: The European Commission proposal contains many measures whose application affects the flights to be considered for the purpose of compliance with the requirements of the CELE regime (European Emissions Trading Scheme), having been decided that the submission of the Annual Emissions Report and the corresponding return of emission licenses for 2013 and 2014 would only occur in 2015, in separate reports for each year. Since the Emissions Report for 2013 would have to be submitted to the competent authorities by 31 March 2015, the return of the respective emission licenses should take place by 30 April 2015. In October 2014, an audit was conducted on the CO_2 emissions report for 2013, and the auditing on the data of 2014 was scheduled for March 2015. Regarding the 2013 data, a total of 1,055,755 tons of CO_2 were validated, involving 76,555 flights operated by TAP which are covered by the EU ETS (Emissions Trading System). A new maximum percentile of collected information was reached, with 98.53% of flights to be reported without the use of estimates. The proactivity in relation to changes undergone by the initiative, the implementation of the recommendations resulting from previous audits, and the refinement of the existing tools became evident. The monitoring process is managed autonomously by PGA, while TAP is responsible for reporting to the competent authorities. At the internal level, PGA adopted an environmental management strategy in line with the environmental guiding principles of the TAP Group.

The company continued to develop environmental protection strategies to reduce the negative environmental impact inherent to its business activity. The participation in environmental projects, involving the establishment of protocols with companies specialised in the collection and treatment of waste, is a good example of the company's environmental awareness.

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

Deputy Chairman and Chief Executive Officer (CEO)
António Guilhermino Rodrigues

Member Executive (COO)
Luís Pedro Serra Ramos

Member (non executive)
Luiz Filipe Plácido Lapa

Member Executive (CFO)
Maria Beatriz Neves Marques Quadrado Filipe

Executive Committee

Chief Executive Officer (CEO)
António Guilhermino Rodrigues

Member Executive(COO)
Luís Pedro Serra Ramos

Member Executive (CFO)
Maria Beatriz Neves Marques Quadrado Filipe

Statutory Auditor

Permanent 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 – guaranteeing sustainability

For 2014, Groundforce defined three strategic challenges: increased company sustainability; increased operational efficiency and improved quality of the services rendered to customers (assisted airlines and their passengers). Regarding the improved economic and financial sustainability, the cycle initiated in 2013, during which the company showed positive results after a cycle of negative results, was continued. Thus, in 2014 Groundforce recorded net profits of 2.3 million euros, representing an improvement of 8.8% relative to the result of 2013. Regarding operational performance, an increase in the number of movements, passengers and tons of handled cargo was recorded. During the year, 81,901 movements and 16,700,752 passengers were recorded, +0.7% and +11% compared to 2013, respectively, reinforcing the position of market leader at national level, while the development of a set of operating processes secured productivity increments. In the assessment of the quality of the rendered service, the satisfaction levels obtained in 2013 were maintained, namely: airline satisfaction rate (90%), passenger satisfaction rate (87%); punctuality rate (95.1%) and delivery times of the 1st and last luggage, on average within 15 and 23 minutes, in this case also reinforcing the position as a reference operator at national level. Groundforce performance was recognised, with the attribution of the Ramp Safety Award Europe at the Ground Handling International Conference (Gothenburg, November 2014), in accordance with the votes of 700 air transport representatives from around the world.

The Business – managing and acquiring lucrative customers

SPdH conducts its activities in a market with high demand and competitiveness levels. The commercial team thus makes every effort to manage the sales and promotion processes for new products, with an attitude that stands out due to the qualitative differentiation of the services rendered, and their capacity to build customer loyalty. The Commercial Department renewed 27 stop-over assistance contracts, namely with Air France, KLM, Aigle Azur, Air Nostrum, Air Europa, Royal Air Maroc, Tui Group, Monarch and United, and the company has also conquered 6 new contracts - Aerovip (Porto Santo), Air Europa (Ticketing Porto), British Airways (Porto), Go2Sky (Lisbon, Porto, Funchal and Porto Santo), Tailwind (Lisbon, Porto, Funchal and Porto Santo) and Ten Airways (Lisbon, Porto, Funchal and Porto Santo). In addition to the increase in the average price, in the case of revenue arising from the core business, an increase was recorded generated by the sale of complementary services, such as the collection of excess baggage charges, ticketing and training. In close collaboration with the Operations Department, the Commercial Department negotiated and monitored many SLAs (Service Level Agreements), always bearing in mind the different customer expectations as a result of their typology and strategy within a given period. The commercial performance was marked by the constant dynamism in the search for innovation and potential partnerships, designing new products and/or services that add value to the business.

Quality – Quality, Reputation and Sustainability, strategic business development factors

SPdH, aware of best practices, has adopted an integrated quality management system, and is maintaining the critical certifications in Quality Management (NP EN ISO 9001:2008), Environment (NP EN ISO 14001:2004), Safety and Health at Work (OSHAS 18001:2007/NP 4397:2008) and ISAGO (IATA certification) that regulate the Security and Safety Standards, and Cargo 2000 (Quality Management system for the air cargo industry promoted by IATA). These processes guarantee that SPdH effectively satisfies all of the stakeholders and is in compliance with all the legal and regulatory standards. Based on the Customer Service area, the levels of satisfaction and the market reputation consolidation process are monitored and reported. The initiatives of the Internationalisation Management area are a vital segment for business sustainability, via the establishment and international sale of Consultancy and Training Programmes, allowing for future partnerships, globalisation of the activities and important value gains.

Department of Information and Communication Systems

The path initiated in 2013 was continued, aimed at reorganising and strengthening the application architecture. The following achievements are worthy of mention: 1) The completion, signature and implementation of the contract with Megasis (main supplier), including the definition of SLAs per service line; 2) Inform invoicing solution, specific for the business, allowing the previous mainframe application (HDFact) to be discontinued from the 1st quarter of 2014; 3) Completion of the implementation of the automatic communication solution with the Tax Authority within the scope of Cargo activity (SDS interface); 4) implementation (not completed) of the application to replace Flight Info on Mainframe (a basic solution that feeds SPdH's systems in realtime with information from the airports and Airline messages); 5) Selection of a tool for the implementation of a complete HR technical management solution. The 1st phase of the project will be completed in January 2015 (performance assessment module), and the implementation of the remaining modules

(Recruitment, Training and Career Management) is scheduled for late 2015; 6) Involvement in the (ACDM) project, partially financed by Eurocontrol, whose objective is also the improvement and exchange of operational information for a more efficient administration of the air space, airports and activities of the parties involved; 7) Various improved applications to strengthen and improve information quality.

Human Resources – From the best proximity and partnership practices to the implementation of a new organisational paradigm

Effective implementation of the process to transform SPdH's culture, with the organisational challenge being based on initiatives aimed at consolidating proximity and partnership, in order to create solid leaderships and an internal transversal communication policy, disclosing the results of personnel management oriented towards the prescription of IT solutions. In simple terms: **SUPPORT, APPROXIMATE**, **TRANSFORM** and **GEOGRAPHICAL MOBILITY**, the programmes' goals were as follows: **SUPPORT** – Involves the establishment of partnership protocols for the benefit of employees and family members, aimed at providing support in concrete situations. In addition, development of initiatives conducted in coordination with company partners (product tasting; labour gymnastics; contests; awards; and solidary initiatives, among others). It is important to note the contribution with internal actions promoted by GRACE, within the scope of corporate social responsibility; **APPROXIMATE** – Improved internal communication, with the assignment of an e-mail account for employees, has become the information vehicle of the Support Programme, through the creation of an institutional Facebook page and of a newsletter, also being responsible for internal mentoring initiatives. By offering a healthy sharing environment, it provides for additional visibility to employees' relevant actions, as a recognition, with the display of faces saying: *You made it!*; **TRANSFORM** – Essentially seeks to transform managers via workshops, focus groups, or the learning maps tool, in an effort to trickle down the information from management to the employees; **GEOGRAPHICAL MOBILITY** – Essentially seeks to encourage employee mobility – either permanent or temporary.

In (July) 2014, 12 employees from service provider companies were hired by SPdH, and (November) 59 employees from temporary work companies were hired by SPdH. In addition, 20 employees received permanent status.

Training – the development of key competences as a strategic partner to organisational citizenship

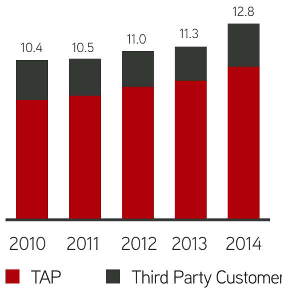
Given the importance of the regulatory component for the activity, both at local and international levels, SPdH sees Integrated Management as one of the factors of sustained development, aware that only a culture based on operational safety/security may provide a solid foundation for the activities conducted. Within the scope of the key DRH process, the Development Plan included the analysis of competence gaps detected in the performance management process. Thus, besides the execution of the technical training applicable to the stop-over assistance activities, and regarding the Management System and the different certifications held by the organisation, SPdH invested in the reinforcement of leadership and communication competences (TRANSFORM Programme), seeking an effective increment of innovation in work practices and processes, and an improvement in efficiency. In addition, there was the implementation of a review and/or reformulation process of *syllabus* and training manuals, still underway. 1,658 training actions were carried out, which corresponds to 4.21 training days per employee (data relative to the period between January and October 2014).

Economic Performance

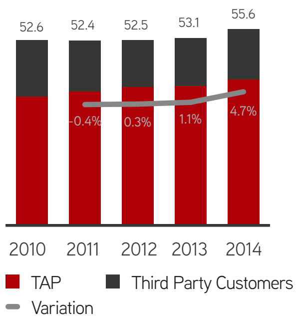
Turnover came to 107 million euros, 1.6% more than in 2013, reflecting the general behaviour of the market, through a slight increase in activity of company customers, by 0.7%. Net income came to 2.3 million euros.

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



TAP–MANUTENÇÃO E ENGENHARIA BRASIL, S.A.

General Meeting Committee

Chairman
Mário Jorge Costa Lobato de Faria

Secretary
Milton Madeira Robles

Board of Directors

Chairman
Mário Jorge Costa Lobato de Faria

Member
Nestor Mauro Koch

Member
Maria Teresa Silva Lopes

Registered Office

Estrada das Canárias, 1862
21941-480 Rio de Janeiro / RJ
Brasil
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 m^2.

The company has a productive capacity in excess of 2,000,000 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 11,000 P/Ns of aeronautical components (Engines; Landing Gear; Accessories and Avionics).

In 2014, TAP–Maintenance and Engineering Brazil continued its process of development of actions, aimed at the improvement and equilibrium of its operating and financial performance, in what was year 4 of a 5-year Restructuring Plan, prepared by the consultancy Oliver Wyman. The efforts have yielded positive results, both in terms of Revenues and Costs, instilling confidence in the sustainability of this trend. In Revenues, there was an increase of 215.2 million reais to 232.9 million reais, equivalent to a variation of 8.2% under the local Accounting system (GAAP Brazil). Continued reduction, since 2012, of tax contingencies that has reached a total of 170.0 million euros, as a result of favourable rulings in lawsuits. Also noteworthy is the favourable ruling issued by the Brazilian Public Attorney's Office relative to TAP's liability exemption regarding tax and labour contingencies relative to the period prior to the acquisition of VEM which, if confirmed by the courts, will result in a gain of approximately 184.0 million euros.

This growth was evenly distributed throughout the year, with 8 of the 12 months having registered a year-on-year positive variation. A monthly revenue of more than 25 million reais (February) was registered for the first time.

Underlying this commercial growth was the continuous transformation of operating activity, with significant improvement of the indicators at all levels. This is demonstrated by the fact that TAP–Maintenance and Engineering Brazil has accompanied the growth of Brazilian commercial aviation and maintained its portfolio of benchmark Customers. On a more general level, the development of the operating capacity was reflected in the increase of the Customer satisfaction indices.

The growth of Operating Costs was restricted to 1.13%, mainly due to the growth of activity. It should be noted that Personnel Costs increased by 4.2%, below the legally mandated ceiling of 6.5%, reflecting the continued efforts to restructure and improve productivity that have been undertaken. As a result, EBITDAR improved by 30.9% to 40.8 million reais.

In 2014, very significant improvements were registered in terms of Contingencies, a topic that is critical for the recovery of the company: i) the value of fiscal contingencies decreased by 65 million reais and ii) the value of labour contingencies decreased by approximately 10 million reais, through thorough and ongoing efforts before Brazilian courts.

TAPGER–SOCIEDADE DE GESTÃO E SERVIÇOS, S.A.

TAPGER is a public limited liability company based in Lisbon, created by TAP in September 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, as well as 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 2014, 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 2013.

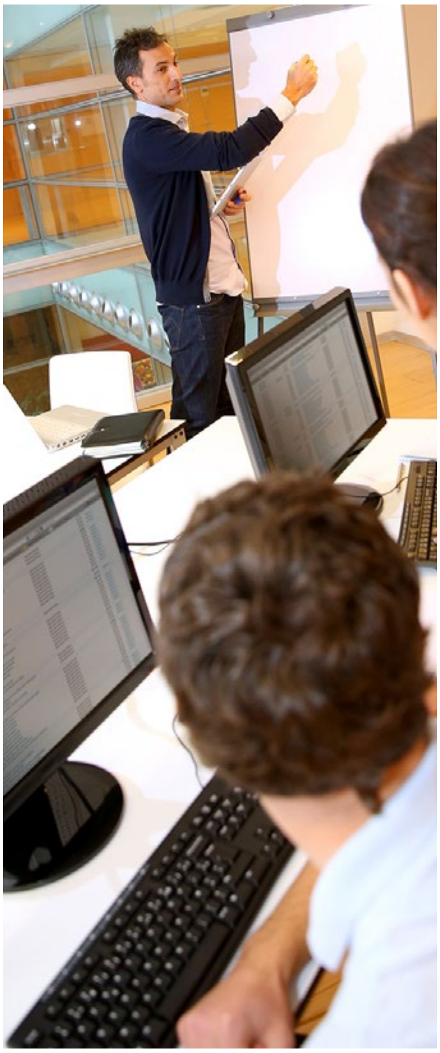
Election of Governing Bodies in TAPGER participated companies

In addition, in the respective General Meetings for the approval of the accounts and, in conformity with the guidelines of the shareholder TAP, SGPS, S.A., TAPGER proceeded with the election/re-election, for the three-year period 2014/2016, of members of the Governing Bodies in the following companies of this holding:

- In the company LFP–Lojas Francas de Portugal, S.A. due to the resignation of the Members Luís António Domingos Fernandes Silvério Monteiro and Alexander Angel Anson-Esparza, TAPGER appointed as Members of the Board of Directors, Ana Paula Amaral Costa de Oliveira Canada and Benjamin Harmstorf, with effect from 31 March 2014. In addition, in 2014, the Chief Executive Officer Nuno Filipe Martins do Amaral tendered his resignation, not having been replaced until the end of the financial year.
- In the company Megasis–Sociedade de Serviços e Engenharia Informática, S.A., TAPGER proceeded with the re-election of all of the members of the Governing Bodies for the three-year period 2014-2016, with the exception of the position of the Chairman of the Board of Directors to which Luís Manuel da Silva Rodrigues was elected, due to the resignation tendered by Michael Anthony Conolly with effect from 31 March 2014. On 2 December 2014, Luís Manuel da Silva Rodrigues also tendered his resignation, with TAPGER having proceeded with the appointment of Fernando Abs da Cruz Souza Pinto with effect from 3 December 2014.
- In the company UCS–Cuidados Integrados de Saúde, S.A., due to the resignation of the Chairman of the Board of Directors, Michael Anthony Conolly, TAPGER appointed Luís Manuel da Silva Rodrigues for this position, on 14 May 2014, having subsequently, on 3 December 2014, proceeded with the appointment of Fernando Abs da Cruz Souza Pinto, following the vacancy of the post, due to the resignation tendered by Luís Manuel da Silva Rodrigues, on 2 December 2014.

In addition, at TAPGER, the single shareholder TAP, SGPS proceeded with the appointment on 8 May 2014 of Ana Isabel da Silva Assunção for the position of Member of the Board of Directors, and on 3 December 2014, following the resignation of the position of Member tendered by Luís Manuel da Silva Rodrigues, also appointed Maria Teresa Silva Lopes to this position.

Net income for 2014 fell by 4.0% in relation to 2013 (221.700 thousand euros less), having decreased from 5.501 million euros to 5.280 million euros.



General Meeting Committee

Chairman
Alda Maria dos Santos Pato

Secretary
José Carlos de Azevedo Magalhães Ferreira

Board of Directors

Chairman
Fernando Abs da Cruz Souza Pinto

Member
Ana Isabel da Silva Assunção

Member
Maria Teresa Silva Lopes

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
Nicolas Girotto

Secretary
Anabela Gomes Lopes

Board of Directors

Chairman
Luiz da Gama Mór

Member
Ana Paula Amaral Costa de Oliveira Canada

Member
Andrea Belardini

Member
Benjamin Harmstorf

Audit Board

Chairman
José Vieira dos Reis

Member
Jean Baptiste Marie Michel Vigouroux

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 21 852 5300
Fax +351 21 852 5301
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.

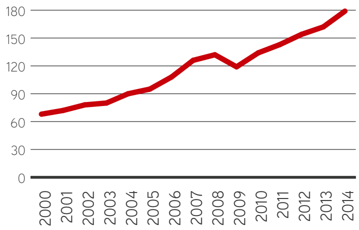
In 2014, LFP achieved a sales turnover of more than 179 million euros, which reflected an increase of 10.4% in relation to 2013.

The performance achieved corresponded to the importance of the diversity of operations at each airport, given that each airport or in-flight sales area has very specific characteristics, largely associated to the profile of passengers, with reference to their country of origin. In this sense, the company continued to implement commercial solutions that met demand, and in this way took advantage of opportunities, through the decision to extend the range of products offered to each group of passengers and thus generate an increase in sales. The increase in sales in 2014 thus resulted from different performances: the operations of Lisbon, Porto, Faro and the Azores recorded results above forecast, whereas Madeira and In-flight Sales fell short of expectations.

Another significant point to note during 2014 was the standardisation of the new Duty Free Store brand, which identified the commercial spaces in all airports. At the same time, and in accordance with the location of each store, in each airport, a new designation was created – *Duty Free Store*, *Duty Free Store Express* or *The Store Arrivals*.

In addition to all the developments in the various business areas, 2014 was undoubtedly marked by the successful renegotiation of the operating licenses with ANA. In this regard, after a long negotiation process, it was possible, in May, to agree to the extension of the main licenses in force until December 2020. It thus became possible to ensure the continuity of the company's business in the medium-term and remove a clear obstacle to investment, comprising the end of the current licenses in 2014. The company thus continues to assert its presence in all the national airports where

Sales
EUR million



ANA has operations, and maintains the licenses for the sale of all the categories of products that it currently markets. In turn, LFP invested in the improvement of the financial conditions obtained by ANA and also committed itself to various investments, in current and future commercial spaces, mainly at Lisbon, Porto and Faro airports. It should be mentioned that this early negotiation was only possible due to the recognition by ANA that LFP continues to be a profitable, credible partner, which has recently invested in the promotion of its commercial spaces and has managed to follow ANA's strategy of sustained development of its non--aviation businesses, more specifically of its commercial areas.

MEGASIS–SOCIEDADE DE SERVIÇOS E ENGENHARIA INFORMÁTICA, S.A.

Megasis developed its activity by maintaining the strategic alignment with its shareholder and main customer. In this regard, its activity was based on two main pillars: the provision of quality services, contributing to the TAP Group's excellent levels of operationality of its business support systems and investment in the continuous development of competences and knowledge of the Commercial Aviation business, with a view to finding the best technological solutions for the Group and which enable value to be added, through innovation and improvement of processes.

In addition to the technological support required by the Business Units, Megasis has developed a series of initiatives with the objective of improving its provision of services, namely:

- Evolution of strategic technological assets, such as TAP Operational Data Store or DataWarehouse – Fundamental in the strategy of construction of an integrated information infrastructure comprising the most relevant data of Air Transport and of the other areas of the Company, providing data to the multiple applications in a consistent manner. With these assets, there was an improvement in the quality of data delivered at all management levels, enabling greater speed and quality in decision-making processes, while at the same time enhancing the capacity of development of new systems, with resulting flexibility and efficiency gains.
- Dynamic improvement of processes related to Information Security, with the definition of the role of the Information Security Manager relative to Information Systems and Technologies – Implementation of initiatives within the scope of policies, rules and procedures, control of accesses, audits, analyses of system vulnerabilities, legal issues, business continuity, security events management, network and systems security and awareness raising of system users, among others.
- Development of the TAP@cloud concept – Aimed at enhancing the use of its Campus infrastructures, implementation by Megasis of a private cloud, enabling the optimisation of computational resources and costs, through the introduction of new technologies of technological management and virtualisation and also enabling greater flexibility and elasticity in the management of system components and information supporting the business.
- Development of a manual of functions – Which permits the creation of a solid basis for the design of human resource management models of Megasis, namely models of development of competences, performance and potential assessment and of compensation. Also noteworthy is the strong impetus to the development of key functions in the management of the customer relationship and innovation management, namely the functions of Business Analyst, Program Manager or Architect, aimed at fostering the partnership with the customer and sustaining a closer alignment between Information Technologies and the business.
- Development of specific and value added products for the Group's Business Units – Of particular note are developments in the mobility area, in the improvement of the relations with TAP customers and in the automation of processes.

Particular note should 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 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.

General Meeting Committee

Chairman
Alda Maria dos Santos Pato

Secretary
José Carlos de Azevedo Magalhães Ferreira

Board of Directors

Chairman
Fernando Abs da Cruz Souza Pinto

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

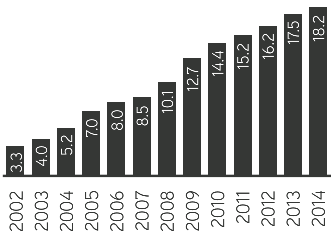
Share Capital EUR 500,000

Taxpayer 502 199 210

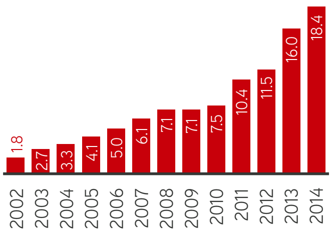
Main Activity

Provision of services in the area of the development and maintenance of computer software.

Users of TAPNet services
thousand Users



Service requests
thousand



CATERINGPOR–CATERING DE PORTUGAL, S.A.

General Meeting Committee

Chairman
Alda Maria dos Santos Pato

Secretary
José Carlos de Azevedo Magalhães Ferreira

Board of Directors

Chairman
Luiz da Gama Mór

Member (executive)
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 financial year of 2014 enhanced the growth trend observed in the previous year very significantly, exceeding the annual level of 11 million meals, 9.3% more than in 2013, with a daily average of more than 31,000. The number of flights attended also grew 2.6%, with greater incidence on long-haul flights.

TAP, as an air carried based at Lisbon Airport with its strategy, but also Customers such as TAAG and Emirates, as well as the attraction of Air Canada, contributed the most to this growth of activity. Outside the aviation context, but also within the transport sector, it is also important to mention the supply of meals to the company that operates the on-board service of CP on the Intercidades and Alfa Pendular trains.

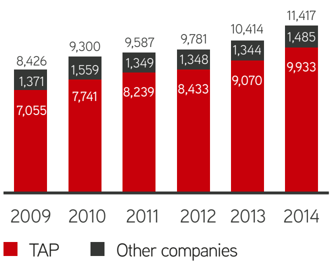
The production level reached tested the limits of the current installed capacity – 35,000 meals/day –, and of operational outflow, requiring the elaboration of a project for the expansion of facilities onto an adjacent parcel of land, whose execution awaits the impact of the strategic definitions of the TAP Group which may arise from the reprivatisation process that has been initiated.

In contrast, the ISO 22000 and Environmental certification processes, which are expected to be completed this year, were subject to a slight delay due to the deviation of resources as a result of the obligatory character of implementation, in 2014, of the European directive – Regulation 1169/2011 on allergens –, a project developed in close collaboration with the respective technical area of LSGSkyChefs.

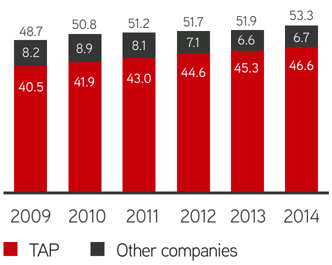
Within the scope of the exercise of social responsibility, Cateringpor has been cooperating with TAP and the competent official entities, in the definition and validation of procedures that allow the company to use, for solidarity purposes, food that is not consumed on its flights. In addition, internally, through a volunteering structure, created by the initiative of its workers – *Consigo* –, all the support required has been provided to social solidarity initiatives.

	2014	2013	Var. (%)	Var. (abs.)
Number of meals				
TAP	9,932,695	9,069,590	9.5%	863,105
Other companies	1,484,517	1,344,227	10.4%	140,290
Total	**11,417,212**	**10,413,817**	**9.6%**	**1,003,395**
Number of flights attended				
TAP	46,584	45,302	2.8%	1,282
Other companies	6,747	6,597	2.3%	150
Total	**53,331**	**51,899**	**2.8%**	**1,432**

Number of meals
thousand



Number of fights attended
thousand



UCS–CUIDADOS INTEGRADOS DE SAÚDE, S.A.

The year of 2014 was a year of intensification of the activity of UCS as risk manager within the health area for the TAP Group. This vocation, which includes but exceeds, however, the traditional provision of health care and the purely clinical areas, is reflected in a number of permanent support and counselling activities to guarantee compliance with the national and international regulatory and legal requirements within the scope of Health and Safety and Aeronautical Medicine.

In 2014, the following achievements are noteworthy:

- The maintenance of significant efforts to reach out to health problems. The clinical activity addressed a slight increase in demand, based on a philosophy of speed and optimisation of internal resources and of customers.
- The intense activity of Occupational Medicine in terms of the health surveillance of Group workers, with the consolidation of average rates of coverage of 90%.
- The continuation of the vigorous growth of the activity of the Aeronautical Medical Centre, medical licensing of pilots, air traffic controllers and now also cabin crew (INAC/EASA). An increase in activity in relation to the previous year of approximately 46% and which corresponds to more than 112% in relation to the activity of 2012, reflects the stabilisation of the position of the CMA of UCS as the largest aeronautical certifier in Portugal and of UCS as a civil national reference in this area.

From a more general perspective of the activity of UCS, 2014 was the core year of the Health Accreditation Process of UCS by the Portuguese Health Authority, in line with what is recommended by the National Health Accreditation Programme.

This process, whose impact focuses on the provision of health care to the customer, was formally begun in May 2013, and in 2014 resulted in an intense activity of development of structured and efficient work processes, involvement of professionals and assessment and continuous improvement of health outcomes, now more specifically guided by the first external audit planned (Portuguese Health Authority) by the Process, which took place in June and by the targets set out for the second audit planned for 2015. All this activity of self-analysis, development and guarantee of quality has already had a positive impact on the satisfaction of professionals and on the generation of quality and efficiency gains for the TAP Customer. The intention is to reinforce this impact, with visibility, stability and robustness, at the end of the first major phase of the current Accreditation Process.

The activity profile of UCS in 2014 thus reflects the consolidation of its characteristics of agility, versatility, responsiveness and adaptability to the constant evolution of the needs of its customers, always based on a culture of reflection and guaranteed quality.

General Meeting Committee

Chairman
Alda Maria dos Santos Pato

Secretary
José Carlos de Azevedo Magalhães Ferreira

Board of Directors

Chairman
Fernando Abs da Cruz Souza Pinto

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, Rua B
Apartado 8426
1804-001 Lisboa
Telef. +351 21 843 6300
Fax +351 21 843 6310
email: ucs@ucs.pt
Website: www.ucs.pt

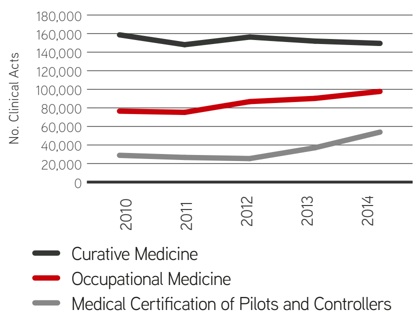
Share Capital EUR 500,000

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 on risk management related to health, with particular differentiation in the airline industry.

Evolution of clinical activity



RISK MANAGEMENT

Management of risk and internal control

Risk Management is a process developed by the Administration, the Management and all the employees of the organisation, and is designed in order to identify potential events that might affect the Group, as well as to manage risk within the Company's risk profile level, aimed at assuring safety and compliance with the initially defined objectives.

To accomplish its mission, TAP has, among others, the following objectives:

- Develop the best practices to achieve *safety* and *security*
- Practice the highest values of ethics and personal integrity
- Respect the quality of life of the communities
- Promote the actions required for the maintenance of risk inherent to an acceptable level and in line with the most demanding national and international standards

Managers with direct responsibilities in the activities of operations and maintenance are responsible for guaranteeing that the risk of their areas is positioned at a level considered as acceptable. Each manager is responsible for implementing final decisions for the documentation, development and implementation of corrective or preventive actions of relevance in their areas of intervention. New entrepreneurial initiatives, included in the development of the portfolio of its business, must be taken into consideration, as well as the possible contribution and exposure to new operating risks or the increase of current risks.

Methodological process

The management of risk in the TAP Group involves a systemic framework of the process, using the following methodological process:

Methodological process

1. Assessment of the risk culture of the Company
2. Scope of process
3. Systemic framework of the process
4. Scrutiny of risks
5. Risk management and control measures within the scope of the internal control system
6. Graduation of risks and quantification of risks
7. Monitoring of risks
8. Reporting of risks

Monitoring, assessment and updating of the plan

The objective of TAP in terms of periodic monitoring involves the issuing of an annual report and of other reports covering a shorter period, if considered relevant, wherein the audit and internal assessment of the Plan is conducted, and regarding which the following functions will be undertaken:

a) Ensure the implementation of the Plan and necessary adjustments;

b) Assess and examine the activity of the Business Units and Areas in the pursuit of the Plan;

c) Detect non-conformities with the Plan and prepare recommendations necessary for changing the diagnosed non-conformities;

d) Request reports, information or documents from the heads of the Business Units and Areas;

e) Prepare reports on procedures and processes;

f) Collect and assess the reports on the partial execution of the Plan;

g) Prepare the annual report on the Plan, and others covering a shorter period if considered relevant;

h) Submit the reports to the Executive Board of Directors for approval. Subsequently, the annual report must be sent to the Corruption Prevention Board, as well as the oversight, administrative supervision and supervisory bodies;

i) Make the reports available to the Supervisory Board;

j) Propose changes to the Plan, to be approved by the Executive Board of Directors;

k) Publish the acts.

The monitoring process is of a dynamic nature, such that the annual reports must always focus on the most recent situation and not continually on the starting point at which the Plan began to be implemented. Nonetheless, the probability of occurrence of management risks is transversal to all the Business Units and Areas, such that this Plan and the internal audit activity apply to all the organic units and subunits. In this way, all the heads and workers of the TAP Group have the duty of collaborating with the Audit within the scope of its duties

Risk factors and their management

Operational risk (Security | Safety)

Model of action whereby the possibility of damage to people and assets is minimised or eliminated, through a continuous process of identification of situations of potential danger and management of the respective associated risk.

Risks of economic and financial nature

Systems and actions of monitoring and control of economic and financial risk, follow-up of economic and geopolitical development, particularly in countries showing high social and political instability, and internal audit of procedures, contracting and transactions.

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. The system includes the Internal Safety Plans, the Training of Employees, the Manuals for Protection against Explosive Atmospheres (ATEX Manuals), the Emergency Drill Exercises (fire, spillage of chemical products and earthquake) for the training of Employees and Emergency Support Teams (Safety, Surveillance and Fire Brigade Station), 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 [EASA Parte 145 (Maintenance Organisations); EASA Part M (Continued Aeronavigability); NP EN ISO 9001:2008 (Quality Management Systems), among others] which are compulsory to guarantee the continuity of its activity.

Occupational health and safety risk

Risk management system supported by the identification, assessment and control of professional risks, with repercussions on health and safety, aimed at improving health and the quality of life of individuals and of society, fostering productivity, through the involvement of the entire Company in a Risk Prevention Culture.

Financial risk management

Financial risk management policies

The economic and financial management of the TAP Group in 2014 took place against the backdrop of an international context with multiple elements of instability and change, both at a geopolitical and economic level.

In the year that marked the 25th anniversary of the fall of the Berlin Wall, war returned to the gates of Europe, in the Ukraine. In the Middle East and North Africa, an increasing number of trouble spots also emerged, some of which related to the so-called Arab Spring initiated in 2011, others resulting from latent tensions and conflicts between various regional powers, as in the case of the wars in Syria and Iraq.

The growing tension between Russia and Europe had some direct economic and trade effects, through the embargo of exports to Russia, and consequent retaliatory measures. However, the biggest impacts are likely to have been in energy markets, of fundamental importance for the Russian economy, and which may have been influenced, in both real and speculative terms, by the new current context. In the same vein, but at a strictly economic level, the slowdown of the Chinese economy and the stagnation of the European economy, both with a very significant weight in global GDP, may have also contributed to the strong decline registered in the oil market as of the second half of the year.

After three years – from 2011 to 2013 –, of highly stable oil prices, with Brent hovering a mere 10% above or below 110 dollars a barrel, in the Autumn of 2014 there was a marked and accelerated fall in the price of oil to half of that level at the end of the year, close to 50 dollars a barrel. Other commodity prices also fell. In particular, airplane fuel, which during the three--year period 2011-2013 remained stable at around 1,000 dollars per ton, fell to 750 dollars on average in the last quarter of the year, reaching values close to 500 dollars at the end of the year.

In addition to the European economy, the Brazilian economy also posted near-stagnant growth in 2014. Furthermore, the decline in commodity prices and, in particular, oil prices, overshadowed the prospects for growth and expansion of many emerging economies, which remain very dependent on that source of income for their development. In turn, given the growing current importance of emerging markets in the world economy, the slowdown of the emerging economies can rapidly translate into a drop in demand for exports from developed markets. A concrete example of this phenomenon is Angola, with a sharp slowdown in economic activity at the end of the year.

Of course, all currents and counter-currents of the national and international economy are important for the TAP Group, whose activity is influenced by the macro and micro trends of the markets in which it operates. The price of oil is one of the global variables with a significant impact in the air transport operations activity. Multiple local factors such as, for example, the dynamics of the tourism market in Portugal, or cyclical factors such as the Football World Cup that took place in the summer of 2014, influence, in a less or more significant manner, the results of the Group, namely in terms of its core activity, the air transport of passengers. In addition, the Group does not address risks and challenges from a passive and wait-and-see position, such that 2014 was also a year of profound change and internal growth, with all the difficulties that that implies. The growth of the TAP fleet from 55 to 61 aircraft of the medium and long-haul fleet, as well as the launch of 11 new destinations in Europe and in Latin America, in the middle of the year, further expanded the scope of TAP's activity, diversified its offer, extended its range of business opportunities and enabled TAP to actively address the risks of an ever-changing scenario.

Price risk

Total income and gains of the Group, of approximately 2.8 billion euros, depends, by about 80%, on the air transport of passengers activity. The transport of cargo and mail, also undertaken by TAP, represents about 4% of total income, and the provision of maintenance services to entities outside of the Group, covering both maintenance and engineering in Portugal, within the framework of TAP, and maintenance and engineering in Brazil, represents almost 6% of total income in 2014. The Group's duty free shop activities, undertaken by Lojas Francas de Portugal, S.A., represent a value slightly above 6% of total income and gains, with the contributions of the other companies held by TAPGER, including Cateringpor, being of little significance, in terms of sales outside of the Group. Likewise, Portugália Airlines has a role of aircraft (and their maintenance) and crew lessor, but fully dedicated to TAP.

The concentration of the Group's revenue on its core business of air transport of passengers and cargo is high. Air transport is today a good intended for current consumption and of easy access to countless market segments, with TAP having transported 11.4 million passengers and achieved more than 320 thousand flight hours in 2014. The volume of passengers weighted according to distance travelled (RPK) increased by 7% in 2014, reflecting not only growth but also an acceleration of activity relative to the rates of growth of previous years. However, the average sale price of each passenger-kilometre, which had risen marginally in 2013 relative to 2012, fell considerably in 2014, by the same order of magnitude as the growth of the volume of RPK. Overall final ticket revenues remained stable at about 2.2 billion euros. It is also important to mention that the overall flight load factor increased relative to the previous year, achieving very high levels for the Industry, corresponding to more than 80% of the total operation.

In terms of the geography of the activity, Europe (including Portugal) continues to represent 43% of the total operation measured in RPK, with the Brazilian routes accounting for 39% of total passenger-kilometres. The remaining Latin America and the USA, on the one hand, and Africa, on the other, have weights close to 10% each in the total activity of the Company. In terms of growth, activity was particularly dynamic on European and USA routes, which grew around 10%. The Mid Atlantic also grew significantly, as a result of the opening of the new routes of Columbia and Panama. Traffic volume on Brazilian routes (especially the routes of Northern Brazil) and in Africa grew about 4% and a mere 1%, respectively. In the latter case, there was a decrease in most routes, compensated by increases in key traffic, above 10%, in two markets, Angola and Cape Verde.

In terms of sales, Portugal and Brazil maintain similar proportions in total passenger sales, of 23% and 22%, respectively. Europe, excluding Portugal, accounts for 40% of total sales, Africa for 7% (which includes 4.7% of Angola), and the USA and Latin America (excluding Brazil) account for 4% each. In Venezuela, throughout the entire period under consideration, there was a reduction in sales activity, resulting from the difficulties felt by TAP in the repatriation of those funds to Portugal, having thus chosen to foment sales for those routes outside of Venezuela exclusively.

In terms of ticket sales, there was an increase of almost 8% in European markets in 2014, a decrease in the national market of 2.5% and a decline in the value of sales in Euros in the Brazilian market, of 7%. The declining sales in the Brazilian market is likely to have been partially associated to a fall in demand due to the Football World Cup, with less overseas departures from Brazilian consumers and, from a wider perspective, due to a general slowdown of consumption in the Brazilian economy, and increased competition from other airline companies on some routes. However, there was also an exchange rate effect since, in reais, contrary to that observed in euros and dollars, sales rose marginally. This exchange rate effect has to do with the fact that sales in the Brazilian market are conducted based on fares in dollars, such that the strong valuation of the dollar, relative to the real, resulted, in spite of the lower sales in dollars, in a certain stability in terms of the local currency. The significant negative variation registered in sales in euros, also partly due to the effect of the exchange rate variation, changed the relative weight between the Brazilian and European markets, in favour of the latter, with the differentiated, and compensatory, behaviour between both regions having enabled the traffic of the Brazil routes, with positive growth, to be maintained.

The structure and geographic configuration of the network, operation and sales of TAP did not change significantly in 2014, in comparison to previous years. Activity remained based on three pillars, Europe, Portugal and Brazil, including the exploration of two large geographical areas of less significance, Americas (except Brazil) and Africa. What has been observed over time, and in 2014 in particular, was a significant effort to develop and take advantage of the traffic flows on transatlantic routes, particularly between Europe and South America. This commitment of TAP to further develop the market faces, however, two types of significant barriers. On the one hand, the economic limitations on both sides of the Atlantic, be it the weak growth of consumption in Europe and in Portugal or the evident cooling of the Brazilian economy. On the other hand, the increasingly fierce and varied competition, not only on traditional routes of Brazil, such as Rio and São Paulo, but also on other routes where some rival European companies have also been positioning themselves, such as Brasília. Likewise, non--European companies, from Latin America and from other geographies, may in future change even further the competitive chess board in the South Atlantic, attempting to eventually threaten the strategic positioning of TAP that has been built over many years.

The competitive threat is naturally much stronger on European routes than on transatlantic routes and the strong presence of EasyJet and Ryanair, the latter with its new base in Lisbon, in competition with TAP on multiple European routes, places a strong limitation on the increase of air fares and results in a tendency towards a declining average fare reflected in the yield. All these factors lead to a complex and delicate trade-off between price and quantity, and to a permanent need to adjust to competitors' fare and network strategies.

In addition to the revenue from the transport of passengers, the revenue stemming from the transport of cargo and mail constitutes an important complement, with a weight in turnover that is equivalent to that of one of the major European markets of airline tickets, such as Germany for example, with a dimension of close to 120 million euros annually. Cargo transport has a *modus operandi* that is conditioned, on several routes, by the limits, in terms of space and weight, resulting from the passenger load factor and from the routes and equipment operated, including the inherent need for fuel. For example, on a long route such as Moscow or Sal, operated by a medium-haul aircraft, the availability for cargo is limited by the volume of fuel needed. On a route operated by long-haul aircraft, however, the feasibility of transporting cargo is far superior, given the characteristics of the aircraft, namely in terms of fuel tanks. On a long-haul course, circumstances also vary depending on the type of aircraft, A330 or A340. Cargo revenues improved in 2014 by about 2%, with tonnage having increased by 6% and the average yield having decreased by 4%. The most important markets in terms of cargo are Brazil and Portugal, Germany, but also the USA, Italy and France. Angola, in spite of being a very important cargo destination market, is not relevant as an inbound or outbound market. In 2014, Brazil registered very significant growth. It should be mentioned that the cargo market is highly vulnerable to competition from other airline companies, being characterised by less loyalty, namely due to the vast number of possible alternative routings, and being subject to the natural capture from operators with important fleets and large-capacity aircraft, such as, for example, Gulf airline companies.

If the air transport of passengers and cargo by TAP represents about 84% of the Group's total revenues, the maintenance and engineering activity for third parties represents close to 6% of total revenues, having reached a turnover of approximately 160 million euros in 2014, of which about 70 million euros is accounted for by TAP–Maintenance and Engineering Brazil. However, if on the one hand the provision of third--party maintenance services has a limited weight in the Group's volume of total revenues, its total contribution, including the work undertaken on the TAP fleet, has a very significant dimension. The fleet maintenance work of 61 medium and long-haul aircraft of TAP represents, together with the activity for third parties, an amount that largely exceeds the accounting dimension of maintenance and engineering in the Group's accounts. In some indicators, the maintenance and engineering activity is particularly significant, in terms of staff and specialised staff. Another

example is the volume of materials consumed, used in both TAP's fleet and for the maintenance of other airline companies, which exceeds 150 million euros per year. The third-party works component, with reference to the two maintenance entities, in Portugal and Brazil, is expected to represent approximately half of the economic dimension of the collective maintenance and engineering activity, with the other half corresponding to TAP's fleet. In 2014, the significant increase in revenue for third parties, in maintenance and engineering, in Portugal, relative to the previous year, was mainly due to the work undertaken on the new long-haul aircraft received and reconfigured by TAP, according to what was agreed with the lessor within the scope of the lease agreement for those aircraft.

In addition to the air transport of passengers and cargo activity, and the maintenance and engineering activity, the duty free sales activity carried out by Lojas Francas de Portugal, S.A. also accounts for a significant weight in the Group's total revenues. This activity has been growing, developing and restructuring year after year. There has been an increase in revenue of more than 10% in 2014, as a result of not only the expansion of the commercial areas in operation but mainly due to the increase of almost 10% in traffic at national airports, which led to a rise in the volume of sales and a slight increase in the unit price per transaction.

To sum up, the year of 2014 was characterised by the maintenance of total air transport revenues, in spite of the increase of the operation and the lowering of the average price of air tickets, and by the significant growth in total revenues of the maintenance and duty free shop activities.

Risk of price of fuel and other costs

The set of specific costs of the air transport activity, which includes fuel, handling, navigation and airport charges, catering, and maintenance costs, comes to almost 1.5 billion euros of the total costs of the Group of close to 2.9 billion euros, representing more than half of the total. This set of costs does not include salary costs with air crew, nor the costs inherent to the leasing of aircraft and amortisation of equipment registered under the Assets of TAP.

Of the total variable costs mentioned, more than half corresponded to fuel in 2014, being responsible for about 27% of the total costs of the Group, approximately in line with what has been observed in previous years since the increase in oil prices to the 100 dollars per barrel level, albeit with a broader dimension, this year, of the operation, by about 4-5%, both in terms of flight hours and passenger-kilometres offered (ASK).

The year of 2014 was marked by the huge fall in oil prices in the last quarter of the year, which has not yet had a relevant impact on TAP's total fuel bill. In fact, the average of market prices between January and September 2014 was only marginally lower than the average value of the previous year and only in the last quarter of the year did the lowering of market prices intensify. Furthermore, the low prices registered in the market only have an impact on the billing to the Company approximately one month later, given the billing procedures established with the fuel supply companies. In addition, there is also a component of the total price that is inelastic to the fall in prices, and whose proportion in billing increases inversely to the market price, i.e. contractualised rates, margins of the supply companies and other costs and commissions, that are added to the market price, whatever the current level of the market. Finally, the effect of the hedging operations contracted in 2014 and 2013, for the current year, delayed the impact of the low market prices. The exchange rate of the euro relative to the dollar, in spite of having depreciated sharply at the end of the year, registered an average value in 2014 very close to that of 2013, having been a relatively neutral factor in relation to fuel costs.

The increase in activity, in terms of number of flights and hours flown, resulting from the expansion of the fleet and the new routes, in the second half of the year, led to an increase in the volume of fuel consumption of 5.5%. The average market price in 2014, taking into account the normal time lag associated with billing, was 5% lower than in 2013. The increase of the total fuel cost of TAP observed in 2014, relative to 2013, which came to approximately 4%, is thus justified by the fixed component of cost, which limits the effect of the lower price, and by the price hedging component which, in a context of a sharp fall in prices, has an immediate negative effect. It should be noted, however, that TAP's risk hedging policy remained conservative in terms of time periods and amounts and, therefore, has a lower impact than in many of its counterpart and rival companies, according to public data.

After fuel, the most significant operating costs heading is staff costs which, not being a cost that varies directly with the operation, is not however totally rigid. On the one hand, this cost is subject to the salary frameworks defined in Portugal by the Government, having undergone significant changes in recent years stemming from political decisions and rulings of the Constitutional Court. In Brazil, local legislation sets out mandatory values for salary increases to be respected. On the other hand, salary costs are influenced by the economic context and by the behaviour of the labour market, which influences the capability of the unions to obtain salary increases. On the other hand, total personnel costs are inevitably influenced by increases in scale and increases in the Company's activity, a situation that was observed in TAP in 2014. The expansion of the fleet and of the network of TAP required the training of new pilots and flight assistants. However, in spite of this significant increase in flight crew, taking into account the different salary levels and the combined effect of the legislative amendments in 2014, relative to 2013, the total increase of personnel costs stood at a very limited percentage value, between 2 and 3% in the airline company and only 1% in the Group.

Although of a different nature, the cost of supplying handling services, a very labour-intensive activity, is also dependent on factors such as the performance of the labour market and inflation. The latter is one of the pricing variables defined in the contracting of ground handling operators, as in the case of Groundforce. Groundforce is responsible for a significant portion of the total number of assistances undertaken since it is the handling services provider in the hubs in Portugal. Contrary to what happens in Portugal and in Europe, where the levels of inflation remain close to zero, in markets such as Brazil, costs tend to rise due to the indirect effect of inflation on salary increases, passed on by the handling operators through billing.

Another source of exposure of the Company to costs lies in airport and navigation charges. Airport charges, per aircraft and per passenger, increased significantly during the year as a result of contractual changes imposed by ANA–Aeroportos de Portugal, in the wake of its privatisation, and also overseas, particularly in Brazil, due to the higher prices imposed by Brazilian airports, following investments made by these entities within the framework of the rehabilitation of infrastructures prior to the holding of the World Football Cup. Regarding navigation charges, their increase was in line with the increase of passenger-kilometres offered (ASK) and flight hours, i.e. with the growth of the level of effective activity of TAP, of around 5%. At a European level, Service Units in Eurocontrol (aircraft weight and distance travelled-adjusted flights) increased by 5.3%, plus an increase in price of slightly less than 1%. Regarding the other air traffic control entities, the average cost rose less than in Europe, due to among other reasons the shorter distance of the new long-haul routes launched during the year, relative to the routes already in operation, lowering the average cost per flight.

Among other costs related to the flight operation, costs such as maintenance, leasing, charters and amortisation are also noteworthy. TAP's fleet maintenance costs are partly dependent on repair and maintenance needs, which normally rise with the increase in the average age of the fleet and the number of flight hours. On the other hand, the rise of the dollar also has an impact on the materials component and on the portion of services subcontracted to external MROs. In 2014, a significant part of the higher costs of materials consumed was due to work for third parties. In 2014, the operating leasing of aircraft increased by 10% relative to the previous year, due to the combined effect of the introduction in the fleet under operating leasing of 6 additional aircraft, relative to the 18 under operating leasing in existence. The average monthly lease payment level of the new aircraft was, however, and taking into consideration that the leasing only began in the middle of the year, lower than the average monthly lease payment level of the previous aircraft. In contrast, there was the need to resort to a higher number of charters than in previous years to make up for the shortfall between the entry into operation of the new aircraft and new crews and the existing commitments arising from the prior sale of tickets. Another relevant aspect related to the set of costs associated to the fleet was the change in the total annual depreciation value of the aircraft and spares belonging to TAP, or under financial leasing, in line with the expectation of a longer-lasting average permanence of the fleet in possession and operation of TAP.

Regarding commercial costs of the air transport activity, commission costs maintain their downward trend, due to investment in new technologies and the growing adhesion of customers to purchasing tickets via the internet.

Also within the scope of commercial costs, in this case relative to the duty free shop activity, a significant increase was registered in Lojas Francas Portugal, in line with the two-digit growth in activity. This increase was related to the higher costs of goods sold. In addition, there was also a more than proportional increase in rental costs and operation charges in airports within the framework of the contractual renegotiation with Ana–Aeroportos de Portugal. Although the impact of these higher costs in 2014 was adverse, the extension of all the licenses necessary for the activity, with a time frame up to 2020, created favourable prospects, and a predictable horizon for the development of this segment of the Group's activity, represented by Lojas Francas de Portugal.

Exchange rate risk

The exchange rate risk that the Group is subject to is essentially due to the geographic distribution of its passenger and cargo air transport activity and, to a much lesser extent, due to its sales of maintenance services in both Portugal and in TAP–Maintenance and Engineering Brazil. The exchange rate exposure of the Group is also dependent on the exchange rate denomination of the operating costs, among which fuel, the main cost item and almost entirely denominated in dollars, is noteworthy. Lastly, both the Group's Assets and Liabilities comprise goods and debt subject to the direct or indirect influence, recognised or not, of exchange rate variations. These include the assets (hangars, stocks, and so on) of the Brazilian maintenance and engineering unit, whose value is influenced by the Brazilian real, or cash assets denominated in foreign currency, or, on the liabilities side, the remunerated liabilities component contracted in dollars and which represents about 12% of the Group's total debt. Finally, the Liabilities and Equity of TAP–Maintenance and Engineering Brazil comprise an exchange rate exposure, of a liability nature, to the Brazilian real.

In terms of revenue from the air transport of passengers, the component in euros represents half the total, corresponding to sales in Portugal, in the rest of the Euro zone and in European and African countries with exchange rate regimes associated to the euro. The exposure to the dollar stems from sales in the USA, Brazil and Angola, representing approximately 30% of the total. The other currencies, corresponding to 1/5 of sales, include the pound and the Swiss franc, the Nordic and Eastern European currencies, the Mozambican metical or the Venezuelan bolivar. This last currency also has, in addition to its impact on revenues, an important weight in terms of the balance sheet, in treasury, due to the transfer of the accumulated value resulting from sales of recent periods being dependent on lengthy decisions from the Venezuelan authorities, given the difficult financial situation of the country.

The exposure of the dollar in the Brazilian market continues to be one of the particular features of this market, with historical roots in the hyperinflation periods that affected Brazil in the past and the consequent partial dollarization of its economy. This factor, however, tends to decrease in importance and the sensitivity of consumers to the exchange rate fluctuation against the dollar tends to gradually diminish. In the Angolan market, in 2014, a gradual exchange rate decoupling of the kwanza relative to the dollar also began to be observed, with a progressive depreciation of the kwanza having been determined by the authorities in the second half of the year. This phenomenon is inextricably linked to the significant change in the financial situation of the country resulting from the fall in oil prices.

The most important exchange rate exposure of the Group is to the dollar, essentially through the purchase of jet fuel which, depending on the average level of market prices in each financial year of the Group, can somewhat destabilise the exchange rate equilibrium and the exposure to this currency. With much less weight than fuel, the set of costs associated with materials and subcontracting for maintenance and repair of own or third-party aircraft, also contains a significant proportion of its total denominated in dollars. There are also components denominated in dollars (and other currencies) in navigation and landing charges, although the most significant share is denominated in euros, both in Portugal and in Europe, in connection with Eurocontrol. Other costs, such as operating leasing, for example, are almost entirely denominated in dollars, in spite of accounting for a small share in the cost structure of the airline company and the Group.

Regarding fuel – and this market operates in dollars, regardless of the billing conditions agreed with national and foreign suppliers –, the foreign exchange exposure excludes the component relative to charges and margins of the fuel supply companies in markets such as Portugal and Europe, in which this portion is established in euros or other local currencies. This component of the cost of fuel is more relevant, in relative terms, the lower the market prices of jet fuel, since this set of costs is typically fixed and rigid in each multiannual contractual period. It is possible to estimate, however, that the exposure to the dollar resulting exclusively from the effective impact of the market price of jet fuel represented, in 2014, almost 90% of the total fuel bill, with the remaining 10% being accounted for by all other costs. The fall in the price of oil at the end of 2014, if it is maintained, will result in a substantial reduction in the net exchange rate exposure to the dollar of TAP, and of the Group, in future.

To summarise, the exposure to the dollar has been, over the last few years, and in 2014, negative in net terms, resulting from the cost and income structure. The current lower oil prices will tend to reduce that net foreign exchange exposure, with its future effect being dependent on the durability and intensity of those low prices.

The impact of the euro-dollar exchange rate, at the end of the year, such as that which took place in 2014, relative to the end of 2013, of more than 10%, generates exchange rate differences in dollar-denominated debt which, although not having a significant weight on total debt – only 12% of total debt is denominated in dollars –, is subject to substantial impacts if the exchange rate variation is very large. Contrary to the variation of the dollar exchange rate at the end of the financial year, in December 2014, relative to the end of 2013, which was very significant, the average variation of the dollar exchange rate over 2014, relative to 2013, was almost negligible. The dollar's strong upsurge at the end of the year resulted in a substantial increase in the cost of debt, reported in financial results, in TAP and in the Group.

In the long-term, the risk resulting from the foreign exchange exposure of TAP and of the Group resides, in addition to all the previously mentioned factors, also, given its relevance, in the strategic project and commitment to the existing investment relative to the acquisition of the new Airbus A350 long-haul fleet, to be delivered from 2017 onwards, and to its means of financing.

Interest rate risk

The year of 2014, in a context of stabilisation of international financial markets and within a framework of near-zero inflation, in Europe, continued to be characterised by almost zero interest rates in Europe and very low rates in the USA. The long-term interest rates, namely of public debt, in Portugal and in the majority of European cities, also remained at historically low levels. The decompression observed in financial markets, following years of major tension resulting from the public debt crises in the Euro zone, also permitted a general reduction in the cost of credit in both national and international markets. The increased liquidity in monetary markets, the financial stabilisation of the national economy, as well as the slight upturn in economic growth, enabled financial institutions to begin practicing less restrictive credit conditions and granting loans with lower margins, including for short-term financing.

The total remunerated debt of the Group in 2014, of 1,062 million euros, remained at almost the same level as in 2013. There was, however, a significant substitution of the amounts in debt of medium and long-term loans for shorter term operations, predominantly in the national market. The short-term credit lines used during the year presented, in general, lower margins than those contracted over the last 2 years. As a result, the average margin of floating rate operations fell slightly. In addition, since the short-term component represented the almost entire contracting of new debt, and the new operations are of a variable rate, the weight of floating rate debt increased from 48% to 56% of total debt. The partial scheduled repayment of fixed rate long-term loans, with the inherent substitution for variable rate short-term debt, indexed to the Euribor, resulted, in some cases, in a slight reduction of the effective interest rate payable, in spite of the spreads practiced. Furthermore, taking into account the maintenance of the Euribor rates at near-zero levels, the weighted average interest rate of the Group thus registered a slight reduction in 2014, relative to 2013.

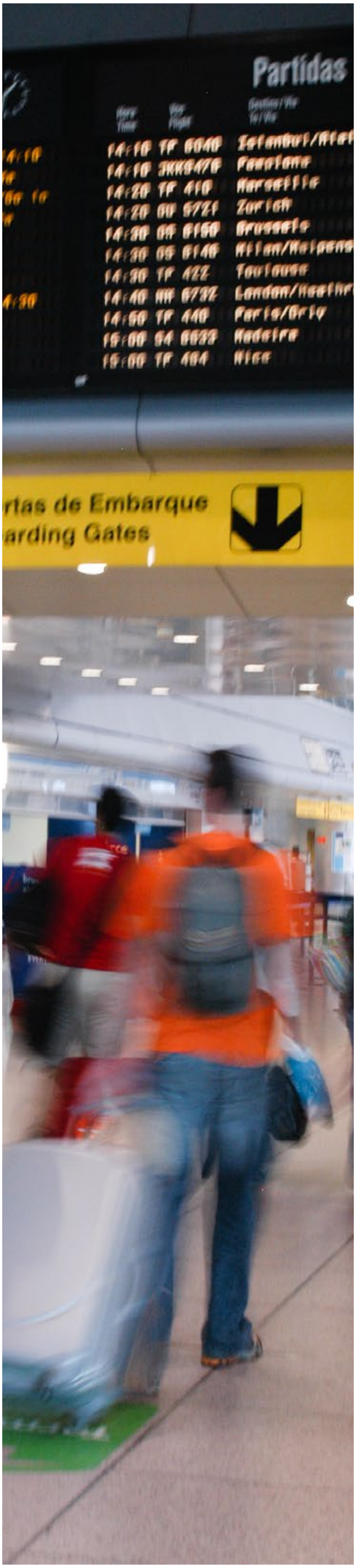
The net financial result of the Group in 2014 was thus substantially influenced by changes stemming from the exchange rate exposure to the dollar, relative to the debt denominated in that currency, and also from the recording of currency conversion losses with the bolivar, of an exceptional nature, as a result of the new framework determined by the Venezuelan authorities. In short, about 43% of total financial costs in 2014 resulted from currency conversion costs. About 6% corresponded to financial costs of TAP–Maintenance and Engineering Brazil. Slightly more than half of the financial costs of the Group corresponded to interest and other financial costs and financial leasings of TAP, of Portugália Airlines, and of TAP SGPS. This amount, of approximately 43 million euros, remunerated in 2014 a total debt that stood at 1,062 million euros at the end of the financial year.

Credit and liquidity risk

The Group's liquidity risk is, therefore, made up of a combination of factors that result from the operation, the existing financing and respective debt service, the conditions of negotiation of new operations, the concession of intra-group liquidity, currency conversion costs or gains, and investment activities, when significant. The Group has to service its debt annually which, although properly planned and scheduled over time, has an impact on treasury and has to be regularly evaluated in accordance with events occurred during the financial year. Any turbulence in financial markets, such as that which occurred during the sovereign debt crisis, or any market shocks in terms of current costs or revenue of the Company, condition, to a lesser or greater extent, the treasury, the liquidity, the economic and financial equilibrium and the prosperity of the Group.

In addition to short and long-term financial management and cash management, also in the area of current asset management, there has been rigorous monitoring of customers' positions and the repercussions of the effects of the economic crisis on their credit quality, and it was possible to limit the aggravation, for example, of the adjustments to a negligible value in terms of the scale of the activity.

Of the total value of accounts receivable from customers, the balances of airline companies and travel agencies are settled, principally, through the IATA Clearing House system, which substantially minimises the credit risk of the TAP Group.



TAP GROUP ECONOMIC AND FINANCIAL PERFORMANCE

Changes to Group structure

As at 31 December 2014, the following subsidiaries were included in the consolidated 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 subsidiaries:
    - CATERINGPOR–Catering de Portugal, S.A.
    - L.F.P.–Lojas Francas 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, Lda. (AEROPAR) and subsidiary:
    - TAP–Manutenção e Engenharia Brasil, S.A. (former VEM) (TAP M&E Brazil)

Subsidiaries are all the entities over which the Group considers there is control.

The Group considers that there is control over an entity when the Group is exposed or entitled, as a result of its involvement, to a variable return of the entity's activities and has the capacity to affect this return through its power exercised over the entity, namely, when it directly or indirectly holds over half of the voting rights. The existence or 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. Third party holdings in the equity and net income of these companies is presented separately in the consolidated statement of financial position and consolidated income statement, respectively, under the heading of *Non-controlling interests*.

The purchase method is used to record the acquisition of subsidiary companies. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition. The costs directly associated to acquisitions (consulting services, legal advisory services and administrative costs, among others) are stated, in the consolidated financial statements of the "Group", as costs for the year when the acquisition took place, recognised in the consolidated income statement. 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 recognised directly in the Income Statement under the heading Other Income and Gains. Internal transactions, balances, unrealized 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)

Investments in associates are accounted for 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 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 gains for the financial year 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 in this item being recorded as costs. When impairment losses recognised in previous years cease to exist, they are reversed. Unrealised gains in transactions between the Group and its associates are eliminated up to the extent of the Group's stake in the associates. Unrealised losses are also eliminated, unless the transaction provides evidence of impairment of the transferred asset. When considered necessary, the accounting policies of the associates are changed, so as to guarantee consistency with the practices adopted by the Group.

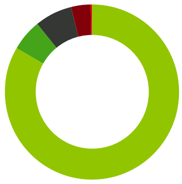
Economic Situation

Consolidated net income of the TAP Group

In 2014, the air transport business continued to represent a strong contribution toward the development of the world economy. Passenger demand in terms of total passenger-kilometres registered, at a worldwide level, an evolution of approximately 5.9% relative to 2013, in line with the growth verified in the last 30 years, whilst capacity increased by 5.6%. The flight load factor, at approximately 79.7%, stood close to the maximum historical levels, confirming the effort of airline companies in maximising the attraction of demand. In contrast, the Industry registered a fall in the average global yield of -0.9% in 2014, resulting in a loss of profitability. In Europe, the profitability of the region's airline companies is conditioned by the development of activity in a market considered mature, where the expansion of demand is significantly more moderate (approximately 3.7%), and by the impact of the continuing economic crisis throughout the Euro zone. Regarding the air cargo market, in spite of having registered a flight load factor of 47.2%, a robust increase of 4.1% in total cargo transported was registered, surpassing the overall evolution of commercial exchanges in the same year by 1.1 p.p.. In the interim, aircraft fuel prices, on a downward path but still significantly higher than the prices observed at the beginning of the decade, continued to condition the profitability of the Industry.

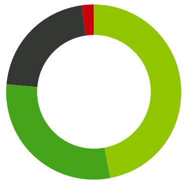
Regarding the companies of the TAP holding, which follow TAP's strategic guidelines, efforts were made to promote the increased profitability of the activities of the respective sphere of intervention. In support of this objective, actions were continued aimed at the ongoing improvement of the quality associated to the different aspects of the services provided, the differentiation of the products offered, combined with the adoption of best practices, as well as the continuous increase in productivity levels. In addition, actions were continued with a view to reduce costs and increase efficiency through the optimisation of existing resources, with transversal effects on all the companies of the TAP Group.

Operating Revenues and Gains
2014



- 83.5% Sales and Services Rendered – Air Transport
- 5.8% Sales and Services Rendered – Maintenance and Engineering
- 6.9% Other Sales and Services Rendered
- 3.8% Other
- 0.04% Operating Subsidies

Operating Costs and Losses
2014



- 47.1% Cost of Goods Sold and Materials Consumed and External Supplies and Services, except Fuel
- 29.4% Fuel
- 21.3% Personnel Costs
- 2.2% Others

Consolidated net income of TAP Group
EUR million

	2014	2013
Operating Revenues and Gains	2,805.0	2,722.9
Pre-tax Earnings	(78.8)	(0.4)
Net Income of shareholders of the parent company	(85.1)	(5.9)
Net Income for the year of minority interests	4.1	5.0

Within the context described above, the consolidated performance at the aggregate level of all the Group's companies worsened, with TAP SGPS having ended 2014 with a net income of shareholders of the parent company of the value of -85.1 million euros, 79.2 million euros less than the -5.9 million euros recorded in 2013.

Contributing to this result was the net income calculated for the companies TAP, S.A., which presented a net income of -46.4 million euros and AEROPAR – the company owning 47.64% of the share capital of TAP–Maintenance and Engineering Brazil, with -11.0 million euros. Regarding Maintenance and Engineering, TAP–Maintenance and Engineering Brazil recorded a net income of -22.6 million euros. With reference to SPdH-Serviços Portugueses de Handling, S.A. (Groundforce Portugal), set up in 2003 resulting from the demerger of the Ground Handling Business Unit of TAP, S.A., and in which TAP, SGPS, S.A. holds a number of shares representing 49.9% of the company's share capital, the company reached a positive net income of 2.4 million euros.

Pre-tax income came to -78.8 million euros, 78.4 million euros less than the -0.4 million euros recorded in 2013.

Net Operating Income

At the operating level (before interest and taxes), the Company recorded 2.6 million euros, representing 41.5 million euros less than in 2013.

It is important to mention, with a relevant impact on results, the increase in fuel costs, resulting from the expansion of the activity and mitigated, albeit slightly, by the favourable evolution of the price in dollars in the last quarter of the year. It should also be noted that Fuel costs, which during the period between 2001 and 2003 varied between 140 million euros and 150 million euros, represented in 2014 a value in the order of 797.8 million euros for the company TAP, S.A., i.e. 33.0% of the total Operating Costs and Losses of this company. That amount represented 3.9% more than the value recorded in 2013, corresponding to an increase of 29.8 million euros, of which -16.7 million euros are attributable to the price effect.

Net operating costs and losses, not including depreciation, amortisation and leasing of aircraft and spare parts, stood at 2,657.7 million euros, 146.6 million euros more or 5.8% more than in 2013.

Total operating income and gains reached 2,805.0 million euros, which compares to the 2,722.9 million euros of the previous year, corresponding to an increase of 3.0%. Total sales and services rendered increased by 29.3 million euros, 1.1% more than the value achieved in the previous year. This result reflected the behaviour of the revenue generated by Air Transport which decreased by 1.4 million euros (-0.1%). The revenue of Maintenance and Engineering increased by 14.3 million euros (+9.7%), with the other services rendered, arising from activities complementary to the Company's core business having presented an improved performance at 16.5 million euros (+9.2%) relative to 2013.

Total gains and losses in associated companies stood at 1.6 million euros, which corresponds to the appropriation of the shareholding in the net income of the associated company SPdH.

Regarding costs, the headings related to the acquisition of consumed materials and services, excluding fuel, increased by 125.4 million euros, 10.9% more than in 2013. Total staff costs reached 578.9 million euros, that is, 7.0 million euros more than in the previous year, reflecting the variations in all of the respective headings, namely personnel costs associated to insurance and social action costs

Fuel Costs TAP, S.A.
EUR million

	2014	2013	var. (abs.)
Total (*)	797.8	768.0	29.8
Price Effect			-16.7
Quantity Effect			43.0
Acquisition of the CO_2 emission Allowances	4.7	1.0	3.7

(*) Includes charges relative to the acquisition of the CO_2 emission allowances

Financial Results

Net financial income stood at 81.4 million euros, reflecting a deterioration in the order of EUR 36.9 million in relation to the result for 2013. The performance of the financial function was influenced mainly 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 178.3 million euros, corresponding to 47.1 million euros less than in 2013.

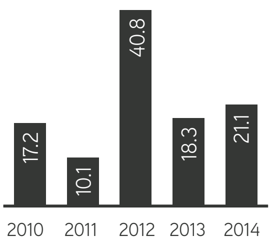
Consolidated Net Operating Income of TAP Group

EUR million

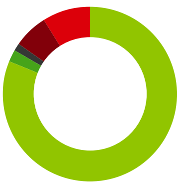
	2014	2013
Operating Revenues and Gains	**2,805.0**	**2,722.9**
Sales and services rendered	2,698.3	2,669.0
Air Transport	2,342.6	2,344.1
Maintenance and Engineering	161.0	146.8
Other sales and services rendered	194.7	178.2
Operating subsidies	1.2	3.9
Gains and losses in associated companies	1.6	0.7
Other revenues and gains	104.0	49.4
Operating Costs and Losses	**(2,715.0)**	**(2,563.1)**
Cost of goods sold and materials consumed	(259.1)	(214.8)
External supplies and services, except fuel	(1,018.4)	(937.4)
Fuel	(797.8)	(768.0)
Personnel costs	(578.9)	(571.9)
Other	(10.1)	(6.5)
Other costs and losses	(50.8)	(64.6)
Depreciation and amortisation costs/reversals	**(85.4)**	**(115.8)**
Impairment of assets subject to depreciation/amortisation (losses/reversals)	**(2.0)**	
Net operating income (earnings before interest and taxes)	**2.6**	**44.1**

Gross Fixed Capital Formation

EUR million



2014



- 81.3% Basic Equip. (Aircraft + Spare Engines + Misc. Machinery and Equipment + Other)
- 2.1% Buildings and Other Constructions
- 1.5% Transport Equipment
- 6.3% Administrative Equipment
- 8.8% Other (Other Tangible Fixed Assets + Intangible Assets + Tools and Dies)

Financial Situation

The consolidated total Assets of TAP, SGPS, S.A. came to 1,560.4 million euros, while the degree of use of the Assets, expressed through the ratio between the Company's Turnover and Total Assets reached 1.72.

In 2014, for the TAP Group, total Gross Fixed Capital Formation reached 21.1 million euros. This amount is essentially related to investments in basic equipment with the acquisition of spare parts, rotary engines and engine equipment for the aircraft fleets and machines and miscellaneous equipment, as well as tools and utensils and administrative equipment.

The analysis of the economic and financial indicators shows that the Net Worth of the Company stands at -511.9 million euros, reflecting a decrease of 138,5 million euros relative to 2013. Reference should also be made to the existence of minority interests to the value of 7.9 million euros, 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 2,072.3 million euros, with 536,8 million euros being relative to Non-current Liabilities and 1,535.4 million euros relative to Current Liabilities, which currently represents 74.1% of total Liabilities, 13.7 percentage points more than in 2013.

Regarding debt structure, bank loans and financial leasing, by the end of 2014 the total reached 1,061.7 million euros. Liabilities relative to the current remunerated debt of 633.7 million euros represented 59.7% of the total, corresponding to 22.5 p.p. more than in 2013.

OUTLOOK FOR 2015

Macro and sectorial environment

Following the growth of global economic activity of approximately 3.3% in 2014, a slightly higher growth rate, of between 3.5% and 3.7%, is expected for 2015. Underlying this performance of the world economy, it is important to note the fall in oil prices as a driver of growth in the developed economies, although the repercussions on investment, for the developing economies in particular, are less positive. Also noteworthy is the existing asymmetry between economies, with the USA, the Euro zone and India benefitting from more positive prospects for 2015, contrary to China, Russia and other economies, strongly dependent on exports of commodities, reflecting a slowdown in growth.

The USA is thus expected to grow by 3.6% in 2015 (1.2 p.p. higher than that recorded in 2014). These expectations are based on the increase in internal demand – strongly driven by lower oil prices –, the moderation of fiscal policy and the maintenance of monetary policy, in spite of the contraction of net exports due to the appreciation of the dollar. China's growth is forecast to slow to levels below 7% (a decline of 0.4 p.p relative to 2014), due to the decrease in real estate prices and government efforts to moderate investment. This slowdown is also expected to have implications for the other Asian economies, with a consequent fall in economic growth in the region. However, and similarly to 2014, India is expected to remain the exception to the downturn and, on the contrary, the economic growth already seen in 2014 is expected to prevail. For the CIS countries (Commonwealth of Independent States) and for Russia in particular, the predictions point towards a strong contraction of economic activity. These are, on the one hand, economies that are strongly dependent on oil exports and, on the other, economies in close proximity to the geopolitical tensions felt during 2014, and very dependent on the exchange rate of the Russian rouble, with direct consequences on economic activity and implications for confidence in the markets. In addition, other countries that depend substantially on the export of commodities, namely economies of Latin America and Sub--Saharan Africa, are also expected to benefit from the fall in oil prices and from the reduced demand for raw materials in general, reaching growth rates of 1.3% and 4.9%, respectively (in both cases, only 0.1 p.p. above the performance recorded in 2014).

In the Euro zone, in spite of growth in the third quarter of 2014 having come in below expectations, economic activity is expected to expand by 1.2% in 2015, driven once again by the fall in oil prices, as well as by the continued easing of monetary policy, a lower tax burden and the depreciation of the Euro. At the same time, private investment is expected to decline, partly due to the worse performance of exports to emerging markets.

Regarding the Portuguese economy, the confidence and economic sentiment indicators in 2014 stabilised, pointing towards prospects of a continued recovery of domestic consumption, declining unemployment (from 14.2% in 2014 to 13.4% in 2015) and lower inflationary pressures (0.1% expected for 2015, remaining more or less in line with the -0.2% registered in 2014). As for private investment, a slight increase is expected (from 2.4% in 2014 to 3.1% in 2016), in a scenario marked by deleveraging and by difficulties in accessing credit in the non-financial sector. Exports are expected to increase to 5%, a rise of 1.2 p.p. relative to the previous year (although falling short of the 6.4% recorded in 2013) and a slight decline in imports is forecast (by approximately 1 p.p.), contributing to the growth of net exports in 2015. As for the public sector, it is estimated that the deficit will fall to 2.8% in 2016, resulting in an increase of 4.5 p.p. of the government debt-to-GDP ratio which stands at 129%.

As for the Air Transport Sector, a year marked by an improvement in profitability of around 25% (which corresponds to an increase of 5 billion dollars of profit for the Industry) is expected, driven by lower oil prices and an increase in global economic activity. Part of the improvements in the cost structure are expected to be passed on to the consumer, increasing the number of passengers by 6.8% (contrasting with the growth of 5.5% recorded in previous years). In addition, this increase is also expected to result in a rise in expenditure in the air sector of 4.3% to 823 billion dollars. Capacity in the sector is forecast to increase slightly above the number of passengers (7.3%), resulting in a global passenger load factor lower than that verified in 2014 (79.6% relative to 79.7% in 2014). However, this indicator remains uneven among the various regions, since the decline is more pronounced in regions such as Europe, Africa and Latin America. Financial performance is expected to improve, since the breakeven load factor will decline in all regions. As for the air transport of goods, a modest growth of approximately 4.5% is expected, marked by more intense competition from other forms of transport.

Prospects for TAP in 2015

Regarding the fleet, 2015 will be a year of consolidation, with no structural changes in the fleets of TAP and PGA being foreseen. There are, however, various requirements regarding the sustainability of the network and the continuous improvement of the offer to the customer already identified, and which shall be addressed in due course, including the concern to safeguard the renewal of the PGA fleet. Within the scope of the long-haul fleet, the specification work of the A350-900XWB will continue as scheduled by Airbus, which began in 2014 and is expected to be concluded in mid-2015 (about eighteen months before the delivery of the first aircraft). Within the scope of the medium-haul fleet, the start of the programme to install sharklets in 12 aircraft of the A319/A320 fleet is planned for the end of 2015. The sharklets, extensions applied to the extremities of wings, will permit improved performance and aerodynamic stability, and consequent fuel savings of around 3%-4%.

Regarding the products and services offered by TAP, the creation of new products and services is planned for 2015, which will help boost TAP's competitiveness. In particular, TAP proposes to develop a range of more personalised products and services, giving priority to quality, which includes a new catering concept in economy class (focused on Lusophone culture), the launch of two new lounges at Lisbon airport, the improvement of reservation management services on the web, the participation in *fast-track and keep me informed* initiatives of STAR Alliance, and new investments in in-flight entertainment, which includes AVOD entertainment across the entire long-haul fleet and entertainment available from gate to gate.

In 2015, within the scope of the commercial offer, TAP will continue to develop the CCIT, a reservation, inventory and departure control management platform, common to all STAR Alliance companies. This will involve the extension of EMD (Electronic Miscellaneous Document) to the other GDS (Global Distribution System), initiatives that will facilitate the development of ancillary services within the scope of the range of TAP offers. The IATA NDC (New Distribution Capability) platform will also be implemented, which will permit a quick and effective distribution of the product among the various travel agencies. In 2015, the operation of PROS-Revenue Management O&D will also continue to be stabilised, which includes the transfer to O&D III following the works to create historical records, undertaken in 2014.

Regarding the improvement of TAP's ground operations, in 2015 initiatives will be promoted aimed at improving the punctuality of flights through the reduction of ground handling events that raise turnaround times. Baggage transfer processes will also continue to be optimised in order to minimise the number of events related to baggage delays through initiatives such as the implementation of the management tool MyBag + RBS at foreign stop-overs (aimed at creating a TAP baggage information centre). In addition, in 2015 additional efforts shall be made to contain costs increases related to landing and navigation charges, which have increased significantly over the last five years.

As regards efforts to continuously improve efficiency, and in line with the new Strategic Plan, a comprehensive cost reduction plan will be launched in 2015 involving all the units of the Group to develop and implement initiatives aimed at reducing the Group's unit cost in order to create a new cost base which will enable TAP to achieve new levels of sustainable growth. The programme will be implemented over the next five years on a phased basis in order to prioritise initiatives of quicker implementation and with greater potential.

Regarding TAP–Maintenance and Engineering Portugal, 2015 presents positive commercial prospects, with negotiations underway for new partnerships for the promotion of cross-sourcing and participation in networking strategies of potential partners, and to improve the value proposition for customers. Attention should be drawn to the new tender to be launched by SIMMAD regarding the management of the A340 (currently supported by TAP–Maintenance and Engineering Portugal) and A310 fleets of the French Air Force. With regard to the engine maintenance business, the unit continues with its strategy to approach the market through the various models of the CFM56 product, with the conclusion of new contracts with customers from different geographic areas being expected. The business unit will also continue until March with the monitoring of the development of the A350 family in Toulouse via the Airline Office (AIO) and, once this monitoring has terminated, and jointly with engineering, the area will step up its participation as the delivery of the first aircraft in 2017 draws nearer, so that the same will take place smoothly.

Within the operational context, with respect to the engine maintenance activity, a focus on planning, control and the establishment of quality and documentation procedures is foreseen, with a view to increasing efficiency, reducing TATs (Turn Around Time) and improving the quality of the service and customer satisfaction. The need for stabilisation of these processes is also related to the marketing of services vision such as the reparation of thrust reversers moving towards being conducted in-house.

The True Engine classification for the fleet of TAP engines is also expected to be obtained. In the components area, an assessment will be carried out of the most adequate industrial strategy for the planned modernisation of the TAP fleet and the challenges posed by the sale of third-party services, as well as potential partnerships. Regarding aircraft maintenance, the challenges posed require the consolidation of new work processes, which point towards the reduction of TATs by around 15%, and the reinforcement of investment in modernisation in order to increase efficiency. Common to all areas of TAP–Maintenance and Engineering will be the reinforcement of the focus on actions aimed at reducing costs and contributing to the improvement of the punctuality of the TAP fleet.

Within the scope of continuous improvement, a series of processes defined by each Department will be launched to obtain efficiency gains through the improvement of processes and procedures that contribute to the achievement of ambitious management targets for 2015. The participation of new employees in these projects will continue to be given priority, in order to continue the development of an organisational culture that embraces change through a focus on results and commitments.

As regards TAP–Maintenance and Engineering Brazil, the business strategy will be based on three key strategic axes – improvement of

capacity and productive efficiency, improvement of commercial performance and restoration of economic and financial viability. Based on these axes, the ambition is to increase customer satisfaction (which has been registered in satisfaction reports), continue to increase revenue significantly above the growth of the MRO market in Latin America and consolidate a position of success obtained in recent tax and labour proceedings.

At a global level, it is also important to mention the continued performance of the Company in complying with its Social Responsibility commitments, through the attribution of various social benefits to its employees and families, the development of programmes focused on promoting health and a healthy life, in a collective effort to promote social action and develop actions in support of the community and of customers with special needs, and its Environmental Responsibility commitments, through the promotion of AGIR ECO initiatives of TAP, waste management programmes, environmental training for Group employees, and the implementation of the annual environmental audit plan.

In addition, from a strategic perspective, it is important to highlight the important role of TAP 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 Portugal.

In short, 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 through 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 enroute stop-overs 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.

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.

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.

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.

1971

The Company's services are transferred to new premises at Lisbon airport, and new maintenance facilities are opened, including Hangar 6.

Nationalisation of TAP

Strengthening of TAP's fleet

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.

1975

16th April

TAP becomes a State-owned company through Decree-Law number 205-E/75.

1979

The Company's modernisation programme is implemented, which also changes the corporate name to TAP–Air Portugal.

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.

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.

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.

TAP's recovery

2000

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.

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.

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.

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.

The TAP Group and the OMNI Group sign a contract to sell all the shares of White–-Airways, S.A.

2007

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 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%).

2009

TAP is the first airline company in the world to launch the CO_2 Emissions Compensation Programme.

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

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).

2011

The Safety Policy of TAP–Maintenance and Engineering is published.

TAP launches the new campaign and Company slogan *With Arms Wide Open*.

2012

Approval by the Council of Ministers (Decree-Law number 210/2012, of 21 September) of the 3rd and 4th phases of the indirect reprivatisation process of the share capital of TAP–Transportes Aéreos Portugueses, S.A. (TAP, S.A.), following the reprivatisation of the share capital of TAP–Transportes Aéreos Portugueses, SGPS, S.A. (TAP SGPS, S.A.). Within the scope of the 3rd phase of the reprivatisation process, Synergy Aerospace Corporation (Synergy) was admitted to participate in the moment subsequent to the direct sales process (Resolution of the Council of Ministers number 88-B/2012, of 18 October) having, subsequently, submitted a binding proposal, which took place on 7 December 2012. Following the assessment of the binding proposal, the Government considered that said proposal did not include elements to allow a conclusive judgement, having determined the conclusion of this process. The Reprivatisation Process has thus remained suspended since that time.

Acquisition, by a national Group, of 50.1% of the share capital of the ground handling company SPdH–Serviços Portugueses de Handling, S.A., with TAP remaining in possession of 49.9% of the share capital.

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

2013

Start-up of direct flights between Lisbon and the Island of Pico, in the Azores

TAP–Maintenance and Engineering signs a contract for the revision and repair of landing gear of NATO's AWACS fleet, continuing close to three decades of collaboration.

Opening of the line to Tangiers, the third destination served by the Company in Morocco, where it already operates Casablanca and Marrakech.

Start-up of the connection to Boa Vista, the fourth destination served by TAP, in Cape Verde.

CONSOLIDATED FINANCIAL STATEMENTS TAP, SGPS, S.A.


TENSABARRIER
Café

Index

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014 and 2013
Values in thousand euros

ASSETS	Note	31 December 2014	31 December 2013
Non-current assets			
Tangible fixed assets	5	673,718	735,110
Investment properties	6	2,139	3,864
Goodwill	7	193,479	193,039
Other intangible assets	8	738	774
Other financial assets	13	2,122	2,220
Deferred tax assets	15	53,410	32,008
Other accounts receivable	18	48,569	40,681
		974,175	**1,007,696**
Current assets			
Inventories	20	97,172	108,899
Customers	21	146,991	205,690
Advances to suppliers	16	6,745	8,895
State and other public entities	17	13,878	14,403
Other accounts receivable	18	63,061	66,351
Deferrals	19	17,094	12,636
Restricted bank deposits	22	100,917	-
Cash and bank deposits	22	140,364	270,611
		586,222	**687,485**
Total assets		**1,560,397**	**1,695,181**

EQUITY AND LIABILITIES			
Equity			
Share capital	24	15,000	15,000
Legal reserves	24	3,000	3,000
Currency conversion reserves	24	(19,503)	(20,145)
Fair value reserves	24	(36,727)	4,541
Adjustment of equity holdings		(2,260)	(2,260)
Retained earnings	24	(394,209)	(376,088)
Net income for the year	24	(85,096)	(5,868)
Total equity of the Group		**(519,795)**	**(381,820)**
Non-controlling interests	25	7,935	8,508
Total equity		**(511,860)**	**(373,312)**
Non-current liabilities			
Provisions	26	29,723	25,287
Loans received	27	427,969	660,131
Liabilities related to post-employment benefits	28	56,626	47,593
Deferred tax liabilities	15	21,035	25,821
State and other public entities	17	-	59,898
Other accounts payable	31	1,492	1,546
		536,845	**820,276**
Current liabilities			
Suppliers	30	141,082	118,286
Advances from customers	29	820	1,358
State and other public entities	17	22,021	29,505
Loans received	27	633,682	390,512
Other accounts payable	31	366,201	286,968
Tickets to be used	32	303,889	364,507
Deferrals	19	67,717	57,081
		1,535,412	**1,248,217**
Total liabilities		**2,072,257**	**2,068,493**
Total equity and liabilities		**1,560,397**	**1,695,181**

The notes are an integral part of the consolidated statement of financial position as at 31 December 2014.

CONSOLIDATED INCOME STATEMENT

For 2014 and 2013
Values in thousand euros

	Note	2014	2013
Sales and services rendered	35	2,698,321	2,669,027
Operating grants	36	1,151	3,852
Gains and losses in associates	37	1,611	706
Variation in production	38	8,894	(5,072)
Own work capitalised	39	791	1,593
Cost of goods sold and materials consumed	40	(276,583)	(214,811)
External supplies and services	41	(1,816,262)	(1,705,328)
Personnel costs	42	(578,880)	(571,855)
Inventory impairment (losses/reversals)	43	(105)	(5,908)
Impairment of debts receivable (losses/reversals)	44	(14,044)	(366)
Provisions (increases/decreases)	45	(5,706)	3,623
Fair value increases/reductions	47	104	(410)
Other income and gains	48	103,958	49,359
Other costs and losses	49	(33,257)	(64,598)
Earnings before interest, taxes, depreciation and amortisation		**89,993**	**159,812**
Depreciation and amortisation costs/reversals	50	(85,437)	(115,751)
Impairment of assets subject to depreciation/amortisation (losses/reversals)	46	(1,984)	-
Net operating income (earnings before interest and taxes)		**2,572**	**44,061**
Interest and similar revenue received	51	3,091	6,155
Interest and similar costs paid	51	(84,509)	(50,656)
Pre-tax earnings		**(78,846)**	**(440)**
Corporate income tax for the year	52	(2,103)	(475)
Net income for the year		**(80,949)**	**(915)**
Net income of shareholders of the parent company		**(85,096)**	**(5,868)**
Net income of non-controlling interests	53	4,147	4,953
Basic and diluted earnings per share (euros)	24	(57)	(4)

The notes are an integral part of the consolidated income statement as at 31 December 2014.

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

For 2014 and 2013
Values in thousand euros

	Note	2014	2013
Net income		**(80.949)**	**(915)**
Elements which may be reversed in the consolidated income statement:			
Currency conversion gains and losses	24	642	(6.566)
Gains and losses in derivate financial instruments	24	(57.100)	8.122
Deferred tax on derivative financial instruments	15	15.832	(1.901)
Elements which may be reversed in equity:			
Remeasurements	26 and 28	(14.686)	12.837
Deferred tax on remeasurements	15	2.433	960
Income recognised directly in equity		**(52.879)**	**13.452**
Comprehensive income		**(133.828)**	**12.537**
Attributable to:			
TAP SGPS shareholders		(137.975)	7.584
Non-controlling interests	53	4.147	4.953
Total income and costs recognised for the year		**(133.828)**	**12.537**

The notes are an integral part of the consolidated comprehensive income statement as at 31 December 2014.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

From 1 January 2013 to 31 December 2014
Values in thousand euros

	Share capital	Legal reserves	Currency conversion reserves (Note 24)	Fair value reserves (Note 24)	Adjustment of equity holdings	Retained earnings	Net income for the year	Sub-total	Non-controlling interests (Notes 25 and 53)	TOTAL
Financial position as at 1 January 2013	**15,000**	**3,000**	**(13,579)**	**(1,680)**	**(2,260)**	**(364,398)**	**(25,487)**	**(389,404)**	**8,599**	**(380,805)**
Transactions with shareholders in 2013	**-**	**-**	**-**	**-**	**-**	**(25,487)**	**25,487**	**-**	**(5,044)**	**(5,044)**
Application of net income and distribution of profit and reserves	-	-	-	-	-	(25,487)	25,487	-	-	-
Distribution of dividends to non-controlling interests	-	-	-	-	-	-	-	-	(5,044)	(5,044)
Comprehensive income in 2013	**-**	**-**	**(6,566)**	**6,221**	**-**	**13,797**	**(5,868)**	**7,584**	**4,953**	**12,537**
Net income for the year	-	-	-	-	-	-	(5,868)	(5,868)	4,953	(915)
Other comprehensive income	-	-	(6,566)	6,221	-	13,797	-	13,452	-	13,452
Financial position as at 31 December 2013	**15,000**	**3,000**	**(20,145)**	**4,541**	**(2,260)**	**(376,088)**	**(5,868)**	**(381,820)**	**8,508**	**(373,312)**
Transactions with shareholders in 2014	**-**	**-**	**-**	**-**	**-**	**(5,868)**	**5,868**	**-**	**(4,720)**	**(4,720)**
Application of net income and distribution of profit and reserves	-	-	-	-	-	(5,868)	5,868	-	-	-
Distribution of dividends to non-controlling interests	-	-	-	-	-	-	-	-	(4,720)	(4,720)
Comprehensive income in 2014	**-**	**-**	**642**	**(41,268)**	**-**	**(12,253)**	**(85,096)**	**(137,975)**	**4,147**	**(133,828)**
Net income for the year	-	-	-	-	-	-	(85,096)	(85,096)	4,147	(80,949)
Other comprehensive income	-	-	642	(41,268)	-	(12,253)	-	(52,879)	-	(52,879)
Financial position as at 31 December 2014	**15,000**	**3,000**	**(19,503)**	**(36,727)**	**(2,260)**	**(394,209)**	**(85,096)**	**(519,795)**	**7,935**	**(511,860)**

The notes are an integral part of the consolidated statement of changes in equity as at 31 December 2014.

CONSOLIDATED CASH FLOW STATEMENT

For 2014 and 2013
Values in thousand euros

	Note	2014	2013
Operating activities:			
Revenue from customers		3,130,650	3,217,526
Payments to suppliers		(2,321,245)	(2,254,223)
Payments to personnel		(461,470)	(450,562)
Corporate income tax payment/revenue		(8,799)	(8,047)
Other revenue/payments relative to operating activity		(275,248)	(216,103)
Cash flow from operating activities		**63,888**	**288,591**
Investment activities:			
Revenue from:			
Tangible fixed assets		235	1,424
Investment properties	6	2,795	-
Financial investments		177	515
Interest and similar income		3,039	2,503
Loans granted		3,100	4,600
Payments relative to:			
Tangible fixed assets		(22,897)	(11,276)
Intangible assets		(45)	(23)
Additional paid-in capital		(1,000)	-
Loans granted		(2,900)	(3,100)
Cash flow from investment activities		**(17,496)**	**(5,357)**
Financing activities:			
Revenue from:			
Loans received		282,909	285,874
Payments relative to:			
Loans received		(191,300)	(174,948)
Financial leasing contracts		(96,505)	(106,752)
Interest and similar costs		(41,311)	(43,082)
Dividends		(4,720)	(5,044)
Cash flow from financing activities		**(50,927)**	**(43,952)**
Variations in cash and cash equivalents		(4,535)	239,282
Effect of currency conversion differences		(24,685)	(19,086)
Cash and cash equivalents at the beginning of the year		**263,218**	**43,022**
Cash and cash equivalents at the end of the year	22	**233,998**	**263,218**

The notes are an integral part of the consolidated cash flow statement as at 31 December 2014.

NOTES TO THE FINANCIAL STATEMENTS FOR 2014

1 – Economic activity of the "Group"

The "Group", composed of TAP – Transportes Aéreos Portugueses, SGPS, S.A. ("TAP SGPS") and its subsidiaries ("Group" or Group) has its head office at Lisbon Airport and is dedicated to air transport operations involving passengers, cargo and mail, the implementation of maintenance and engineering works, provision of attendance services during air transport stopovers, operation of duty free shops at airports and catering for aviation.

TAP – Transportes Aéreos Portugueses, SGPS, S.A. was incorporated on 25 June 2003 under Decree-Law number 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 entire share capital of the company Transportes Aéreos Portugueses, S.A. ("TAP S.A.").

The Group's core business consists of the air transport of passengers, cargo and mail, operating scheduled flights in Mainland Portugal and in the Autonomous Regions of Madeira and the Azores, Europe, Africa, North Atlantic, Mid-Atlantic and South Atlantic. The Group has 22 representative offices in foreign countries and 4 in Portugal. Moreover, the Group 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, which include the assets, liabilities, costs and income of the "Group" companies as listed in Note 2.3.1., were approved at the meeting of the Executive Board of Directors of 6 March 2015. However, these statements are still subject to approval by the General Meeting of Shareholders, under the terms of the commercial legislation in force.

The members of the Executive Board of Directors who have signed this report declare that, to the best of their knowledge, the information provided herein was drafted in conformity with the applicable Accounting Standards, presenting a true and adequate view 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 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 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 aforesaid financial statements.

The consolidated financial statements attached herewith were prepared under the assumption of going concern, 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, investment properties and customer loyalty programmes, which are recorded at fair value.

In the preparation of the consolidated financial statements, in conformity with the IFRS, the Executive Board of Directors used critical estimates, assumptions and judgements of impact on the value of the assets and liabilities and the recognition of income and costs for each reporting period. Although these estimates were based on the best information available on the date of the preparation of the consolidated financial statements, the current and future results could differ from these estimates. 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 2.32.

The "Group" states, explicitly and without reservations, that the consolidated financial statements were prepared in compliance with the IAS/IFRS standards and their SIC/IFRIC interpretations, approved by the European Union.

2.2. – Comparability

The values presented in the consolidated financial statements for the financial year ended on 31 December 2014 are comparable in all significant aspects with the values for the financial year of 2013.

2.3. – Basis of consolidation

2.3.1. – Subsidiaries

The subsidiaries are all the entities over which the Group considers there is control.

The Group considers that there is control over an entity when the Group is exposed or entitled, as a result of its involvement, to a variable return of the entity's activities and has the capacity to affect this return through its power exercised over the entity, namely, when it directly or indirectly holds over half of the voting rights. The existence and/or effect of voting rights, which are currently exercisable or convertible, are considered in the evaluation of whether the Group has control over another entity.

Third party holdings in the equity and net income of these companies is presented separately in the consolidated statement of financial position and consolidated income statement, respectively, under the heading of "Non-controlling interests" (Note 25).

The companies included in the consolidated financial statements are listed below:

Name	Head office	Core business	Share-holders	% share capital held 2014	2013
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	Provision of management services	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 de Engenharia e 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	Provision of health care 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. (former VEM) ("TAP M&E Brasil") (TAP TYPO)	Brazil	Maintenance and aeronautical engineering	TAP SGPS	51.00%	51.00%
			Aeropar	47.64%	47.64%

The purchase method is used to record the acquisition of subsidiary companies. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition.

The costs directly associated to acquisitions (consulting services, legal advisory services, administrative costs, among other) are stated, in the consolidated financial statements of the "Group", as costs for the year when the acquisition took place, recognised in the consolidated income statement.

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. Any 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 recognised directly in the income statement under the heading "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.

When, at the date of acquisition of control, the "Group" already has a previously acquired stake, the fair value of that stake contributes to the determination of the positive 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 sale to or acquisition of holdings from non-controlling interests, which do not imply the loss of control, do not result in the recognition of gains, losses or goodwill, with any difference between the transaction value and the book value of the traded holding being recorded in equity.

Contingent prices of future events are considered at their fair value on the acquisition date, regardless of their probability of occurrence. Any subsequent remeasurement does not affect the goodwill balances, unless made up to 12 months after the acquisition date.

The accounting policies of subsidiaries were changed whenever necessary, so as 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 through participation in decisions relative to their financial and operational policies, but not control or joint control, generally representing 20% to 50% of the voting rights. Investments in associates are accounted for using the equity method.

According to the equity method, financial holdings are recorded at their acquisition cost, adjusted by the value corresponding to the Group's holding in the changes in 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 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 in this item being recorded as costs. When impairment losses recognised in previous years cease to exist, they are reversed.

Unrealised gains in transactions between the Group and its associates are eliminated up to the extent of the Group's stake in the associates. Unrealised losses are also eliminated, unless the transaction provides evidence of impairment of the transferred asset.

When considered necessary, the accounting policies of the associates are changed, so as to guarantee consistency with the practices adopted by the Group.

The following entity qualifies as an associate:

Name	Head office	Core business	Share-holders	% share capital held 2014	2013
SPdH – Serviços Portugueses de Handling, S.A. ("SPdH")	Lisbon	Handling	TAP SGPS	43.90%	43.90%
			Portugália	6.00%	6.00%

The investments in associates are presented in detail in Notes 10 and 26.

2.4. – Segmental reporting

As recommended in IFRS 8, the Group presents its operating segments based on the management information produced internally. In fact, the operating segments are reported in a manner consistent with the internal management information model, entrusting the senior person with the taking of operational decisions for the entity, who is responsible for the allocation of resources in the segment and assessment of its performance, as well as the taking of strategic decisions. The Group does not present segmental assets and liabilities taking into consideration that this information is not presented to the senior person responsible for the taking of operational decisions of the entity.

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 used in a consistent manner within the Group. All inter-segment income is valued at market prices and eliminated in the consolidation. The information relative to 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 income statement for the year.

2.5.3. – Group companies

The results and financial position of all Group entities which possess 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 component in equity, under the "Currency conversion reserves" heading.

(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.

The adjustments to the goodwill and fair value of an acquisition of a foreign entity are treated as assets and liabilities of a foreign entity, and are converted at the closing exchange rate on the reporting date.

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 component 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	2014	2013
BRL	3.2207	3.2576
USD	1.2141	1.3791
VEF	a)	8.6216
AOA	125.11	133.56

a) See additional comments in Note 22.

For the Brazilian subsidiaries, the monthly balances were converted at the rate of the last day of each month, as follows:

Month	2014	2013
January	3.2829	2.6892
February	3.2120	2.5871
March	3.1276	2.5703
April	3.1248	2.6236
May	3.0315	2.7664
June	3.0002	2.8899
July	3.0156	3.0330
August	2.9600	3.1122
September	3.0821	3.0406
October	3.0714	2.9962
November	3.1831	3.1587
December	3.2207	3.2576

2.6. – Tangible fixed assets

Tangible fixed assets acquired by 1 January 2004 (IFRS transition date) are recorded at acquisition cost, or revalued acquisition cost pursuant to 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, taking effect as of 1 January 2004, the assets belonging to the buildings category 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 deemed 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 they are 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	Residual value
Buildings and other constructions	20-50	-
Basic equipment:		
Flight equipment:		
Airbus		
Aircraft	20	5%
Aircraft under financial leasing	20	5%
Spare engines and spare parts	20	5%
Spare engines under financial leasing	20	5%
Other 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	7-20	0-10%
Transport equipment	4-10	-
Tools and utensils	8-20	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 prospectively, if necessary, on the reporting date (Note 5). 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.

2.7. – 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 taking into consideration the conditions of their use or best use, according to whether they are rented or not.

2.8. – 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.

2.9. – 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 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.

For the purpose of impairment testing, goodwill is associated to the lowest cash generating units to which it belongs. Cash generating units represent the Group's investment in each business area in which the "Group" operates: air transport, maintenance and engineering, duty free shops, catering and others.

2.10. – Impairment of non-financial assets

Non-financial 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.

Whenever the determined recoverable value is lower than the book value of the assets, the Group assesses whether the situation of loss is of a permanent and definitive nature, and if this is the case, the respective impairment loss is recorded. In cases where the loss is not considered permanent and definitive, the reasons substantiating this conclusion are disclosed.

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 2.9.).

The reversal of impairment losses is recognised in the income statement under the headings "Impairment of assets not subject to depreciation/amortisation" and "Impairment of assets depreciable/amortisable assets", 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 assets

The Group classifies its financial 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.

Financial assets and liabilities are offset, and their net values reported in the statement of financial position when there is a legally exercisable right to compensate said values, and when there is an intention to settle on a net basis, or when the asset is realised simultaneously with the settlement of the liability. The legal right to set-off exists when it is exercisable at all times, in the normal course of business, not being contingent on the occurrence of future events or of cases of default, insolvency or bankruptcy of the entity.

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. Subsequent 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 financial position, in which case they are classified as non-current assets.

Loans granted and accounts receivable are initially measured at fair value and subsequently at amortised cost, and are included in the statement of financial position under the headings of "Other accounts receivable", "Customers" and "Advances to suppliers".

Financial assets at fair value through profit or loss

A financial asset is classified under this category if acquired principally for the purpose of 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 assets 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, that the Group has the intention and ability to hold them 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 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 under equity, 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 investments in question are maintained at acquisition cost. Loss of value is recognised as an impairment loss when justified.

Impairment of financial assets

(i) – Loans granted, accounts receivable and investments held to maturity

On each reporting date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired (difference between the recoverable value and the value as at the reporting date of the financial asset) recorded against profit or loss. Various indicators are used to identify situations of impairment, such as:

// Analysis of default;
// Default for over 6 months;
// Financial difficulties of the debtor;
// Probability of bankruptcy of the debtor.

The adjustment for impairment losses is determined by the difference between the present value of the estimated future cash flow, discounted at the original interest rate, and the value as at the reporting date of the financial asset, and is recorded against profit or loss for the year, under the heading of "Impairment of debts receivable".

(ii) – Financial assets available for sale

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.

These categories of assets are derecognised when (i) the Group's contractual rights expire upon the receipt of their cash flow; (ii) the Group has substantially transferred all the risks and benefits associated to their holding; or (iii) even if the Group retains part, but not substantially all the risks and benefits associated to their holding, it has transferred the control over the assets.

2.12. – Derivative financial instruments

The Group uses derivatives for the purpose of managing 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 financial position at their fair value.

Since they are considered effective hedges (cash flow hedges), changes in fair value are initially recorded against equity 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 on the basis of 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, in the headings of other current accounts receivable and other current and non-current accounts payable.

Hedge accounting

The possibility of classifying a derivative financial instrument as a hedge instrument follows the provisions of IAS 39 – Financial instruments: recognition and measurement.

Derivative financial instruments used for hedging can be classified as hedge instruments for accounting purposes, provided that they cumulatively comply with the following conditions:

// On the starting date of the transaction, the hedge relationship is identified and formally documented, including the identification of the hedged item, the hedge instrument and the assessment of the effectiveness of the hedge;

// It is expected that the hedge relationship will be highly effective, on the starting date of the transaction and throughout the life of the operation;

// The effectiveness of the hedge can be measured reliably, on the starting date of the transaction and throughout the life of the operation;

// For cash flow hedge operations, it should be highly probable that they will occur.

2.13. – Fair value of financial assets and liabilities

IFRS 13 introduced new disclosure requirements on offsetting rights (of assets and liabilities) that are not stated, the offset assets and liabilities, and the effect of this offsetting on exposure to credit risk.

In the determination of 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 constitutes level 1 of the fair value hierarchy as defined by IFRS 13.

If there is no active market, evaluation models, whose main inputs are observable on the market, are used. This constitutes level 2 of the fair value hierarchy as defined by IFRS 13.

For some types of more 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 constitutes level 3 of the fair value hierarchy as defined by IFRS 13.

2.14. – Income tax

Income tax includes current and deferred tax. Current income tax is determined on the basis of net income, adjusted in accordance with tax law in force on the reporting date.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised when there is reasonable certainty that they may be used to reduce future taxable profit, or when there are deferred tax liabilities whose reversal is expected to occur in the same period that the deferred tax assets are reversed. These deferred tax assets are reviewed on each reporting date, and reduced when their future use is no longer probable.

In order to determine the deferred tax, the tax rate used is that expected to be in force during the period when the temporary differences will be reversed. The value of tax to be included, both in current and deferred tax, arising from transactions or events recognised directly in equity, is recorded directly in these same headings. Therefore, the impact of alterations in the tax rate is also recognised in net income, except when it refers to items recognised directly in equity, in which case this impact is also recorded directly in equity.

2.15. – Inventories

Inventories are valued according to the following criteria:

Goods and raw materials

Goods and raw materials, both subsidiary or in effective use, 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.

The inventories held essentially refer to parts used in aircraft maintenance activities.

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 in the heading "Inventory impairment".

2.16. – 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.

2.17. – Cash and cash equivalents

The cash and cash equivalents heading includes cash, bank deposits and other short term investments with original maturities of up to 3 months, which can be mobilised immediately without any significant risk of fluctuations in value. For the purposes of the cash flow statement, this heading also includes bank overdrafts, which are presented in the statement of financial position, in current liabilities, under the heading "Loans received"

The Group records cash assets, whose repatriation is restricted, in the heading "Restricted bank deposits" under current assets.

2.18. – Share capital and own shares

Ordinary shares are classified under equity (Note 24).

Costs directly attributed to the issue of new shares or other equity instruments are presented as a deduction, net of tax, from the value received as a result of the issue.

Costs directly imputable to the issue 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 under 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.

2.19. – Loans received/remunerated liabilities

Remunerated liabilities are initially recognised 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 settlement of the liability for at least 12 months after the date of financial position (Note 27).

2.20. – Financial costs related to loans

Financial costs related to loans are generally recognised as financial costs, in accordance with the accrual principle.

Financial costs of general and specific loans, directly related to the acquisition, construction (if the period of construction or development exceeds one year) or fixed assets production, are capitalised, to form 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.

2.21. – Provisions

Provisions are recognised whenever the Group has a present legal, contractual or constructive obligation, as a result of past events, it is more likely than not that an outflow of 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).

2.22. – Post-employment benefits

Some of the Group's subsidiaries have undertaken to make monetary payments to their employees for retirement pension supplements, early retirement benefits, health care and seniority bonuses.

As mentioned in Note 28, the Group has set up autonomous Pension Funds as a way of financing part of its liabilities for these payments. In order to estimate the liabilities related to the defined benefit plans referred to above, the Group periodically obtains actuarial calculations of these liabilities determined in accordance with the projected unit credit method.

The Group records the remeasurement directly in the consolidated comprehensive income statement, namely those arising from changes in demographic assumptions and differences between real data and these same assumptions.

The liabilities recognised in the consolidated statement of financial position represent the present value of the liabilities related to the defined benefit plans, minus the fair value of the assets of the funds, under the heading "Liabilities related to post-employment benefits".

Plans showing surplus funding are recorded as assets, when there is explicit authorisation for their offsetting with future employer contributions, or if the reimbursement of this financial surplus is explicitly authorised or permitted.

Gains and losses generated by a curtailment or settlement of a defined benefit pension plan are recognised through profit or loss for 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 so that the benefits are materially reduced.

Costs related to past liabilities resulting from the implementation of a new plan or increases in the benefits attributed are recognised immediately through the Group's profit or loss.

The contributions made under the defined contribution plans are recorded as costs in the consolidated income statement on the date when their payment falls due. According to these plans, in the event of the fund not having sufficient assets to pay all the employees the benefits related to their work provided in the current year and previous years, the sponsor faces no legal or constructive obligation to make additional contributions.

2.23. – Current payables

The balances of suppliers and other current payables are stated initially at fair value and subsequently measured at amortised cost (Notes 30 and 31).

2.24. – Grants

State grants are recognised only after it becomes certain that the Group will comply with the respective conditions and that the grants will be received.

Operating grants, received for the purpose of compensating the Group for costs incurred, are recorded systematically in the consolidated 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 accounts payable" and recognised through profit or loss, during the estimated useful life of the respective subsidised asset, by deduction of the amortised value.

2.25. – Leases

Tangible fixed assets acquired under financial leasing contracts as well as the corresponding liabilities are accounted for by the financial method.

According to this method, asset cost is recorded in tangible fixed assets, the corresponding liability is recorded in liabilities under the heading of loans received, the interest component of lease payments and amortisation of the asset, calculated as described in Note 2.6., are recognised as costs in the consolidated income statement of the year to which they refer.

Leases where a significant portion of the risks and benefits of ownership are retained by the lessor, and the Group is the 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 period of the lease.

2.26. – 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 time of their payment.

2.27. – 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 value 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 a value which is usually different from that recorded at time of its sale. From time to time, the balance of "Advances from customers - tickets to be used" is analysed to adjust the balance of tickets sold to check for those that have already been used or that 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 of the periods between years 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, adjusted to the estimate of the miles to expire without use 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 consolidated income statement up to the point at which it is likely that the costs incurred are recoverable within the terms of the contract.

Contract costs are recognised as a cost in the year in which they occur. When it is likely that the 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 in progress as at 31 December 2014 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 the time 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)..

2.28. – Contingent assets and liabilities

Contingent liabilities relative to which an outflow of funds affecting future economic benefits is only possible are not recognised in the consolidated financial statements, but 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 2.21 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.

2.29. – Consolidated cash flow statement

The consolidated cash flow statement is prepared in accordance with IAS 7, through the direct method. The Group classifies assets with maturity of less than three months and for which the risk of alteration of value is insignificant under the heading of "Cash and cash equivalents". For the purpose of the consolidated cash flow statement, this heading also includes bank overdrafts, which are presented in the consolidated statement of financial position, under the heading "Current loans received", as well as "Restricted bank deposits".

The cash flows are classified in the consolidated cash flow statement, depending on their nature, into (1) operating activities, (2) investment activities and (3) financing activities.

Operating activities essentially include revenue from customers, and payments to suppliers and employees. These activities also include payments of net indirect taxes, income tax and payments related to retirement benefits.

The cash flow covered in investment activities includes, namely, acquisitions and disposals of financial investments, dividends received from associate companies, and revenue and payments arising from the purchase and sale of tangible and intangible assets.

Financing activities cover, namely, payments and revenue relative to loans received, payments related to interest and associated expenses, the acquisition of own shares and payment of dividends.

2.30. – Subsequent events

Events occurred after the reporting date, which provide additional information on conditions which existed on that date, are reflected in the consolidated financial statements.

Events occurred after the reporting date, which provide information on conditions which arise after this date, are disclosed in the notes to the consolidated financial statement, if materially relevant.

2.31. – New standards, amendments and interpretations of existing standards

New standards and interpretations of mandatory application as at 31 December 2014

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 2014:

Description	Amendment	Effective date*
IAS 32 – Financial instruments: presentation	Offsetting of financial assets and liabilities	1 January 2014
IAS 36 - Impairment of assets	Disclosures on the recoverable value of impaired assets	1 January 2014
IAS 39 – Financial instruments: recognition and measurement	Novation of derivatives and continuity of hedge accounting	1 January 2014
Amendments IFRS 10, 11 and IAS 27: investment entities	Exemption from consolidation for investment companies	1 January 2014
IFRS 10 - Consolidated financial statements	New standard - Consolidation	1 January 2014
IFRS 11 - Joint arrangements	New standard - Accounting treatment of joint arrangements	1 January 2014
IFRS 12 - Disclosure of interests in other entities	New standard - Disclosure for all interests in other entities	1 January 2014
Amendments IFRS 10, 11 and 12: transition	Transition regime	1 January 2014
IAS 27 - Separate financial statements	Consolidation removed from scope	1 January 2014
IAS 28 - Investments in associates and joint ventures	Application to joint ventures	1 January 2014

* *Financial years beginning on or after*

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 2014

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 January 2015, regarding which the Group has decided not to adopt them for this financial year, as follows:

Standards and interpretations effective in the EU on or after 1 January 2015, not endorsed by the EU:

Description	Amendment	Effective date*
IAS 1 - Presentation of the financial statements	Review of disclosures	1 January 2016
IAS 19 - Employee benefits	Accounting of the contributions of employees or other entities	1 July 2014
IAS 16 and 38 - Methods to calculate amortisation/depreciation	The methods to calculate depreciation/amortisation, based on income, are not permitted to measure the consumption of the economic benefits associated to tangible and intangible assets.	1 January 2016
IAS 16 and 41 – Agriculture: plants that produce consumable biological assets	Includes plants that only produce consumable biological assets, within the scope of IAS 16, measured under the cost or revaluation models	1 January 2016
IAS 27 - Separate financial statements	Option of measuring the investment in subsidiaries, joint ventures and associates under the equity method	1 January 2016
Amendments IFRS 10 and IAS 28 - Sale and contribution of assets to associate or joint venture	Gain/loss from sale or contribution of assets to an associate or joint venture, based on the definition of "business"	1 January 2016
Amendments IFRS 10, 12 and IAS 28 - Applying the consolidation exemption	Consolidation exemption applied to investment entities, extended to a parent that does not qualify as an investment entity but is a subsidiary of an investment entity	1 January 2016
IFRS 11 - Joint arrangements	Accounting for the acquisition of an interest in a joint operation which is a business	1 January 2016
Improvement to standards 2010 – 2012	Clarifications	1 July 2014
Improvement to standards 2012 – 2014	Clarifications	1 January 2016
IFRS 9 - Financial instruments	New standard - classification and measurement of financial instruments	1 January 2018
IFRS 14 – Tariff adjustments	Amendment to IFRS 1 enabling the adoption of the policy of the previous standard	1 January 2016
IFRS 15 – Revenue from contracts with customers	Recognition of revenue related to the delivery of assets and provision of services, through the application of the 5-phase method.	1 January 2017

* *Financial years beginning on or after*

The Group has not yet concluded the calculation of all the impacts resulting from the application of the aforesaid standards, and therefore, has chosen against their early adoption. However, the Company does not expect that they will have materially relevant impacts on its net worth and results.

2.32. – 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 differ 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:

Impairment of goodwill

The Group conducts an annual goodwill impairment test, which it records in the statement of the financial position, pursuant to the accounting policy indicated in Note 2.9. The recoverable values of the cash generating units are determined based on the calculation of value in use. This calculation requires the application of estimates.

The estimated value in use implies a high degree of judgement by the Executive Board of Directors, concerning the determination of expected cash flows, applicable discount rates and residual values.

Deferred taxes

The Group recognises and settles income tax based on the earnings of its operations, calculated in accordance with the local corporate legislation, considering the rules of the tax legislation, which are different from the values calculated in accordance with the IFRS. Pursuant to IAS 12, the Group recognises deferred tax assets and liabilities based on the existing difference between the book value and tax base of its assets and liabilities. The Group periodically analyses the recoverability of the deferred tax assets based on historical information on taxable profit, the projection of future taxable profit and the estimated time of reversal of temporary differences.

The estimates were determined based on the best information available on the date of preparation of the consolidated financial statements; however, situations may occur in subsequent periods which, due to not being predictable on this date, were not considered in these estimates. Pursuant to IAS 8, any changes to these estimates, which occur after the date of the consolidated financial statements, are corrected through profit or loss prospectively.

Post-employment benefits

The present value of the liabilities related to retirement benefits is calculated based on actuarial methodologies, which use specific assumptions. Any changes of these assumptions will have a relevant impact on the book value of these liabilities. The demographic assumptions used in the calculation of the liabilities related to retirement pensions are described in Note 28. The Group's policy is to periodically review the main demographic assumptions, when their impact on the consolidated financial statements is materially relevant.

Recognition of provisions and adjustments

The Group is involved in several on-going lawsuits for which, based on the opinion of its legal consultants, a judgement is made to determine whether a provision for these contingencies should be recorded.

The impairments of accounts receivable are calculated, essentially, based on accounts receivable by age, 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 in the calculation of this estimate may have a significant impact.

Tangible fixed assets

The determination 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 income statement for each financial year.

These parameters are defined in accordance with the best judgement of the Executive Board of Directors for the assets in question, also considering the practices adopted by companies in the sector at an international level.

See also Note 5.

Fair value of derivative financial instruments

The fair value of the financial instruments that are not traded on active markets (over-the-counter derivatives) is determined through valuation techniques. The Group exercises judgement by selecting a variety of methods and assumptions based on market conditions that take place at the end of each reporting period.

Exchange rate updating in Venezuela

In the wake of the deterioration of the Venezuelan economy, the successive devaluations of the local currency and the current limitation to the repatriation of capital controlled by local government entities, the "Group" has maintained regular negotiations with the Venezuelan Government regarding the timing of the repatriation of the amounts indicated and applicable exchange rates.

This situation is regularly monitored and assessed by the Management of the "Group", with the Group's best estimate to date being reflected in the financial statements as at 31 December 2014.

Nonetheless, in spite of the regular monitoring undertaken by the Group, it is important to note that future fluctuations and devaluations of the currency, as well as the future policy on restrictions to the repatriation of capital, are not controlled by the Group, and thus a negative outcome of this situation may, in the future, result in the need for some adjustment in the value of the cash assets located in Venezuela and, consequently, have a negative impact on the result of the Group's operations and financial position.

See also Note 22.

3 – Financial risk management policies

The economic and financial management of the TAP Group in 2014 took place against the backdrop of an international context with multiple elements of instability and change, both at a geopolitical and economic level.

In the year that marked the 25th anniversary of the fall of the Berlin Wall, war returned to the doorstep of Europe, in Ukraine. In the Middle East and North Africa, an increasing number of trouble spots also emerged, some of which related to the so-called Arab Spring initiated in 2011, others resulting from latent tensions and conflicts between the various regional powers, as in the case of the wars in Syria and Iraq.

The growing tension between Russia and Europe had some direct economic and trade effects, through the embargo of exports to Russia, and consequent retaliatory measures. However, the biggest impacts are likely to have been in energy markets, fundamental for the Russian economy, and which may have been influenced, in both real and speculative terms, by the new current context. In the same vein, but at a strictly economic level, the slowdown of the Chinese economy and the stagnation of the European economy, both with a very significant weight in global GDP, may have also contributed to the strong decline registered in the oil market from the second half of the year.

After three years - between 2011 and 2013 - of highly stable oil prices, with Brent hovering a mere 10% above or below 110 dollars a barrel, in the autumn of 2014 there was a marked and accelerated fall in the price of oil to half of that level at the end of the year, close to 50 dollars a barrel. Other commodity prices also fell. In particular, jet fuel, which during the three-year period 2011-2013 remained stable at around 1,000 dollars per ton, fell to 750 dollars on average in the last quarter of the year, reaching values close to 500 dollars at the end of the year.

In addition to the European economy, the Brazilian economy also posted near-stagnant growth in 2014. Furthermore, the decline in commodity prices and, in particular, oil prices, overshadowed the prospects for growth and expansion of many emerging economies, which remain very dependent on that source of income for their development. In turn, given the growing importance of emerging markets in the world economy, the slowdown of the emerging economies can rapidly translate into a drop in demand for exports from developed markets. A concrete example of this phenomenon is Angola, with a sharp slowdown in economic activity at the end of the year.

Naturally, all currents and counter-currents of the national and international economy are important for the Group, whose activity is influenced by the macro and micro trends of the markets in which it operates. The price of oil is one of the global variables with a significant impact in the air transport operations activity. Multiple local factors such as, for example, the dynamics of the tourism market in Portugal, or cyclical factors such as the Football World Cup that took place in the summer of 2014, influence, in a less or more significant manner, the results of the Group, namely in terms of its core activity, the air transport of passengers.

In addition, the Group does not address risks and challenges in a passive and wait-and-see position, therefore 2014 was also a year of profound change and internal growth, with all the difficulties that that implies. The growth of the TAP fleet from 55 to 61 aircraft of the medium and long-haul fleet, as well as the launch of 11 new destinations in Europe and in Latin America, in the middle of the year, further expanded the scope of the Group's activity, diversified its offer, extended its range of business opportunities and enabled TAP to actively address the risks of an ever-changing scenario.

Price risk

Total income and gains of the Group, of approximately 2.8 billion euros depends, by about 80%, on the air transport of passengers activity. The transport of cargo and mail represents about 4% of total income, and the provision of maintenance services, covering both maintenance and engineering in Portugal and maintenance and engineering in Brazil, represents almost 6% of total income in 2014. The Group's duty free shop operation activities, undertaken by Lojas Francas de Portugal, S.A., represent a value slightly above 6% of total income and gains, with the contributions of the other companies held by TAPGER, including Cateringpor, being of little significance, in terms of sales outside of the Group.

The concentration of the Group's income on its core business of air transport of passengers and cargo is high. Air transport is today a consumer good of easy access to countless market segments, with TAP S.A. having transported 11.4 million passengers and achieved more than 320 thousand flight hours in 2014. The volume of passengers transported, weighted according to distance travelled ("RPKs"), increased by 7% in 2014, reflecting not only growth but also an acceleration of activity relative to the growth rates of previous years. However, the revenue from each transported passenger, which had risen marginally in 2013 relative to 2012, fell considerably in 2014, by the same order of magnitude as the growth of the volume of RPKs. Overall air transport revenues remained stable at about 2.2 billion euros. It is also important to mention that the overall flight load factor increased relative to the previous year, achieving very high levels for the industry, corresponding to more than 80% for the total operation.

In terms of the geography of the activity, Europe (including Portugal) continues to represent 43% of the total operation measured in RPKs, with the Brazilian routes accounting for 39% of total passengers-kilometers. The remaining Latin America and the USA, on the one hand, and Africa, on the other, have weights close to 10% each in the total activity of TAP S.A.. In terms of growth, activity was particularly dynamic on European and US routes, which grew around 10%. The Mid Atlantic also grew significantly, as a result of the opening of the new routes of Colombia and Panama. Traffic volume on Brazilian routes (especially the routes of Northern Brazil) and in Africa grew about 4% and a mere 1%, respectively. In the latter case, there was a decrease in most routes, compensated by increases in key traffic, above 10%, in two markets, Angola and Cape Verde.

In terms of sales, Portugal and Brazil maintain similar proportions in total passenger sales, of 23% and 22%, respectively. Europe, excluding Portugal, accounts for 40% of total sales, Africa for 7% (which includes 4.7% of Angola), and the USA and Latin America (excluding Brazil) account for 4% each. In Venezuela, throughout the entire period under consideration, there was a reduction in sales activity, resulting from the difficulties felt by the Group in the repatriation of those funds to Portugal, having thus chosen to promote the sales for that route outside of Venezuela exclusively.

In terms of sales, there was an increase of almost 8% in European markets in 2014, a decrease in the national market of 2.5% and a decline in the value of sales, translated into Euros, in the Brazilian market, of 7%. The declining sales in the Brazilian market is likely to have been partially associated to a fall in demand due to the Football World Cup, with less overseas departures from Brazilian consumers and, from a wider perspective, due to a general slowdown of consumption in the Brazilian economy, and increased competition from other airlines on some routes.

The structure and geographic configuration of the network, operation and sales of the Group did not change significantly in 2014, in comparison to previous years, with activity remaining based on three pillars, Europe, Portugal and Brazil, and including the exploration of two large geographical areas of less significance, Americas (except Brazil) and Africa. What has been observed over time, and in 2014 in particular, was a significant effort to develop and take advantage of the traffic flows on transatlantic routes, particularly between Europe and South America.

This commitment of the Group to further develop the market faces, however, two types of significant barriers. On the one hand, the economic limitations on both sides of the Atlantic, be it the weak growth of consumption in Europe and in Portugal or the evident cooling of the Brazilian economy. On the other hand, the increasingly fierce and varied competition, not only on traditional routes of Brazil, such as Rio de Janeiro and São Paulo, but also on other routes where some rival European companies have also been positioning themselves, such as Brasília. Likewise, non-European companies, from Latin America and from other geographies, may in future change even further the competitive chess board in the South Atlantic, attempting to eventually threaten the strategic positioning of the "Group" which has been built over many years.

The competitive threat is naturally much stronger on European routes than on transatlantic routes and the strong presence of EasyJet and Ryanair, the latter with its new base in Lisbon, in competition with TAP S.A. on multiple European routes, places a strong limitation on the increase of air fares and results in a tendency towards a declining average fare reflected in the yield. All these factors lead to a complex and delicate trade-off between price and quantity, and to a permanent need to adjust to competitors' fare and network strategies.

In addition to the revenue from the transport of passengers, the revenue stemming from the transport of cargo and mail constitutes an important complement, with a weight in revenues that is equivalent to that of one of the major passenger European markets, such as Germany, for example, with a size of close to 120 million euros annually. Cargo revenue increased by about 7% in 2014. Cargo transport has a modus operandi that is conditioned, on several routes, by the limits, in terms of space and weight, resulting from the passenger load factor and from the routes and equipment operated, including the inherent need of fuel. For example, on a long route such as Moscow or Sal, operated by a medium-haul aircraft, the availability for cargo is limited by the volume of fuel needed. On a route operated by long-haul aircraft, however, the feasibility of transporting cargo is far superior, given the characteristics of the aircraft, namely in terms of fuel tanks. On the long-haul, circumstances also vary depending on the type of aircraft, Airbus A330 or Airbus A340.

The most important markets in terms of cargo are Brazil and Portugal, Germany, but also the USA, Italy and France. Angola, in spite of being a very important cargo destination market, is not relevant as an originator market. In 2014, Brazil registered very significant growth. It should be mentioned that the cargo market is highly vulnerable to competition from other airline companies, being characterised by less loyalty, namely due to the vast number of possible alternative routings, and being subject to the natural capture from operators with important fleets and large-capacity aircraft, such as, for example, Gulf airline companies.

If the air transport of passengers and cargo by TAP, S.A. represents about 84% of the Group's total income, the maintenance and engineering activity represents close to 6% of total income, having reached a turnover of approximately 160 million euros in 2014, of which about 70 million euros is accounted for by TAP M&E Brasil. However if on the one hand the provision of maintenance services to third parties has a limited weight in the Group's total revenues, its total contribution, including the work undertaken on the Group's fleet, has a very significant dimension.

The fleet maintenance work of 61 medium and long-haul aircraft of the Group represents, together with the activity for third parties, an amount that largely exceeds the accounting dimension of maintenance and engineering in the Group's accounts. In some indicators, the maintenance and engineering activity is particularly significant, in terms of staff and specialised labour. Another example is the volume of materials consumed, used in both the Group's fleet and for the maintenance of other airlines, which exceeds 150 million euros per year. The third-party works component, in both maintenance entities, in Portugal and Brazil, is estimated to represent approximately half of the economic dimension of the total maintenance and engineering activity, with the other half corresponding to the Group's fleet. In 2014, the significant increase in gains from work to third parties, in maintenance and engineering, in Portugal, relative to the previous year, was mainly due to the work undertaken on the new long-haul aircraft delivered and reconfigured by TAP S.A., within the scope of the lease agreement for those aircraft.

In addition to the air transport of passengers and cargo activity, and the maintenance and engineering activity, the duty free sales activity carried out by the subsidiary Lojas Francas de Portugal, S.A. also accounts for a significant weight in the Group's total revenues. This activity has been growing, developing and restructuring year after year. There has been an increase in revenue of more than 10% in 2014, as a result of not only the expansion of the commercial areas in operation but mainly due to the increase of almost 10% in traffic at national airports, which led to a rise in the volume of sales and an increase in the unit price per transaction.

To sum up, the year of 2014 was characterised by the maintenance of total air transport revenues, in spite of the increase of the operation and due to the lowering of the average yield, and by the significant growth in total revenues of the maintenance and duty free activities.

Risk of fuel price and other costs

The specific costs of the air transport activity, including fuel, handling, navigation and airport charges, catering and maintenance costs comes to almost 1.5 billion euros of the total costs of the Group of close to 2.9 billion euros, representing more than half of the total. This range of costs does not include salary costs with air crew, nor the costs inherent to the leasing of aircraft and depreciation of equipment.

Of the total variable costs mentioned, more than half corresponded to fuel cost in 2014, being this responsible for about 27% of the total costs of the Group, approximately in line with what has been observed in previous years since the increase in oil prices to the 100 dollars per barrel level, albeit with a broader dimension of the operation this year, by about 5%, both in terms of flight hours and seats offered per kilometre ("ASK").

The year of 2014 was marked by the huge fall in oil prices in the last quarter of the year, which has not yet had a relevant impact on the Group's total fuel bill. In fact, the average of market prices between January and September 2014 was only marginally lower than the average value of the previous year and only in the last quarter of the year did the lowering of market prices intensify. Furthermore, the low prices registered in the market only have an impact on billing about one month later, given the billing procedures established with the fuel supply companies. In addition, there is also a component of the total price that is independent of the fall in prices, and whose proportion in billing increases inversely to the market price, i.e. taxes, margins of the supply companies and other costs and commissions - that are added to the market price, irrespective of the market price level.

Finally, the effect of the hedging transactions contracted in 2014 and 2013 for the current year, delayed the impact of the falling market prices. The exchange rate of the Euro against the dollar, in spite of having depreciated sharply at the end of the year, was on average, in 2014, very close to that of 2013, having been a relatively neutral factor in relation to fuel costs.

The increase in activity, in terms of number of flights and flight hours, resulting from the expansion of the fleet and the new routes, in the second half of the year, led to an increase in the volume of fuel consumption of 5.5%. The average market price in 2014, taking into account the normal time lag associated with billing, was 5% lower than in 2013. The increase in the total fuel cost of the Group observed in 2014, relative to 2013, which came to approximately 4%, is thus justified by the fixed component of the cost, which limits the effect of lower prices, and by the hedging component which, in a context of a sharp fall in prices, has an immediate negative effect. It should be noted, however, that the Group's hedging policy remained conservative in terms of time periods and amounts and, therefore, has a lower impact in the Group than in many of its counterpart and rival companies, according to public data.

Besides fuel, the most significant operating costs heading is personnel costs which, not being a cost that varies directly with the operation, is not however totally rigid. On the one hand, this cost is subject to the salary policy defined in Portugal by the Government, having undergone significant changes in recent years stemming from political decisions and rulings of the Constitutional Court. In Brazil, local legislation also sets out mandatory values for salary increases. On the other hand, salary costs are influenced by the economic context and by the behaviour of the labour market, which influences the capability of the unions to obtain salary increases. Furthermore, total personnel costs are inevitably influenced by increases in the scope and increases in the company's activity, a situation that was observed in the Group in 2014. The increase in the number of aircraft in the fleet and the expansion of the network of the Group required the training of new pilots and flight assistants. However, in spite of this significant increase in flight crew, taking into account the different salary levels and the combined effect of the legislative amendments in 2014, compared to 2013, the total increase in personnel costs was a low percentage value between 2 and 3% in the airline company and only 1% in the Group.

Although of a different nature, the cost of supplying handling services, a very labour-intensive activity, is also dependent on factors such as the performance of the labour market and inflation. The latter is one of the pricing variables defined in the contracting of ground handling operators, as in the case of SPdH. SPdH is responsible for a significant percentage of the total number of assistances undertaken since it is the handling services provider in the hubs in Portugal. Contrary to what happens in Portugal and in Europe, where the levels of inflation remain close to zero, in markets such as Brazil, costs tend to rise due to the indirect effect of inflation on mandatory salary increases, passed on by the handling operators.

Another source of exposure of the Group to costs lies in airport and navigation charges. Airport charges, per aircraft and per passenger, increased significantly during the year as a result of contractual changes imposed by ANA - Aeroportos de Portugal S.A. ("ANA"), in the wake of its privatisation and also overseas, particularly in Brazil, due to the higher prices imposed by Brazilian airports, following investments made by these entities within the context of the rehabilitation of infrastructures prior to the holding of the World Football Cup. Regarding navigation charges, their increase was in line with the increase of ASKs and flight hours, i.e. with the growth of the level of effective activity of the Group, of around 5%. At a European level, "Service Units" in Eurocontrol (aircraft weight and distance travelled adjusted flights) increased by 5.3%, plus a slight increase in price of less than 1%. Regarding the other air traffic control entities the average cost rose less than in Europe due to, among other reasons the shorter distance of the new long-haul routes launched during the year, relative to the routes already in operation, lowering the average cost per flight.

Among other costs related to the flight operation, costs such as maintenance, leasing, charters and depreciation are also noteworthy. The Group's fleet maintenance costs are partly dependent on repair and maintenance needs, which normally rise as the average age of the fleet and the number of flight hours increase. On the other hand, the rise of the dollar also has an impact on the materials component and on the portion of services subcontracted to external Maintenance, Repair and Overhaul ("MRO") providers. In 2014, a significant part of the higher costs of materials consumed was due to work for third parties. In 2014, the operating leasing of aircraft increased by 10% from the previous year, due to the combined effect of the introduction in the fleet of 6 additional aircraft under operating leasing, added to the 18 already in the fleet and the rent level and start of the new leases. The average monthly lease rentals of the new aircraft was lower than the average rentals of the existing aircraft, and the new leasings only began in the middle of the year.

In contrast, there was the need to resort to a higher number of charters than in previous years to make up for the shortfall between the entry into operation of the new aircraft and new crews and the existing commitments arising from the prior sale of tickets. Another relevant aspect related to the set of costs associated to the fleet was the change in the total annual amortisation amount of the aircraft and spares, in line with the expectation of a longer-lasting average permanence of the fleet in possession and operation of the Group.

Regarding commercial costs of the air transport activity, commission costs maintain their downward trend, due to investment in new technologies and the growing adherence of customers to purchasing tickets via the internet.

Also within the scope of commercial costs, in this case relative to the duty free shop operation activity, a significant increase was registered, in line with the two-digit growth in activity. This increase was related to the higher expenditures with goods on sale. In addition, there was also a more than proportional increase in rental costs and operation charges in airports within the framework of the contractual renegotiation with ANA. Although the impact of these higher costs in 2014 was adverse, the extension of all the licenses necessary for the activity, with a time frame up to 2020, created favourable prospects, and a predictable horizon for the development of this segment of the Group's activity.

Exchange rate risk

The exchange rate risk exposure of the Group is first of all due to the geographic distribution of its passenger and cargo air transport activity and, to a much lesser extent, due to its sales of maintenance services in both Portugal and TAP M&E Brasil. The exchange rate exposure of the Group is also dependent on the exchange rate denomination of the operating costs, among which fuel, the main cost item and almost entirely denominated in dollars, is noteworthy. Lastly, both the Group's assets and liabilities comprise assets and liabilities subject to the direct or indirect influence, recognised or not, of exchange rate variations. These include the assets of the Brazilian maintenance and engineering unit, whose value is influenced by the Brazilian real, or cash assets denominated in foreign currency, or, on the liabilities side, the part of the debt denominated in dollars and which represents about 12% of the Group's total debt. Finally, the liabilities and equity of TAP M&E Brasil correspond to a short exchange rate exposure to the Brazilian real.

In terms of revenue from the air transport of passengers, the component in Euros represents half the total, corresponding to sales in Portugal, in the rest of the Euro zone and in European and African countries with exchange rate regimes linked to the Euro. The exposure to the dollar arises from sales in the USA, Brazil and Angola, representing approximately 30% of the total. The other currencies, corresponding to 20% of sales, include the pound and the Swiss franc, the Nordic and Eastern European currencies, the Mozambican metical or the Venezuelan bolivar. This last currency also has, in addition to its impact on revenues, an important weight in terms of financial position, on treasury, due to the transfer of the accumulated value resulting from sales of recent periods being dependent on lengthy decisions from the Venezuelan authorities, given the difficult financial situation of the country (Note 22).

The exposure to the dollar in the Brazilian market continues to be one of the particular features of this market, with historical roots in the hyperinflation periods that affected Brazil in the past and the consequent partial dollarization of its economy. This factor, however, tends to decrease in importance and the sensitivity of consumers to the exchange rate fluctuation against the dollar tends to gradually diminish.

In the Angolan market, in 2014, a gradual exchange rate decoupling of the kwanza relative to the dollar also began to be observed, with a gradual depreciation of the kwanza having been managed by the authorities in the second half of the year. This phenomenon is inextricably linked to the significant change in the financial situation of the country resulting from the fall in oil prices.

The most important foreign exchange rate exposure of the Group is to the dollar, essentially through the purchase of jet fuel which, depending on the average level of jet fuel prices each year, may change the exchange rate balance and the net exposure to this currency. With much less weight than fuel, the set of costs associated with materials and subcontracting for maintenance and repair of own or third-party aircraft, also contains a significant proportion of its total denominated in dollars. There are also components denominated in dollars (and other currencies) in navigation and landing charges, although the most significant share is denominated in Euros, both in Portugal and in Europe, in connection with Eurocontrol. Other costs, such as operating leasing, for example, are almost entirely denominated in dollars, in spite of accounting for a small share in the cost structure of the airline company and the Group.

Regarding fuel - and this market operates in dollars, regardless of the invoicing conditions agreed with national and foreign suppliers - the foreign exchange exposure excludes the component relative to charges and margins of the fuel providers in markets such as Portugal and Europe, in which this portion is established in Euros or other local currencies. In relative terms, the lower the market prices of jet fuel, the more significant is this component of the cost of fuel, since these costs are typically fixed and rigid in each multiannual contractual period. It is possible to estimate, however, that the exposure to the dollar resulting exclusively from the effective impact of the market price of jet fuel was a result, in 2014, of approximately 90% of the total fuel bill, with the remaining 10% being accounted for by all other costs in the fuel bill. The fall in the price of oil registered at the end of 2014, if maintained, will result in a substantial reduction in the net exchange rate exposure to the dollar of the Group, in the future.

To summarise, the exposure to the dollar has been, over the last few years, and in 2014, negative in net terms, as a result of the cost and income structure. The current lower oil prices will tend to reduce that net foreign exchange exposure, with its future effect being dependent on the durability and intensity of the downtrend in prices.

The impact of the Euro-dollar exchange rate, at the end of the year, such as that which took place in 2014, relative to the end of 2013, of more than 10%, generates exchange rate differences in dollar-denominated debt which, although not having a significant weight in total debt - only 12% of total debt is denominated in dollars - is nevertheless subject to substantial impacts if the exchange rate variation is very large. Contrary to the change of the dollar exchange rate at the end of the financial year, in December 2014, relative to the end of 2013, which was very significant, the average change of the dollar exchange rate during 2014, vis-a-vis 2013, was almost negligible. Notwithstanding, the dollar's strong upsurge at the end of the year resulted in a substantial increase in the cost of debt, reported in financial results.

In the long term, the risk resulting from the foreign exchange exposure of the Group resides, in addition to all the previously mentioned factors, equally, given its relevance, in the strategic project and existing investment commitment relative to the acquisition of the new Airbus A350 long haul fleet, to be delivered from 2017 onwards, and to its future financing terms.

The Group's exposure to exchange rate risk as at 31 December 2014 and 2013, based on the values of the Group's statement of the financial position, financial assets and liabilities converted into Euros at the exchange rates as at the reporting date, is presented below:

	2014			
	USD	**BRL**	**Other**	**Total**
ASSETS				
Cash and cash equivalents	3,189	1,052	36,467	40,708
Restricted bank deposits (Note 22)	-	-	100,917	100,917
Accounts receivable - customers	28,383	64,838	18,962	112,183
Accounts receivable - other	43,319	31,749	801	75,869
	74,891	**97,639**	**157,147**	**329,677**
LIABILITIES				
Loans received (Note 27)	123,673	9	-	123,682
Accounts payable - suppliers	11,835	16,030	7,473	35,338
Accounts payable - other	3,834	13,013	4,371	21,218
	139,342	**29,052**	**11,844**	**180,238**

	2013			
	USD	**BRL**	**Other**	**Total**
ASSETS				
Cash and cash equivalents	14,490	2,626	121,478	138,594
Accounts receivable - customers	23,523	98,865	25,584	147,972
Accounts receivable - other	32,561	26,133	1,044	59,738
	70,574	**127,624**	**148,106**	**346,304**
LIABILITIES				
Loans received (Note 27)	114,626	13	-	114,639
Accounts payable - suppliers	21,932	13,428	4,563	39,923
Accounts payable - other	3,224	12,315	3,167	18,706
	139,782	**25,756**	**7,730**	**173,268**

In 2014, the amount presented in restricted bank deposits, in "Other" currencies, concerns the funds retained in Venezuela, denominated in Venezuelan bolivars ("VEF").

In 2013, the heading "Other" includes the value of 98.7 million euros, which are denominated in Venezuelan bolivars (VEF), distributed as follows: 93.7 million euros under "Cash and cash equivalents" and 5 million euros under the heading of "Other accounts receivable".

As at 31 December 2014, 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 15,000 thousand euros (2013: 17,000 thousand euros).

Interest rate risk

The year of 2014, in a context of stabilisation of international financial markets and near-zero inflation in Europe, continued to be characterised by almost zero interest rates in Europe and very low rates in the USA. Long term interest rates, including sovereign debt yields, in Portugal and in the majority of European countries, also remained at historically low levels. The calming down in financial markets, following years of major tension stemming from the public debt crises in the Euro zone, also allowed a general reduction in the cost of credit in both national and international markets. The increased liquidity in monetary markets, the financial stabilisation of the national economy, as well as the slight upturn in economic growth, enabled financial institutions to begin to apply less restrictive credit conditions and grant loans with lower margins, including for short term financing.

The total remunerated debt of the Group in 2014, of 1,062 million euros, remained at almost the same level as in 2013. There was, however, a relevant substitution in the amounts of medium and long term loans for shorter term transactions, contracted predominantly in the national market. The short term credit lines drawn during the year had, in general, lower margins than those contracted over the last 2 years. As a result, the average margin of floating rate operations fell slightly. In addition, since the almost entire borrowing of new debt was short term, and denominated at variable rates, the weight of floating rate debt increased from 48% to 56% of total debt. The scheduled partial repayments of fixed rate non-current loans, with the inherent substitution by current floating rate debt, indexed to Euribor, resulted, in some cases, in a slight reduction of the effective interest rate payable, in spite of the spreads practiced. Furthermore, taking into account the maintenance of the Euribor rates at near-zero levels, the weighted average interest rate of the Group thus registered a slight reduction in 2014, relative to 2013.

The net financial result of the Group in 2014 was thus substantially influenced by changes stemming from the exchange rate exposure to the dollar, relative to the debt denominated in that currency, and also from the recording of currency conversion losses on the bolivar, of an exceptional nature, as a result of the new legal framework set-up by the Venezuelan authorities. In short, about 43% of total financial costs in 2014 resulted from currency conversion costs. About 6% corresponded to financial costs of TAP M&E Brasil. Slightly more than half of the financial costs of the Group corresponded to interest and other financial costs from loans and financial leasings of TAP S.A., Portugália, and TAP SGPS. This amount, of approximately 48 million euros, remunerated in 2014 a total debt that stood at 1,062 million euros at the end of the financial year.

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/dollar exchange rate: 3% for Euribor, 1.75% for Dollar Libor, and 1.241 for the Eurodollar (2013: 1.3791 for the Eurodollar). The liability values express the values payable within the respective periods of time, including the estimate of all contracted cash flow with amortisation 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:

	2014				
	< 1 year	1 – 2 years	3 – 5 years	6– 10 years	Total
Loans	534,044	85,466	50,204	-	669,714
Financial leases	133,178	93,447	220,143	6,399	453,167
Total	**667,222**	**178,913**	**270,347**	**6,399**	**1,122,881**
Loans - fixed rate	102,380	49,087	49,047	-	200,514
Financial leases - fixed rate	85,736	52,238	151,050	6,399	295,423
Total - fixed rate	**188,116**	**101,325**	**200,097**	**6,399**	**495,937**

	2013				
	< 1 year	1 – 2 years	3 – 5 years	6– 10 years	Total
Loans	311,537	138,087	135,671	-	585,295
Financial leases	116,763	130,303	272,767	34,959	554,792
Total	**428,300**	**268,390**	**408,438**	**34,959**	**1,140,087**
Loans - fixed rate	51,676	102,380	98,134	-	252,190
Financial leases - fixed rate	68,530	82,894	162,418	34,959	348,801
Total - fixed rate	**120,206**	**185,274**	**260,552**	**34,959**	**600,991**

The Group uses a sensitivity analysis technique which measures the estimated changes to net income of an immediate increase or decrease in market interest rates, keeping all other variables constant. 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 market interest rates affect the yields or interest costs of variable financial instruments;

// Changes in 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 2014, would result in a decrease or increase in the amount of interest due of approximately 4,000 thousand euros (2013: 3,500 thousand euros).

Note 27 presents details of the remunerated bank debt with indication of the financing entity and respective reference rate.

Credit and liquidity risk

The Group's liquidity risk is, therefore, made up of a combination of factors that result from the operation, the existing debt and corresponding debt repayment and interest, the terms of negotiation of new transactions, the lending of intra-group liquidity, currency conversion gains or losses, and investment activities, when significant. The Group has to ensure, each year, the payment of part of its debt that, although properly planned and scheduled over time, has an impact on treasury and has to be regularly evaluated in accordance with events occurred during the financial year. Any turbulence in financial markets, such as that which occurred during the sovereign debt crisis, or any market shocks in terms of current costs or revenue of the company, condition, to a lesser or greater extent, the treasury, the liquidity, the economic and financial equilibrium and the prosperity of the Group.

At the end of 2014 and 2013, and after the changes in debt which took place over the year, the current remunerated liabilities, including the estimate of all contractual cash flow related to amortisation and interest, not discounted, stood at the values and maturities presented in the table below:

	2014		2013	
	1st Semester	2nd Semester	1st Semester	2nd Semester
Amortisation				
Loans	90,514	421,133	36,781	252,911
Financial leases	74,145	42,531	47,657	48,365
Total	**164,659**	**463,664**	**84,438**	**301,276**
Interest				
Loans	12,168	10,229	11,264	10,581
Financial leases	9,082	7,420	10,893	9,848
Total	**21,250**	**17,649**	**22,157**	**20,429**

In addition to short and long term financial management and cash management, also in the area of current asset management, there has been rigorous monitoring of customers' positions and the repercussions of the effects of the economic crisis on their credit quality. It was thus possible to limit the aggravation, for example, of the adjustments to a negligible value in terms of the scale of the activity.

The following table presents elements relative to the Group's liquidity position as at 31 December 2014 and 2013, as well as balances of accounts receivable, which reflect the credit risk on these same dates:

	2014	2013
Non-current assets		
Judicial deposits - Brazil (Note 18)	27,560	17,648
Other non-current assets	23,131	25,253
Current assets		
Cash and cash equivalents	140,364	270,611
Restricted bank deposits	100,917	-
Accounts receivable - customers	146,991	205,690
Other current assets	69,806	75,246
	508,769	**594,448**
Exposure to off-statement of financial position credit risk		
Guarantees provided (Note 60)	88,756	66,904
Other commitments (Note 27)	310,001	252,462
	398,757	**319,366**

The Group's quality of credit risk and liquidity, as at 31 December 2014 and 2013, relative to financial assets (cash and cash equivalents and derivative financial instruments), whose counterparts are financial institutions, are detailed as follows:

Rating	2014	2013
AA-	104	-
A+	287	108
A	17,014	18,219
A-	4,714	769
BBB-	761	-
BBB+	151	-
BB	46,331	5,346
BB-	41,529	3,522
B+	2,092	-
B	-	61,446
Other	128,221	188,984
	241,204	**278,394**
Derivative financial instruments (Notes 24 and 58)	-	7,988
Restricted bank deposits	100,917	-
Bank deposits (Note 22)	140,287	270,406
	241,204	**278,394**

The heading "Other" refers to values related to various international institutions, for which it was not possible to obtain their rating.

As at 31 December 2014 and 2013, the balances receivable from customers showed the following age structure, considering the maturity date as reference:

	2014	2013
Outstanding values	67,910	136,754
1 to 90 days	24,851	10,090
91 to 180 days	18,592	20,375
181 to 270 days	20,153	17,504
271 to 365 days	22,996	17,662
over 366 days	65,331	63,165
	219,833	**265,550**
Impairments (Note 21)	(72,842)	(59,860)
Customers - Net value (Note 21)	**146,991**	**205,690**

The values correspond to the amounts owed, after the contracted maturity periods. Although there are delays in the settlement of some values in relation to these maturity periods, this does not result in the identification of situations of impairment apart from those considered through the corresponding losses. The recognised impairment essentially refers to debts of more than 366 days.

Of the total value of accounts receivable from customers, the balances of airline companies and travel agencies, as identified in Note 21, are settled, principally, through the BSP and the IATA Clearing House system, which substantially minimises the credit risk of the "Group".

Capital management

The equity of the Group shows, in summarised form, the evolution over time of the operating results of the various activities developed by the Group, as well as the accumulated effect of the continuing transformations of the assets and liabilities over time. Given the various restrictions and limitations to the capitalisation of the Group, unfavourable financial autonomy ratios continued to be displayed in 2014, and the net income of the Group deteriorated even further. The capital limitations of the Group lead to significant oscillations in funding needs arising from the more or less favourable economic and financial performance in each year.

In 2014, the increase in operating costs inherent to the expansion strategy, of the air transport activity, undertaken - with an increase of the operation by around 5% - did not result in an increase in revenue, given the reduction of the average yield of the operation, which offset the effects of the weighted increase in the volume of passengers transported. As a consequence of the general rise in operating costs which was not counterbalanced by an increase in revenue, the economic results of TAP, S.A. in 2014 were negative, in contrast to 2013. In addition to these negative results, there were negative developments in the exchange rate area, namely in the dollar and in the Venezuelan bolivar. Furthermore, TAP M&E Brasil registered a loss once again, although significantly lower than in the previous year. The results of the companies held by TAPGER, as well as those of Portugália and SPdH, in spite of contributing positively to the operation of the Group, have a less significant global impact. In short, the negative result of the Group stood at about 3% of the total revenues and gains of the entire activity, having led to a further worsening of the negative equity of the Group.

In addition to the operating result, other equity adjustments also contributed negatively to the financial position, and had a substantial impact, namely fair value adjustments related to hedging operations. In turn, the amount of liabilities did not change, in overall terms, in their aggregate value, and the reduction of equity was counterbalanced by an almost equivalent overall reduction in assets, distributed over the main headings, namely treasury, customers, inventories and tangible fixed assets.

4 – Employees

During 2014 and 2013, the average number of employees working for TAP SGPS and all its subsidiaries was 10,882 and 10,561, respectively.

	2014					
	Air Transport	Maintenance	Duty Free Shop	Catering	Other	Total
Portugal	4,872	1,860	431	494	717	8,374
Brazil	128	1,987	-	-	-	2,115
Other	385	8	-	-	-	393
	5,385	**3,855**	**431**	**494**	**717**	**10,882**

	2013					
	Air Transport	Maintenance	Duty Free Shop	Catering	Other	Total
Portugal	4,582	1,870	417	506	710	8,085
Brazil	125	1,951	-	-	-	2,076
Other	388	12	-	-	-	400
	5,095	**3,833**	**417**	**506**	**710**	**10,561**

5 – Tangible fixed assets

During the years ended on 31 December 2014 and 2013, the movement in the value of tangible fixed assets and their respective accumulated depreciation was as follows:

	2014									
	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 fixed tangible assets	Total
Gross Assets										
Opening balance	41,916	348,686	2,105,309	5,539	31,760	66,487	23,624	5,916	6,898	2,636,135
Additions	-	453	15,096	314	1,146	1,330	257	773	10,269	29,638
Divestments	(8)	(31)	(1,864)	(17)	-	(5)	-	-	-	(1,925)
Other transfers / write-offs	-	(2)	(25,640)	(175)	(14)	(532)	(192)	(3,380)	-	(29,935)
Currency conversion differences	8	48	163	1	117	42	-	23	-	402
Closing balance	**41,916**	**349,154**	**2,093,064**	**5,662**	**33,009**	**67,322**	**23,689**	**3,332**	**17,167**	**2,634,315**
Accumulated Depreciation										
Opening balance	-	242,221	1,549,860	5,267	20,120	63,155	20,402	-	-	1,901,025
Allocations (Note 50)	-	5,821	73,559	153	1,892	1,615	1,968	-	-	85,008
Recognised impairment losses	-	-	1,984	-	-	-	-	-	-	1,984
Divestments	-	(17)	(1,799)	(17)	-	(5)	-	-	-	(1,838)
Other transfers / write-offs	-	(1)	(24,796)	(175)	(13)	(528)	(250)	-	-	(25,763)
Currency conversion differences	-	9	117	1	21	33	-	-	-	181
Closing balance	**-**	**248,033**	**1,598,925**	**5,229**	**22,020**	**64,270**	**22,120**	**-**	**-**	**1,960,597**
Net value	**41,916**	**101,121**	**494,139**	**433**	**10,989**	**3,052**	**1,569**	**3,332**	**17,167**	**673,718**

	2013									
	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 fixed tangible assets	Total
Gross Assets										
Opening balance	42,057	349,182	2,100,543	5,433	30,992	67,208	23,233	7,259	7,042	2,632,949
Additions	-	361	10,750	165	1,444	1,147	749	3,044	205	17,865
Divestments	(4)	(6)	(2,196)	(31)	(19)	(1)	-	-	-	(2,257)
Other transfers / write-offs	-	9	(946)	(11)	1,101	(1,139)	(358)	(3,914)	(349)	(5,607)
Currency conversion differences	(137)	(860)	(2,842)	(17)	(1,758)	(728)	-	(473)	-	(6,815)
Closing balance	**41,916**	**348,686**	**2,105,309**	**5,539**	**31,760**	**66,487**	**23,624**	**5,916**	**6,898**	**2,636,135**
Accumulated Depreciation										
Opening balance	-	236,680	1,451,676	5,178	19,240	63,029	18,896	-	-	1,794,699
Allocations (Note 50)	-	5,810	103,687	147	1,863	1,923	1,743	-	-	115,173
Divestments	-	(5)	(640)	(31)	(15)	(1)	-	-	-	(692)
Other transfers / write-offs	-	(1)	(2,386)	(11)	(19)	(1,128)	(237)	-	-	(3,782)
Currency conversion differences	-	(263)	(2,477)	(16)	(949)	(668)	-	-	-	(4,373)
Closing balance	**-**	**242,221**	**1,549,860**	**5,267**	**20,120**	**63,155**	**20,402**	**-**	**-**	**1,901,025**
Net value	**41,916**	**106,465**	**555,449**	**272**	**11,640**	**3,332**	**3,222**	**5,916**	**6,898**	**735,110**

Up to the end of 2013, the "Group" depreciated the Airbus air fleet over a useful life of 16 years, considering a residual value of 10%.

Following the analysis undertaken by the Group, of technological developments and increasing requirements for operating performance in the air transport market, changes to the estimated average period of use of Airbus commercial aircraft of the "Group" were implemented.

In this regard, and in line with the evolution of the strategy to renew the existing fleet combined with the various external factors, the Airbus aircraft will be depreciated over a period of 20 years with a residual value of 5%, beginning in the financial year of 2014. The adjustment to the estimate of useful lives and residual values was conducted prospectively in conformity with IAS 8.

As a result of the review of the estimate of useful lives and residual values of these assets, the amount registered under the heading "Depreciation and amortisation costs/reversals" is lower by approximately 22 million euros.

The land, buildings and other constructions of the head office of "TAP S.A." were transferred to this subsidiary's ownership under Decree-Law number 351/89 of 13 October.

// The additions of basic equipment in the amount of 15,096 thousand euros, essentially refer to: (i) stand-by spare parts for the fleet in the amount of 5.2 million euros; (ii) fleet and aircraft equipment in the amount of 6.1 million euros (of which 3.7 million euros are relative to entertainment equipment); and (iii) catering equipment, maintenance and repair works in hangar 6 in the amount of 1.7 million euros.

// Transfers and write-offs of basic equipment refer, essentially, to the write-off of spare parts as scrap and other miscellaneous maintenance equipment.

As at 31 December 2014 and 2013, the heading “Basic equipment” is broken down as follows:

	2014			2013		
	Gross value	Accumulated amortisation	Net value	Gross value	Accumulated amortisation	Net value
Flight equipment						
Aircraft	368,391	(344,796)	23,595	375,196	(329,998)	45,198
Spare engines	21,348	(18,342)	3,006	24,058	(20,287)	3,771
Spare parts	118,924	(85,501)	33,423	133,944	(98,842)	35,102
	508,663	**(448,639)**	**60,024**	**533,198**	**(449,127)**	**84,071**
Flight equipment under financial leasing						
Aircraft	1,444,614	(1,044,797)	399,817	1,444,614	(998,547)	446,067
Spare engines	6,867	(3,187)	3,680	6,867	(2,897)	3,970
	1,451,481	(1,047,984)	403,497	1,451,481	(1,001,444)	450,037
Machines and misc. equipment	132,920	(102,302)	30,618	120,630	(99,289)	21,341
	2,093,064	**(1,598,925)**	**494,139**	**2,105,309**	**(1,549,860)**	**555,449**

As at 31 December 2014 and 2013, the Group’s aircraft fleet is broken down as follows:

	2014				2013			
	Owned by TAP Group	Financial leasing	Operating leasing	Total	Owned by TAP Group	Financial leasing	Operating leasing	Total
Airbus A340	4	-	-	4	4	-	-	4
Airbus A330	-	11	3	14	-	11	1	12
Airbus A319	-	15	6	21	-	15	4	19
Airbus A320	-	5	14	19	-	5	12	17
Airbus A321	-	2	1	3	-	2	1	3
Fokker 100	-	6	-	6	-	6	-	6
Embraer 145	-	8	-	8	-	8	-	8
	4	**47**	**24**	**75**	**4**	**47**	**18**	**69**

Moreover, during the second half of 2014, the “Group” used two White aircraft (ATR 42-600), which are being operated by “TAP S.A.” under an ACMI (Aircraft, Crew, Maintenance and Insurance) regime.

During 2013 and the first half of 2014, the “Group” used two OMNI aircraft (Beechcraft 1900 D), under the same regime.

The increase recorded in the heading “Down-payments on fixed tangible assets”, in the amount of 10,269 thousand euros refers to the down-payments for the future acquisition of aircraft (Note 60).

6 – Investment properties

As at 31 December 2014 the heading “Investment properties” refers to the value assigned to a property in Maputo (Mozambique) and two apartments in Sacavém.

The movement occurred in this heading was as follows:

	2014	2013
Opening balance	3,864	4.274
Fair value adjustments - net gains and losses (Note 47)	104	(410)
Divestments	(1,829)	-
Closing balance	**2,139**	**3.864**

The building in Rio de Janeiro (Brazil), held by the Group as at 31 December 2013, was sold for 2.8 million euros, generating a capital gain of about 1 million euros (Note 48).

The fair value of the investment properties was determined by an independent expert with recognised professional qualifications, where the methods and significant assumptions applied in the determination of the fair value of the properties were supported by market evidence.

The amounts recognised through profit or loss for the year, related to income from rents and direct operating costs, are immaterial in the Group’s financial statements as a whole.

7 – Goodwill

During 2014 and 2013, the movement in the heading "Goodwill" was as follows:

	2014		
	Opening balance	Exchange rate variation	Closing balance
Air Transport	63,099	-	63,099
Maintenance and Engineering Brazil	129,940	440	130,380
	193,039	**440**	**193,479**

	2013		
	Opening balance	Exchange rate variation	Closing balance
Air Transport	63,099	-	63,099
Maintenance and Engineering Brazil	137,796	(7,856)	129,940
	200,895	**(7,856)**	**193,039**

The amount of 440 thousand euros refers to the currency conversion variation of part of the goodwill of Maintenance and Engineering Brazil, 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 2.9.

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:

	2014		
	Air Transport	Maintenance	Total
Portugal	63,099	-	63,099
Brazil	-	130,380	130,380
	63,099	**130,380**	**193,479**

	2013		
	Air Transport	Maintenance	Total
Portugal	63,099	-	63,099
Brazil	-	129,940	129,940
	63,099	**129,940**	**193,039**

For the purposes of impairment tests, the recoverable value of the CGUs is determined 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 Maintenance and Engineering Brazil business unit, a budget for the following year was used and an estimate for the subsequent period of 8 years which incorporated, 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 purposes of impairment tests were the following:

31 December 2014	Portugal	Brazil
Discount rate*	8.9%	14.5%
CAGR of revenue**	2.6%	14.7%
Perpetuity growth	2.0%	5.0%
Tax rate	25.0%	34.0%

31 December 2013	Portugal	Brazil
Discount rate*	10.0%	14.5%
CAGR of revenue**	6.5%	13.1%
Perpetuity growth	0.0%	4.0%
Tax rate	29.5%	34.0%

* 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 2014 sustain the recoverability of the book value of the aforesaid cash generating units. As at 31 December 2014, the book value of the air transport unit stands at 89,956 thousand euros, and the book value of the maintenance unit in Brazil is negative by 197,849 thousand euros.

8 – Other intangible assets

During 2014 and 2013, the movement in the heading "Other intangible assets" was as follows:

	Industrial property and other rights	Computer programmes	Assets in progress	Total
Acquisition cost				
Balance as at 1 January 2013	**11,952**	**2,348**	**20**	**14,320**
Acquisitions	-	32	5	37
Adjustments, transfers and write-offs	-	2	-	2
Balance as at 31 December 2013	**11,952**	**2,382**	**25**	**14,359**
Acquisitions	-	395	-	395
Adjustments, transfers and write-offs	-	6	(25)	(19)
Currency conversion differences	-	(3)	-	(3)
Balance as at 31 December 2014	**11,952**	**2,780**	**-**	**14,732**
Accumulated amort. and impairment losses				
Balance as at 1 January 2013	**(11,313)**	**(1,694)**	**-**	**(13,007)**
Amortisations and impairment losses (Note 50)	(403)	(175)	-	(578)
Balance as at 31 December 2013	**(11,716)**	**(1,869)**	**-**	**(13,585)**
Amortisations and impairment losses (Note 50)	(236)	(193)	-	(429)
Adjustments, transfers and write-offs	-	19	-	19
Currency conversion differences	-	1	-	1
Balance as at 31 December 2014	(11,952)	(2,042)	-	(13,994)
Net value as at 1 January 2013	**639**	**654**	**20**	**1,313**
Net value as at 31 December 2013	**236**	**513**	**25**	**774**
Net value as at 31 December 2014	**-**	**738**	**-**	**738**

10 – Financial holdings - equity method

As at 31 December 2014 and 2013, the financial holding in SPdH is reduced to zero, and the liabilities imputable to the "Group" are recorded under provisions (see the heading "Provisions for financial investments" in Note 26).

13 – Other financial assets

As at 31 December 2014 and 2013, the details of the other financial assets are as follows:

	2014		2013	
	Current	Non-current	Current	Non-current
Loans granted and accounts receivable	–	2,122	–	2,220
	–	2,122	–	2,220

As at 31 December 2014 and 2013, the details of the other non-current financial assets are as follows:

	2014	2013
Bank deposits in Guinea Bissau	1,672	291
Salvor Hotéis Moçambique loan	700	849
SITA Group Foundation	648	666
Bank deposits in Mozambique	577	508
Other	211	212
Impairment losses	(1,686)	(306)
	2,122	**2,220**

During 2014, the existing bank deposits at Banco Internacional da Guiné Bissau were considered as non-recoverable following the dissolution and liquidation of this institution, and thus an impairment for the total amount was constituted (Note 44).

The loan to Salvor Hotéis Moçambique was the result of the provision, in 1997, of funds held by "TAP S.A." which could only be used for investment in Mozambique. In 2010, TAP S.A. received 3,250 thousand dollars, with an agreement having been signed for the repayment of the remaining balance and a promissory note for the outstanding amount. The entire adjustment at that date was thus reversed.

The value presented for the SITA Group Foundation refers essentially to 519,778 certificates (unlisted securities) of the same company, which was founded by Société International de Télécommunications Aéronautiques.

The movement which occurred in this heading during 2014 and 2013 was as follows:

	2014	2013
Opening balance	2,220	2,848
Increases	741	-
Reductions	(253)	(563)
Exchange rate variation	158	(65)
Impairment loss (Note 44)	(741)	-
Other movements	(3)	-
Closing balance	**2,122**	**2,220**

15 – Deferred tax assets and liabilities

As mentioned in Note 2.14, the Group recorded deferred taxes related to temporary differences between the assets and liabilities for tax and accounting purposes, as well as existing tax losses carried forward as at the date of the consolidated statement of financial position.

The "Group" believes that the deferred tax assets and liabilities recognised in the consolidated statement of financial position are recoverable, both through their use in reducing future taxable profit, based on the net income of "TAP S.A." forecast in the business plan for 2015 and projections of net income for subsequent years, adjusted by differences between the accounting and tax profit or loss, and through the reversal of deferred tax liabilities.

As at 31 December 2014, the tax rate used to calculate the deferred tax assets relative to tax losses carried forward was 21%. (2013: 23%). In the case of temporary differences, the rate used was 27.5% (2013: 29.5%) increased to a maximum of 5% of state surcharge, when it was deemed that the taxation of temporary differences in the estimated period of application of the aforesaid rate was probable.

Tax benefits, due to being itemised deductions, are considered at 100%, where, in some cases, their full acceptance is still dependent on the approval of the authorities granting these tax benefits. The deferred taxes stemming from tax benefits are recorded when they have been approved by the authorities granting these tax benefits.

The main temporary differences between accounting and taxable amounts as at 31 December 2014 and 2013, the corresponding deferred tax assets and liabilities and the respective effect on net income for 2014 and 2013 are as follows:

	2014			
	Opening balance	Variations affecting net income (Note 52)	Variations affecting comprehensive income	Closing balance
Deferred tax assets				
Tax losses carried forward	5,218	3,354	-	8,572
Liabilities related to retirement benefits	13,486	(1,764)	2,433	14,155
Impairment losses in inventories	8,489	(437)	-	8,052
Impairment losses in fixed assets	-	506	-	506
Impairment losses of accounts receivable	3,112	3,224	-	6,336
Derivative financial instruments	456	-	13,475	13,931
Tax benfits	740	647	-	1,387
Other provisions and adjustments not accepted for tax purposes	507	(36)	-	471
	32,008	**5,494**	**15,908**	**53,410**
Deferred tax liabilities				
Derivative financial instruments	2,357	-	(2,357)	-
Revaluation carried out	23,464	(2,429)	-	21,035
	25,821	**(2,429)**	**(2,357)**	**21,035**
		7,923	**18,265**	

	2013			
	Opening balance	Variations affecting net income (Note 52)	Variations affecting comprehensive income	Closing balance
Deferred tax assets				
Tax losses carried forward	1,383	3,835	-	5,218
Liabilities related to retirement benefits	14,138	(1,612)	960	13,486
Impairment losses in inventories	7,419	1,070	-	8,489
Impairment losses of accounts receivable	-	3,112	-	3,112
Derivative financial instruments	-	-	456	456
Land	1,106	(1,106)	-	-
Tax benfits	-	740	-	740
Other provisions and adjustments not accepted for tax purposes	63	444	-	507
	24,109	**6,483**	**1,416**	**32,008**
Deferred tax liabilities				
Derivative financial instruments	-	-	2,357	2,357
Revaluation carried out	24,239	(775)	-	23,464
	24,239	**(775)**	**2,357**	**25,821**
		7,258	**(941)**	

Tax losses carried forward

Under the terms of current tax legislation in Portugal, tax losses generated up to 2009, from 2010 to 2011, from 2012 to 2013 and as of 2014 can be carried forward for a period of six, four, five and twelve years, respectively, after their occurrence and may thus be deducted from taxable profits generated over this period, up to the limit of 75% of the taxable profit in 2013 and 70% of the taxable profit in the following years.

The Group considers that, as at 31 December 2014, the tax losses carried forward of TAP S.A. are recoverable, through their use in the reduction of future taxable profit, and therefore recorded the corresponding deferred tax assets for the subsidiary "TAP S.A." The tax losses carried forward as at 31 December 2014 and used in 2014 are detailed as follows:

1 January 2014	2008	2009	2010	2011	2012	2013	2014	Total
TAP SGPS	1,765	1,454	14,204	2,691	2,923	4,814	n/a	27,851
TAP S.A.	121,381	-	-	-	-	-	n/a	121,381
Portugália	-	-	-	1,500	-	-	n/a	1,500
UCS	-	-	195	-	258	95	n/a	548
TAP M&E Brasil	1,947	82,412	36,142	12,271	32,928	21,208	n/a	186,908
	125,093	**83,866**	**50,541**	**16,462**	**36,109**	**26,117**	**n/a**	**338,188**

Use of tax losses carried forward in 2014	2008	2009	2010	2011	2012	2013	2014	Total
TAP SGPS	-	-	-	-	-	-	n/a	-
TAP S.A.	-	-	-	-	-	-	n/a	-
Portugália	-	-	-	(1,500)	-	-	n/a	(1,500)
UCS	-	-	(5)	-	-	-	n/a	(5)
TAP M&E Brasil	(1,947)	(82,412)	(36,142)	(12,271)	(6,415)	-	n/a	(139,187)
	(1,947)	**(82,412)**	**(36,147)**	**(13,771)**	**(6,415)**	**-**	**n/a**	**(140,692)**

31 December 2014	2008	2009	2010	2011	2012	2013	2014 Provisional	Total
TAP SGPS	n/a	1,454	n/a	2,691	2,923	4,814	2,473	14,355
TAP S.A.	n/a	-	n/a	-	-	-	40,845	40,845
Portugália	n/a	-	n/a	-	-	-	-	-
UCS	n/a	-	n/a	-	258	95	-	353
TAP M&E Brasil	-	-	-	-	26,513	21,208	54,562	102,283
	n/a	**1,454**	**n/a**	**2,691**	**29,694**	**26,117**	**97,880**	**157,836**

Deduction Deadline	**2014**	**2015**	**2014**	**2015**	**2017**	**2018**	**2026**	

During 2006, the subsidiary "TAP S.A." carried out, under Decree-Law number 453/99, of 5 November, an operation of securitisation of future credits, 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 pursuant to number 1 of article 2 of Decree-Law number 219/2001, of 4 August, the value of 230,000,000 euros was added for the purpose of determination of the taxable profit for 2006. It should be noted that the tax losses carried forward in 2000, 2001 and 2002 were deducted from the calculated taxable profit.

The liabilities recorded by "TAP S.A.", which correspond to the value received from the sale of the future credit, of the value of 230,000,000 euros, whose operation expenses reached 779 thousand euros, is being repaid up to December 2016, as the credit assigned to the credit securitisation company is handed over. The financial cost associated to the liability created with the divestment 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, essentially based on the non-applicability of Decree-Law number 219/2001, of 4 August. The Tax Authorities consider that the aforesaid operation constitutes a financial liability which does not, in itself, give rise to the 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 Executive Board of Directors, supported in its decision by lawyers and tax consultants, believes that the procedure adopted was correct and as such, has been exercising its legitimate right to object.

It should be emphasised that the tax losses carried forward, presented previously, have been adjusted for the correction referred to above.

Pursuant to the Brazilian tax legislation in force, namely Law 11.941 of 2009 and Law 13.043 of 2014, it is possible to use tax losses carried forward through the consolidation of the special subdivision of various tax debits. Thus, for 2011 and 2014, TAP M&E Brasil decided to use its losses, through deduction of the interest of the debt by 34% (tax aliquot), which resulted in the elimination of tax losses carried forward of the amount of 149,527 thousand euros and 51,594 thousand euros, respectively (Notes 17 and 48).

16 – Advances to suppliers

The value recorded under this heading as at 31 December 2014 and 2013 refers to the following entities:

	2014	2013
QuickTurn S.A.	1,426	-
Airbus	603	2,011
SITA	551	485
Fichtner e Mannheimer Advocacia	337	-
Messier Dowty	260	1,167
Caixa Economica Federal	147	-
Austrian Airlines Technik	130	-
Eaton Industrial Corporation	111	10
Airbus North America	106	71
Eauctions	100	-
GE Engine Services, Inc.	-	2,417
Other	2,974	2,734
	6,745	**8,895**

17 – State and other public entities

The balances with the State and other public entities are broken down as follows:

	2014			2013		
	Current	Non-current	Total	Current	Non-current	Total
Assets						
Income tax receivable	-	-	-	137	-	137
Other	13,878	-	13,878	14,266	-	14,266
	13,878	**-**	**13,878**	**14,403**	**-**	**14,403**
Liabilities						
Income tax payable	1,822	-	1,822	2,395	-	2,395
Other	20,199	-	20,199	27,110	59,898	87,008
	22,021	**-**	**22,021**	**29,505**	**59,898**	**89,403**

The values relative to 2014 and 2013 are broken down as follows:

	2014		2013	
	Assets	Liabilities	Assets	Liabilities
State - Grants receivable:				
Compensation	3,399	-	4,194	-
State and Other Public Entities:				
IRC (corporate income tax)	-	1,822	137	2,395
IRS (personal income tax)	2	8,689	-	8,253
VAT (value added tax)	6,501	271	5,621	572
Social Security	-	9,552	-	8,872
State - Brazil	3,955	1,400	3,459	69,109
Other	21	287	992	202
	13,878	**22,021**	**14,403**	**89,403**

As at 31 December 2014, the value recorded under the heading "Compensation" includes the portion of the fare subsidised by the State for the routes of the Autonomous Region of the Azores for the financial year of 2014, of the total amount of 1,505 thousand euros. These values 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 value receivable from the State of 1,894 thousand euros relative to flights between the islands of the Autonomous Region of the Azores. The figures for the second semester of 2013 and the year of 2014 have not yet been calculated and audited by the Inspectorate-General for Finance or approved by the Government. However, no significant corrections to the values recorded by the Group are expected.

As at 31 December 2014, the VAT debit balance refers to requests for reimbursement, which have not yet been received, relative to the months of October, November and December 2014.

As at 31 December 2014 and 2013, the heading "State - Brazil" was broken down as follows:

	2014		2013	
	Assets	Liabilities	Assets	Liabilities
Current:				
REFIS	-	-	-	6,987
Other	3,955	1,400	3,459	2,224
Non-current:				
REFIS	-	-	-	59,752
Other	-	-	-	146
	3,955	**1,400**	**3,459**	**69,109**

In 2009 the subsidiary TAP M&E Brasil joined the Tax Recovery Programme, called REFIS, through which it compensated part of the interest and contingency fines related to deferred rent tax and social security contributions, over the total tax losses and negative social security contribution base ("CSLL"), having reduced its debt by 49,448 thousand euros.

On 9 July 2014, Provisional Measure number 651/2014 (MP 651, converted into Law 13.043/14) was enacted which, among other issues, permitted the taxpayer to pay tax debts in advance, provided they are paid in instalments, with the use of own credits from tax losses and of a negative calculation base of CSLL.

In this sense, TAP M&E Brasil, following the legal recommendation of the respective lawyer on the legal conditions required to benefit from the measures regulated by article 33 of the Provisional Measure, decided to meet those criteria. Consequently, the Company paid 30% of the debt in the amount of 71,234 thousand reais and settled the rest with the tax credits arising from tax losses and from a negative social security contribution base in the amount of 166,214 thousand reais (51,594 thousand euros). This gain was recognised in the heading of "Other revenue and gains" (Note 48), taking into consideration that the same is essentially due to social security contributions that were recorded in operating costs.

In addition, due to the accounting criteria adopted, the subsidiary requested a legal opinion on the tax treatment relative to the effects arising from the settlement of REFIS based on the tax credits arising from tax losses and from a negative social security contribution base. It is thus observed that it is a change in the form of use of an existing right, and thus no new right was created, regardless of its accounting classification. In this sense, the operating gain resulting from the compensation of the subdivision was not subject to corporate income tax, social integration programme ("PIS") and contribution to the financing of social security ("COFINS").

As such, the existing debt as at 31 December 2013 in the amount of 66,739 thousand euros was fully settled in 2014.

Decree-Law number 258/98 of 17 August repealed the tax exemptions from which "TAP S.A." had benefited, and which had been established based on XII 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 consolidated financial statements as at 31 December 2014 and 2013.

18 – Other accounts receivable

As at 31 December 2014 and 2013, the heading "Other accounts receivable" is broken down as follows:

	2014		2013	
	Current	Non-current	Current	Non-current
Related entities (Note 56)	3,305	4,700	3,454	3,700
Personnel	12,216	-	11,534	-
Accrued gains	10,405	-	16,469	-
Other	41,615	45,790	39,325	38,902
Impairment losses of accounts receivable	(4,480)	(1,921)	(4,431)	(1,921)
	63,061	**48,569**	**66,351**	**40,681**

Related entities - non-current

The heading "Related entities - non-current", of the amount of 4,700 thousand euros, refers to the additional paid-in capital granted to SPdH (Notes 26 and 56).

Accrued gains

As at 31 December 2014 and 2013, the value recorded under the heading "Accrued gains" is broken down as follows:

	2014		2013	
	Current	Non-current	Current	Non-current
Sale of miles to partners	5,450	-	1,458	-
Work for aviation companies	1,682	-	1,653	-
Work for engine maintenance	714	-	-	-
Ticket benefits	201	-	-	-
Advertising	105	-	473	-
Interest receivable	46	-	272	-
Fuel hedging	-	-	9,547	-
Other	2,207	-	3,066	-
	10,405	**-**	**16,469**	**-**

The value presented under the heading "Fuel hedging", as at 31 December 2014 and 2013, is detailed as follows:

	2014		2013	
	Current	Non-current	Current	Non-current
Accrual-based gain for the year	-	-	1,559	-
Fair value of jet fuel swaps (Note 24)	-	-	7,988	-
	-	**-**	**9,547**	**-**

Other – non-current

As at 31 December 2014 and 2013, the value recorded under the heading "Other - non-current" corresponds to:

	2014	2013
Judicial deposits - Brazil	27,560	17,648
Security deposits (Note 27)	9,237	8,150
Retained deposits	-	4,933
SITA - Société Internationale de Télécommunications Aéronautiques	337	321
Other	8,656	7,850
	45,790	**38,902**

The security deposits are constituted by "TAP S.A." under the operating lease contracts for aircraft and engines, and will be returned, without interest, when the aircraft and engines are returned to their lessors.

The variation recorded under the heading "Judicial deposits - Brazil" is mainly due to the transfer of judicial deposits constituted for the purposes of REFIS in the amount of 7,849 thousand euros which, as at 31 December 2013, was being used to repay the REFIS debt, settled in 2014 (Note 17).

Other - current

As at 31 December 2014 and 2013, the value recorded under the heading "Other - current" corresponds to:

	2014	2013
Interline and other invoicing	12,252	12,139
Receivables from suppliers	9,166	6,829
Debtors - Brazil	5,645	4,809
Pasogal SGPS, S.A. (Note 37)	3,000	3,000
VAT of Representations	2,216	1,632
Debtors - Italy	888	3,047
Other	8,448	7,869
	41,615	**39,325**

The heading "Others", in the amount of 8,448 thousand euros, includes 583 thousand euros relative to the surplus financing (2013: 582 thousand euros), recorded as at 31 December 2014, of the Horizonte Valorização Pension Fund of the subsidiary UCS. This surplus financing is reimbursable under the terms of the law and/or allows for exemption from future contributions (Note 28).

Impairment losses of accounts receivable

The movement which occurred in this heading during 2014 and 2013 is as follows:

Opening balance as at 1 January 2013	**6,052**
Increases (Note 44)	474
Reversals (Note 44)	-
Utilisation	(174)
Closing balance as at 31 December 2013	**6,352**
Increases (Note 44)	255
Reversals (Note 44)	(176)
Utilisation	(30)
Closing balance as at 31 December 2014	**6,401**

19 – Deferrals

As at 31 December 2014 and 2013, the heading "Deferrals" is detailed as follows:

	2014	2013
Deferred assets	17,094	12,636
	17,094	**12,636**

	2014	2013
Deferred liabilities	67,717	57,081
	67,717	**57,081**

The value recorded under the heading "Deferred assets", as at 31 December 2014 and 2013, is detailed as follows:

	2014	2013
Hire and rental charges	3,639	2,092
Commissions	3,514	3,812
Aircraft and engine leasings	3,360	2,389
Travel vouchers	2,688	-
Insurance	1,932	1,859
Equipment maintenance	294	1,353
Other deferred costs	1,667	1,131
	17,094	**12,636**

The fees refer to the values paid to agents for tickets sold but which have not yet been used or expired by 31 December 2014 and 2013.

The value registered as travel vouchers is relative to the vouchers assigned to passengers in the form of compensation for the irregularities occurred during the year and which have not yet been used.

The heading "Deferred liabilities", as at 31 December 2014 and 2013, is detailed as follows:

	2014	2013
Work for aviation companies	36,194	34,066
Customer loyalty programme	30,766	21,908
Advertising	347	348
Overhaul reserves	-	123
Other	410	636
	67,717	**57,081**

The value of 36,194 thousand euros (2013: 34,066 thousand euros), recorded under the heading "Maintenance work for airline companies", refers to provisional invoicing of maintenance work for third parties that was still underway as at 31 December 2014.

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 deferred based on the unit value of the mile, as perceived by the customer (Note 2.27).

20 - Inventories

The breakdown of the inventories as at 31 December 2014 and 2013 is as follows:

	2014	2013
Goods (Note 40)	15,112	14,788
Products and work in progress (Note 38)	14,173	5,288
Raw materials, inputs and consumables (Note 40)	117,319	138,021
Inventory impairment losses	(49,432)	(49,198)
	97,172	**108,899**

The heading "Products and work in progress" corresponds to the value 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 essentially refer to technical material used in the repair of own aircraft and in work carried out for other aviation companies.

The movement which occurred under the heading "Inventory impairment losses" in 2013 and 2014 is as follows:

Opening balance as at 1 January 2013	**47,265**
Increases (Note 43)	5,931
Reversals (Note 43)	(23)
Utilisation	(124)
Currency conversion adjustment	(3,851)
Closing balance as at 31 December 2013	**49,198**
Increases (Note 43)	2,035
Reversals (Note 43)	(1,930)
Utilisation	(47)
Currency conversion adjustment	176
Closing balance as at 31 December 2014	**49,432**

21 – Customers

As at 31 December 2014 and 2013, the heading "Customers" is detailed as follows:

	2014	2013
Customers - current account	180,870	228,830
Customers - bad debt	38,963	36,720
Customer impairment losses	(72,842)	(59,860)
	146,991	**205,690**

The breakdown of this heading by type of customer is as follows:

	2014	2013
Travel agencies	62,195	74,009
Private entities	41,631	91,710
Airline companies	28,437	29,697
Related entities (Note 56)	1,599	2,667
Other	13,129	7,607
	146,991	**205,690**

The balances receivable from travel agencies and airline companies are primarily settled through BSP and the IATA Clearing House system.

The variation in balances receivable from private entities essentially arises from the advance made by Cielo S.A. of about 120 million reais relative to sales paid in instalments with a credit card in Brazil.

The movement which occurred under the heading "Customer impairment losses" in 2014 and 2013 is as follows:

Opening balance as at 1 January 2013	**62,686**
Increases (Note 44)	3,592
Reversals (Note 44)	(3,700)
Utilisation	(146)
Other movements	571
Currency conversion adjustment	(3,143)
Closing balance as at 31 December 2013	**59,860**
Increases (Note 44)	15,650
Reversals (Note 44)	(2,426)
Utilisation	(199)
Other movements	-
Currency conversion adjustment	(43)
Closing balance as at 31 December 2014	**72,842**

22 – Cash and bank deposits

As at 31 December 2014 and 2013, the breakdown of cash and cash equivalents presents the following values:

	2014	2013
Term deposits	95,535	136,094
Bank deposits available on demand	44,752	134,312
Cash	77	205
Cash and bank deposits in the statement of financial position	**140,364**	**270,611**
Restricted bank deposits	**100,917**	**-**
Bank overdrafts (Note 27)	**(7,283)**	**(7,393)**
Cash and cash equivalents in the cash flow statement	**233,998**	**263,218**

The volume of cash on hand presented by the "Group" primarily arises from the cash on hand of "TAP S.A.", of the amount of 225,932 thousand euros (2013: 256,898 thousand euros).

Surplus liquidity is normally invested in short term financial investments, earning interest at normal market rates.

Restricted bank deposits

During the current financial year, the "Group" recorded bank deposits, in Venezuelan bolivars, arising from the sales of air tickets in Venezuela, between May 2013 and May 2014, under the heading "Restricted bank deposits".

As at 31 December 2014, the Group presents in restricted bank deposits the amount of 101 million euros, detailed as follows:

// 74 million euros, with reference to the sales of May 2013 to December 2013, valued at the exchange rate of 6.3 VEF/USD, which represents the official exchange rate as at 31 December 2013 (CENCOEX);

// 3 million euros, with reference to the sales of May 2013 to December 2013, valued at the exchange rate of 50 VEF/USD, which represents the official exchange rate of SICAD II, as at 31 December 2014; and

// 24 million euros, with reference to the sales of January to May 2014 minus local costs, valued at the exchange rate of 12 VEF/USD, which represents the official exchange rate of SICAD I, as at 31 December 2014.

This situation is essentially due to the deterioration of the Venezuelan economy, the successive devaluations of the local currency and the current limitation to the repatriation of capital controlled by the local government entities.

The "Group" has maintained regular negotiations with the Venezuelan Government regarding the timing of the repatriation of the amounts indicated and applicable exchange rates.

This situation is regularly monitored and assessed by the Management of the "Group", with the Group's best estimate to date being reflected in the financial statements as at 31 December 2014.

As a result, taking into consideration the regular contacts maintained between IATA, the Venezuelan Government and the "Group", the Executive Board of Directors believes that the amounts recorded in the financial statements are recoverable, such that this situation will not have a foreseeable impact on the Group's treasury.

Nonetheless, in spite of the regular monitoring undertaken by the Group, it is important to note that future fluctuations and devaluations of the currency, as well as the future policy on restrictions to the repatriation of capital, are not controlled by the "Group", and thus a negative outcome of this situation may, in the future, result in the need for some adjustment in the value of the cash assets located in Venezuela and, consequently, have a negative impact on the result of the Group's operations and financial position.

The classification of the restricted cash assets as current or non-current is dependent on the Group's expectations regarding their realisation within a year or more than a year, respectively.

It is important to note that the existing bank deposits in Angola as at 31 December 2014, of the amount of 19,161 thousand euros, are currently facing repatriation difficulties. In this regard, a current credit line was negotiated with Banco BIC that makes available to the Group the amounts retained in Angola. The bank deposits are classified as collateral of the contracted financing. In addition, these cash assets will also be used to pay for local expenses.

24 - Equity

The nominal share capital of the "Group", of the value of 15,000 thousand euros is represented by 1,500,000 nominal shares of the value of 10 euros each, 100% owned by Parpública – Participações Públicas, SGPS, S.A., and is fully underwritten and paid-up.

Legal reserves

The legal reserve was constituted in conformity with article 295 of the Commercial Companies Code, which establishes that the reserve should be allocated a minimum of 5% of the net income for the year until the value of the reserve corresponds to a fifth of the share capital. This reserve cannot be distributed, except in the case of the company's liquidation, but can be incorporated into the share capital or used to absorb losses after all other reserves have been depleted.

As at 31 December 2014 and 2013, the legal reserve was fully constituted in accordance with the commercial legislation in force.

Currency conversion reserves

Currency conversion differences arising from the conversion of operating units denominated in foreign currency are recorded in equity, under this heading.

	2014			
	Opening balance	Increases	Reductions	Closing balance
TAP M&E Brasil and Aeropar:				
Conversion of the financial statements and goodwill	73,103	-	(2,075)	71,028
Extension of the net investment in TAP M&E Brasil	(93,248)	2,717	-	(90,531)
	(20,145)	**2,717**	**(2,075)**	**(19,503)**

	2013			
	Opening balance	Increases	Reductions	Closing balance
TAP M&E Brasil and Aeropar:				
Conversion of the financial statements and goodwill	19,353	53,750	-	73,103
Extension of the net investment in TAP M&E Brasil	(32,932)	-	(60,316)	(93,248)
	(13,579)	**53,750**	**(60,316)**	**(20,145)**

The decrease of 2,075 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 increase of 2,717 thousand euros, which occurred in 2014, refers to favourable currency conversion differences arising from the medium and long term loans granted to TAP M&E Brasil, whose settlement is unlikely to occur in the predictable future, and is thus, in substance, an extension of the Group's net investment in this foreign entity.

Fair value reserves

The amount of 36,727 thousand euros presented in the heading "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., net of tax, of the amount of 13,931 thousand euros (Note 15).

As at 31 December 2014 and 2013, the fair value of the derivative financial instruments is broken down as follows:

	2014	2013
Interest rate swaps (Notes 31 and 58)	(1,492)	(1,546)
Jet fuel swaps (Notes 18, 31 and 58)	(49,166)	7,988
	(50,658)	**6,442**

The interest rate and jet fuel derivative financial instruments in portfolio, classified as hedging instruments, during the financial years ended on 31 December 2014 and 2013, present the following evolution:

	Assets		Liabilities	
	Current	Non-current	Current	Non-current
Fair value as at 1 January 2013	**444**	**256**	**-**	**(2,380)**
Acquisitions during the year - payment/(revenue)	(300)	-	-	-
Payment/(revenue) of swaps during the year	(944)	-	-	734
Revenue/(payment) of swaps retained through profit or loss	1,244	-	-	(734)
Increase/(decrease) of fair value reflected in equity	7,544	(256)	-	834
Fair value as at 31 December 2013	**7,988**	**-**	**-**	**(1,546)**
Acquisitions during the year - payment/(revenue)	-	-	18,560	-
Payment/(revenue) of swaps during the year	-	-	9,831	613
Revenue/(payment) of swaps retained through profit or loss	-	-	(28,391)	(613)
Increase/(decrease) of fair value reflected in equity	(7,988)	-	(49,166)	54
Fair value as at 31 December 2014	**-**	**-**	**(49,166)**	**(1,492)**

Retained earnings

The heading "Retained earnings" corresponds to the net income of previous years, as deliberated at the General Meetings. Alterations arising from the first-time application of the International Financial Reporting Standards are also recorded under this heading, as well as gains or losses from the remeasurement of post-employment benefits, net of tax.

Earnings per share

There are no convertible financial instruments relative to "TAP SGPS" shares, hence there is no dilution of earnings.

	2014	2013
Earnings attributable to TAP SGPS shareholders	(85,096)	(5,868)
Weighted average number of shares	1,500,000	1,500,000
Basic earnings per share (value in euros)	(57)	(4)
Diluted earnings per share (value in euros)	(57)	(4)

25 – Non-controlling interests - statement of financial position

The non-controlling interests recorded in the statement of financial position are broken down as follows:

	2014	2013
Non-controlling interests of equity		
Cateringpor	3,293	2,650
LFP	4,642	5,858
	7,935	**8,508**

26 – Provisions

During 2014 and 2013, the following movements took place under the headings of provisions:

	2014						
	Opening balance	Increases	Reductions due to use	Reversed unused amounts	Exchange rate variation	Other movements	Closing balance
Provisions							
Provision for current lawsuits (Note 45)	16,766	9,378	-	(3,626)	(100)	676	23,094
Provision for financial investments (Note 37)	5,235	-	-	(1,611)	-	435	4,059
Other provisions (Note 45)	3,286	203	(15)	(249)	15	(670)	2,570
	25,287	**9,581**	**(15)**	**(5,486)**	**(85)**	**441**	**29,723**

	2013						
	Opening balance	Increases	Reductions due to use	Reversed unused amounts	Exchange rate variation	Other movements	Closing balance
Provisions							
Provision for current lawsuits (Note 45)	22.236	1.965	(41)	(6.299)	(1.937)	842	16.766
Provision for financial investments (Note 37)	6.296	-	-	(706)	-	(355)	5.235
Other provisions (Note 45)	2.306	1.095	(10)	(384)	(175)	454	3.286
	30.838	**3.060**	**(51)**	**(7.389)**	**(2.112)**	**941**	**25.287**

These movements gave rise to losses of 5,706 thousand euros and gains of 3,623 thousand euros, in 2014 and 2013, respectively, recorded under the heading "Provisions" (Note 45).

Provisions 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 2014, the existing provision, of the amount of 23,094 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:

	2014	2013
TAP Group (without the subsidiary TAP M&E Brasil)	10,779	8,632
Subsidiary TAP M&E Brasil	12,315	8,134
	23,094	**16,766**

As at 31 December 2014, the subsidiary TAP M&E Brasil faced close to 2,071 labour claims (2,158 claims as at 31 December 2013). The subsidiary is a joint debtor of the labour liabilities related to the migration of employees from VARIG to TAP M&E 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.

These labour claims can be divided into 4 categories: (i) union claims; (ii) claims filed by pilots; (iii) claims filed by former employees of VARIG against it and the Group, demanding the succession of the employment status and (iv) claims filed by service providers requesting the acknowledgement of the Group's liability for any recognised labour debts.

Provisions for financial investments

In 2014, the Group appropriated gains from the associate SPdH of the amount of 1,611 thousand euros, which were recorded under the heading of “Gains and losses in associates” (Note 37). Moreover, the heading “Other movements”, of the amount of 435 thousand euros, corresponds to the appropriation of the losses arising from the remeasurement of post-employment benefits of SPdH, which were recorded in the Group's retained earnings.

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 which 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 the “Group”.

On 19 November 2009, the Competition Authority following an in-depth investigation adopted 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 through the Group's sale of its shares representing at least 50.1% of the share capital of SPdH. Until the sale, the regulator imposed that SPdH should be administered by a trustee, acting on behalf of the Competition Authority, and managing SPdH independently from the “Group”.

On 18 June 2012, a purchase and sale contract was concluded 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 latter's acquisition of 50.1% of the capital of SPdH, to take effect as of 20 July 2012, the date of the Competition Authority's deliberation regarding the decision of non-opposition to the aforesaid operation. In the meantime, on 17 October 2012, Pasogal SGPS, S.A. succeeded Urbanos Grupo, SGPS, S.A. relative to all the rights and obligations arising to the latter from the agreement referred to above and shareholders' agreement.

SPdH business licenses for provision of handling services to third parties, at Lisbon and Oporto, in categories 3 (baggage handling), 4 (cargo and mail handling) and 5 (runway operations handling) of reserved access expired on 31 December 2011.

In 2013 the National Civil Aviation Institute (“INAC”) had still not completed the international public tenders for issue of new licenses, and consequent selection of the second service provider in these reserved access categories for Lisbon and Oporto airports, in which SPdH was an opponent. Decree-Law number 19/2012, of 27 January, has been published in the meantime.

This Decree-Law now enables INAC to extend, on an exceptional basis, the reserved access licenses to the ground handling service provider in the aforesaid reserved categories at Lisbon and Oporto airports, held by SPdH as at 31 December 2011, until the time when the ground handling service providers, to be selected under the public tenders in progress, begin their activity.

However, INAC has already disclosed that, following and in compliance with the Order of the Secretary of State for Infrastructures, Transport and Communications, published on 15 November 2013 in the 2nd Series of Diário da República (which amended the rules of public tenders for providers of handling services to third parties at Lisbon, Oporto and Faro airports), it cancelled the public tenders underway and revoked the decision to contract based on sub-paragraph d) of number one of article 79 and number one of article 80 of the Public Contracts Code (“CCP”).

Following the abovementioned facts, Decree-Law number 57/2014, of 11 April, was published, which amended article 4 of Decree-Law number 19/2012, of 27 January. The article now states that the current licenses granting access to the activity of ground handling services provider in Lisbon, Oporto and Faro airports can be extended until 31 May 2015 or until the date on which the ground handling service providers, which are selected, begin their activity in the mentioned categories and airport infrastructures, whichever is earlier.

Regarding the other activity licenses in the free access categories, with date of expiry initially set for 31 December 2013, SPdH formalised in due time the extension of the market access licenses for those categories, taking effect on 1 January 2014 and expiring on 31 December 2015, relative to the Lisbon and Oporto stopovers, and on 31 December 2016, relative to the Autonomous Region of Madeira stopovers, namely Madeira and Porto Santo.

It should be noted that if SPdH is not selected as the handling service provider for third parties in future international public tenders launched by INAC, Pasogal SGPS, S.A. will have the right to dissolve the aforesaid purchase and sale contract.

As at 31 December 2014 and 2013, the financial information relative to the associate SPdH is as follows:

	2014				
	Total assets	Total equity	Total liabilities	Sales and services rendered	Net income for the year
SPdH	25,368	281	25,087	106,757	2,356

	2013				
	Total assets	Total equity	Total liabilities	Sales and services rendered	Net income for the year
SPdH	22,444	(3,076)	25,520	105,062	2,126

Other provisions

This heading is broken down as follows:

	2014	2013
Subsidiary TAP M&E Brasil		
Provision for tax contingencies	815	752
Provision for civil contingencies	284	836
Remaining subsidiaries:		
Other provisions	1,471	1,698
	2,570	**3,286**

Provision for tax and civil contingencies

The subsidiary TAP M&E Brasil is currently involved in tax proceedings, both in the administrative and judicial sphere, which, when applicable, are guaranteed by judicial deposits and/or seizure of assets.

The subsidiary TAP M&E Brasil joined the REFIS tax recovery programme in 2009, which subdivided the total federal contingencies, whose probability of success was classified as remote.

In 2014 the Brazilian subsidiary paid off the remaining debt as indicated in Note 17.

The movement which occurred in the provision for tax and civil contingencies was as follows:

Balance as at 1 January 2013	**778**
Provision reinforcement	531
Exchange rate variation	(175)
Other movements	454
Balance as at 31 December 2013	**1,588**
Provision reinforcement	167
Exchange rate variation	15
Other movements	(671)
Balance as at 31 December 2014	**1,099**

27 – Loans received

The loans received are detailed as follows:

	2014		2013	
	Current	Non-current	Current	Non-current
Bank loans	508,615	130,856	285,834	260,554
Financial leasing liabilities	117,784	297,113	97,285	399,577
Bank overdrafts (Note 22)	7,283	-	7,393	-
	633,682	**427,969**	**390,512**	**660,131**

Remunerated net debt

As at 31 December 2014 and 2013, the remunerated net debt is detailed as follows:

	2014	2013
Loans received		
Non-current	427,969	660,131
Current	633,682	390,512
	1,061,651	**1,050,643**
Cash and cash equivalents (Note 22)		
Cash	77	205
Bank deposits available on demand	44,752	134,312
Term deposits	95,535	136,094
	140,364	**270,611**
Remunerated net debt	**921,287**	**780,032**

Remunerated bank debt

As at 31 December 2014 and 2013, the current and non-current remunerated bank debt is detailed as follows:

	2014	2013	Reference rate
Non-current			
TAP SGPS			
BCP bank loan	1,827	2,497	3m Euribor
Deutsche Bank bank loan	-	51,898	Fixed rate
TAP S.A.			
Deutsche Bank bank loan	94,095	138,282	Fixed rate
Tagus – Sociedade de Titularização de Créditos, S.A.	34,934	67,877	3m Euribor
	130,856	**260,554**	
Current			
TAP SGPS			
Deutsche Bank bank loan	53,914	1,458	Fixed rate
BCP bank loan	672	641	3m Euribor
CGD mutual loan	-	33,021	6m Euribor
BCP credit line	-	20,062	3m Euribor
BES bank overdraft	-	7,393	1m Euribor
BPI credit line	-	4,030	1m Euribor
TAP S.A.			
BIC credit line	75,713	55,560	3m Euribor
BCP credit line	50,215	10,062	1m Euribor
CGD credit line	50,198	-	6m Euribor
Deutsche Bank bank loan	45,097	43,537	Fixed rate
Novo Banco mutual loan	40,032	-	3m Euribor
CGD credit line	40,009	-	3m Euribor
CGD mutual loan	33,033	-	6m Euribor
Tagus – Sociedade de Titularização de Créditos, S.A.	32,959	31,049	3m Euribor
Novo Banco credit line	20,218	-	3m Euribor
Commercial paper	20,134	20,088	1y Euribor
Santander mutual loan	20,017	10,007	3m Euribor
Banco Popular credit line	16,024	6,009	3m Euribor
BIC credit line	10,380	-	6m Euribor
Novo Banco overdrafts	7,283	-	3m Euribor
BES mutual loan	-	40,246	3m Euribor
BPP mutual loan	-	10,064	3m Euribor
	515,898	**293,227**	
Remunerated bank debt	**646,754**	**553,781**	

The amount of 34,934 thousand euros and 32,959 thousand euros, recorded as at 31 December 2014 under non-current and current bank debt, respectively, correspond to a liability generated as part of a securitisation operation of future loans, carried out by TAP in December 2006, under the terms of Decree-Law number 453/99, of 5 November, where Deutsche bank acted as lead manager 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 2014 and 2013, is broken down as follows:

By maturity	2014	2013
Up to 1 year	515,898	293,227
1 to 2 years	81,703	129,698
2 to 3 years	48,769	81,703
3 to 4 years	384	48,769
4 to 5 years	-	384
	646,754	**553,781**

By type of interest rate	2014	2013
Variable rate		
Expires in 1 year	416,887	248,232
Expires in 1 to 2 years	35,638	33,612
Expires in 2 to 3 years	740	35,638
Over 3 years	384	1,124
	453,649	**318,606**
Fixed rate		
Expires in 1 year	99,011	44,995
Expires in 1 to 2 years	46,065	96,086
Expires in 2 to 3 years	48,029	46,065
Over 3 years	-	48,029
	193,105	**235,175**
	646,754	**553,781**

The breakdown of loans by functional currency as at 31 December 2014 and 2013 is as follows:

	2014		2013	
	Values in foreign currency	Values in Euros	Values in foreign currency	Values in Euros
Euros (EUR)	-	636,374	-	553,781
American Dollars (USD) (Note 3)	12,602	10,380	-	-
	12,602	**646,754**	**-**	**553,781**

The total value 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 under its tangible fixed assets. As at 31 December 2014 and 2013, the Group had commitments arising from financial leasing liabilities as described in Note 5, with the corresponding principal being included in the statement of financial position under the heading "Loans received", as follows:

	2014	2013
Debts relative to financial leasing		
Basic equipment	414,770	496,692
Other tangible fixed assets	127	170
	414,897	**496,862**
Future payments of principal		
Up to 1 year	117,784	97,285
1 to 5 years	290,812	365,445
Over 5 years	6,301	34,132
	414,897	**496,862**

Financial leasing, by functional currency, is detailed as follows:

	2014	2013
Financial leasing in EUR	301,595	382,223
Financial leasing in USD (Note 3)	113,293	114,626
Financial leasing in BRL (Note 3)	9	13
	414,897	**496,862**

The financial leasing liabilities, by maturity and type of interest rate, as at 31 December 2014 and 2013, is broken down as follows:

By maturity	2014	2013
Up to 1 year	117,784	97,285
1 to 2 years	80,966	113,761
2 to 3 years	130,646	78,727
3 to 4 years	50,462	122,889
4 to 5 years	28,738	50,069
Over 5 years	6,301	34,131
	414,897	**496,862**

By type of interest rate	2014	2013
Variable rate		
Expires in 1 year	41,499	40,353
Expires in 1 to 2 years	36,834	41,049
Expires in 2 to 3 years	40,082	36,826
Over 3 years	25,855	65,984
	144,270	**184,212**
Fixed rate		
Expires in 1 year	76,285	56,932
Expires in 1 to 2 years	44,132	72,712
Expires in 2 to 3 years	90,564	41,901
Over 3 years	59,646	141,105
	270,627	**312,650**
	414,897	**496,862**

The total value of liabilities plus interest due is presented in the chapter on interest rate risk (Note 3).

Operating leasing

As referred to in Note 2.25., these liabilities are not recorded in the Group's statement of financial position. The duration of the Group's operating lease contracts is of different periods which may reach up to 8 years, and the contracts may be extended through the explicit consent of the contracting parties.

As at 31 December 2014, twenty-four aircraft (Note 5) and four engines were under operating lease contracts.

As at 31 December 2014 and 2013, the financial commitments assumed by the subsidiary "TAP S.A." relative to operating lease contracts for aircraft and engines reached the total of 310,001 thousand euros (387,501 thousand USD) and 252,462 thousand euros (328,200 thousand USD), respectively (Note 60).

The payment plans for the operating lease instalments are detailed as follows:

	2014	2013
Up to 1 year	65,610	49,556
1 to 2 years	64,054	48,656
2 to 3 years	56,835	47,254
3 to 4 years	48,534	40,517
Over 4 years	74,968	66,479
	310,001	**252,462**

These contracts require security deposits which, as at 31 December 2014 and 2013, reached a total of 9,237 thousand euros and 8,150 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 in the lease and loan contracts are the usual ones in operations of this nature, 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, and procedures defined by the authorities, amongst others.

28 – Liabilities related to post-employment benefits

The "Group" is liable for the payment of post-employment benefits to employees who have retired, due to their age, taken early retirement or are still active.

Retirement pension supplements and early retirement instalments – "TAP S.A."

Pursuant to the current 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 assured by "TAP S.A." This amount corresponds to a fixed percentage of part of the pensionable salary (base remuneration + annuities) at the time of retirement, for each year of work at the company, 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.

In addition, "TAP S.A." has undertaken to pay early retirement pensions, whose value is fixed so that the respective net value receivable in situations of early retirement ranges from 75% to 100% of the net value that the employees received when active on the date of early retirement.

In October 2008, the Labour Agreement with the Civil Aviation Pilots Union (SPAC) was amended, with the following main changes:

// 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 consists of 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." This plan is guaranteed by contracts of participation in open pension funds managed by Banco Português de Investimento ("BPI"). The participation contracts and their management are optional to SPAC, as established in the collective regulations.

"TAP S.A." has recorded all its liabilities related to past services for the payment of pension supplements and early retirement benefits relative to the defined benefit plan.

The quantification of the liabilities took into consideration that, under the terms of the collective regulations establishing the aforesaid pension plan, the total pension guaranteed by "TAP S.A.", i.e., 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.

In order to cover the liabilities related to the defined benefit plan, "TAP S.A." concluded a contract of participation in the VIVA open pension fund. As of 2011, the cost related to retirement pension supplements, constituted since 1998, is assumed by this participation. Annual expenditure on pensions is determined in accordance with the actuarial study, reviewed and adjusted annually according to the updating of salaries and the evolution of the participant group. Costs relative to retirement supplements constituted by December 1997, early retirement instalments and the portion of pilot retirement supplements, which exceeds the limit referred to in the preceding paragraph, are assumed directly by "TAP S.A." and covered by a specific provision.

Pensions - TAP M&E Brasil

From 1 January 2002 onwards, the subsidiary TAP M&E Brasil became one of the sponsors of the AERUS Social Security Institute (AERUS), by means of the supplementary retirement pension plan assured to its employees, in the form of defined contributions, 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 M&E Brasil had debts that were not recognised in the transfer of liabilities related to post-employment benefits, since it was jointly liable for the pension fund deficits of other sponsors. TAP M&E Brasil questioned the legal validity of this debt and the competent entities declared there was no reason for opposing the transfer mentioned above, such that, on 15 June 2012, the transfer was successfully carried out to the Benefit Scheme of the Petrobrás Social Security Foundation (PETROS), and renamed the TAPMEPreve Plan.

In spite of being a "defined contribution" benefit plan, this scheme 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.

Therefore, only the defined benefit component referred to above is recorded under the heading "Liabilities related to post-employment benefits".

Pensions – Portugália

Portugália established a defined contribution scheme for flight deck crew on 1 January 2010. This scheme is managed by BPI, to which the subsidiary contributes 6% of the monthly wage effectively earned by the pilots, 14 times a year. Employees make social security payments of 1.5%, and can also make supplementary payments of 1% to 5%.

Pensions – UCS

UCS is responsible, according to internal regulations, for granting, through a defined benefit scheme, retirement pension supplements for the part which exceeds those that are granted by Social Security. In order to cover this liability, the Company subscribed to the Horizonte Valorização Pension Fund. Annual expenditure on pensions, which includes contributions to the fund, is determined in accordance with the actuarial study, reviewed and adjusted annually according to the updating of salaries and the evolution of the participant group.

Seniority bonus - PNT - "TAP S.A."

The Company Agreement concluded between "TAP S.A." and SPAC establishes that "TAP S.A." undertakes to pay to pilots recruited before 31 May 2007, in addition to a pension scheme, a one-off retirement bonus to every pilot upon retirement due to old 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, describing this Retirement Benefits Plan for Pilots, are as follows:

// Admission conditions: pilots who are still in active service;

// Normal retirement age: 65 years old;

// Guarantees: each participant is entitled, upon the retirement date, to an amount equal to 16 times the last declared monthly wage.

The Benefit Plan is funded through an insurance policy that is reinforced by contributions (premiums) paid by "TAP S.A." and by income obtained 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, with the main changes being as follows:

// Pilots recruited before 31 May 2007: the one-off retirement bonus is maintained, but shall only be paid if, on the retirement date, the person is entitled to the full pension, with 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.

Health Care – "TAP 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. In addition, "TAP S.A." provides its retired employees with 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 employees with access to the health care services of UCS, this is not a liability but a freely granted benefit at any given time. 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, at the present time, the existing provision covers the total responsibility for medical treatment with former employees. The total responsibility was calculated based on an independent actuarial evaluation.

Assumptions used in the evaluation of liabilities

The liabilities of the different companies of the "Group" were calculated through actuarial studies reported as at 31 December 2014 and 2013, prepared by independent entities, individually for each company, using the projected unit credit method and essentially based on the following financial and demographic assumptions:

	2014		2013	
	Portugal	Brazil	Portugal	Brazil
Mortality table	TV 88/90	AT2000	TV 88/90	AT2000
Invalidity table	EKV1980	IAPB-57	EKV1980	IAPB-57
Discount rate	2.50%	12.25%	3.75%	12.42%
Fund yield rate	2.50%	12.25%	3.75%	12.42%
Growth rate				
Wages	1.50%	6.56%	1.50%	6.56%
Pensions	1.00%	5.50%	1.00%	5.50%
Trend of medical costs	1.50%	--	1.50%	--

The evolution of the net liabilities for past services, as at 31 December 2014 and 2013 is detailed as follows:

	2014	2013
Liabilities for past services at the beginning of the year	**47,593**	**71,026**
Net interest	2,382	2,791
Cost of current services	3,533	2,989
Pensions fund contributions	(6,808)	(8,207)
Remeasurements	14,222	(12,473)
Exchange rate changes in the plans measured in a different currency	(243)	(2,998)
Benefits paid	(4,053)	(5,535)
Liabilities for past services at the end of the year	**56,626**	**47,593**

The liabilities for 2014 and 2013 are detailed as follows:

	2014								
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Liabilities from past services									
- Active employees	646	-	1,782	-	51,203	-	-	37	53,668
- Early retirement	129	-	476	87	-	-	9,065	-	9,757
- Retired	10,536	39,836	-	3,116	-	15,767	58,475	-	127,730
Market value of the funds	(16,954)	-	-	-	(39,595)	(15,549)	(62,394)	(620)	(135,112)
Deficit / (surplus)	**(5,643)**	**39,836**	**2,258**	**3,203**	**11,608**	**218**	**5,146**	**(583)**	**56,043**

	2013								
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Liabilities from past services									
- Active employees	1,739	-	1,062	-	39,334	-	-	5	42,140
- Early retirement	258	-	2,306	166	-	-	8,557	-	11,287
- Retired	9,765	38,569	-	2,948	-	16,180	51,903	-	119,365
Market value of the funds	(16,443)	-	-	-	(35,218)	(14,948)	(58,585)	(587)	(125,781)
Deficit / (surplus)	**(4,681)**	**38,569**	**3,368**	**3,114**	**4,116**	**1,232**	**1,875**	**(582)**	**47,011**

The surplus financing of the Horizonte Valorização Pension Fund of the subsidiary UCS, of the amount of 583 thousand euros, is recorded under the heading "Other accounts receivable" (2013: 582 thousand euros) (Note 18).

The liabilities for 2010 to 2012 are detailed as follows:

	2012								
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Liabilities from past services									
- Active employees	2,214	-	419	-	35,747	-	-	7	38,387
- Early retirement	2,197	-	2,970	254	-	-	90,056	-	95,477
- Retired	9,442	39,994	-	2,739	-	13,958	153	-	66,286
Market value of the funds	(15,943)	-	-	-	(32,106)	(13,131)	(67,937)	(554)	(129,671)
Deficit / (surplus)	**(2,090)**	**39,994**	**3,389**	**2,993**	**3,641**	**827**	**22,272**	**(547)**	**70,479**

	2011							
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	Total
Liabilities from past services								
- Active employees	2,579	-	-	-	39,340	-	-	41,919
- Early retirement	-	-	2,321	299	-	-	84,995	87,615
- Retired	8,899	40,985	-	2,682	-	12,440	-	65,006
Market value of the funds	(14,719)	-	-	-	(29,845)	(11,683)	(59,753)	(116,000)
Deficit / (surplus)	**(3,241)**	**40,985**	**2,321**	**2,981**	**9,495**	**757**	**25,242**	**78,540**

	2010							
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	Total
Liabilities from past services								
- Active employees	4,854	-	-	-	37,398	8,956	-	51,208
- Early retirement	-	-	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)
Deficit / (surplus)	**(4,051)**	**45,000**	**820**	**3,139**	**11,855**	**2,010**	**29,620**	**88,393**

According to the actuarial study carried out by an independent entity, the best estimate of contributions to the pension benefit plans, for the following financial year, is 5,796 thousand euros for the subsidiary "TAP S.A." and 3,726 thousand euros for the subsidiary TAP M&E Brasil.

As at 31 December 2014 and 2013, the defined benefit plans of the "Group" in Portugal (excluding the Representation in England and Brazil) covered 2,364 and 2,398 active beneficiaries, respectively. The total number of retired former employees entitled to a supplementary retirement pension, as at 31 December 2014 and 2013, was 740 and 763 beneficiaries, respectively.

As at 31 December 2014, the average maturity of the liabilities related to the defined benefit plan for the VIVA open pension fund is 12 years (2013: 14.1 years), for the Seniority Bonus plan it is 13.7 years (2013: 13 years) and for the UCS Horizonte Valorização Pension Plan it is 14.4 years (2013: 9.1 years).

Sensitivity analyses

Annual discount rate

An increase (decrease) of 0.5% in the annual discount rate of the defined benefit plans of the VIVA open pension fund, Seniority Bonus scheme and Horizonte Valorização Pension Fund, and an increase (decrease) of 1% in the annual discount rate of the TAPMEPrev - Brazil defined benefit plan, would correspond to the following impacts on the Group's liabilities as at 31 December 2014:

	Rate	VIVA Pensions	Seniority Bonus	Horizonte Valorização Pension Fund
Annual discount rate of pensions	2.50%	53,405	51,203	37
0.5% increase in the discount rate	3.00%	51,075	47,127	36
0.5% decrease in the discount rate	2.00%	55,937	55,711	37

	Rate	Brazil
Annual discount rate of pensions	12.25%	67,540
1% increase in the discount rate	13.25%	61,759
1% decrease in the discount rate	11.25%	74,462

Wage growth rate

An increase (decrease) of 0.5% in the wage growth rate of the defined benefit plans of the VIVA open pension fund, would correspond to the following impacts on the Group's liabilities as at 31 December 2014:

	Rate	VIVA Pensions
Wage growth rate	1.50%	53,405
0.5% increase in the wage growth rate	2.00%	53,442
0.5% decrease in the wage growth rate	1.00%	53,302

Rate of change of medical costs

If the growth rate of medical care costs increases or decreases by one percentage point, the respective impact on the Group's liabilities as at 31 December 2014 and 2013 is as follows:

	Rate	2014	2013
Annual growth rate of medical costs	1.50%	3,203	3,114
1% increase in the growth rate of medical costs	2.50%	3,490	3,381
1% decrease in the growth rate of medical costs	0.50%	2,951	2,880

Evolution of liabilities from past services

During 2014 and 2013, the movement which occurred in the projected liabilities, reflected in the consolidated statement of financial position, as at 31 December 2014 and 2013, is as follows:

	2014								
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Liabilities at the beginning of the year	11,762	38,569	3,368	3,114	39,334	16,180	60,460	5	172,792
Exchange rate variation	-	-	-	-	-	1,007	(1,015)	-	(8)
Values recorded through profit or loss for the year:									
Current services	159	-	-	-	3,149	-	225	3	3,536
Net interest	442	964	609	59	1,111	719	9,006	-	12,910
Remeasurements	(252)	4,522	(1,719)	30	8,965	(1,704)	3,521	29	13,392
Benefits paid	(800)	(4,219)	-	-	(1,356)	(435)	(4,657)	-	(11,467)
Liabilities at the end of the year	**11,311**	**39,836**	**2,258**	**3,203**	**51,203**	**15,767**	**67,540**	**37**	**191,155**

	2013								
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Liabilities at the beginning of the year	13,853	39,994	3,389	2,993	35,747	13,958	90,209	7	200,150
Exchange rate variation	-	-	-	-	-	839	(16,835)	-	(15,996)
Values recorded through profit or loss for the year:									
Current services	255	-	(92)	-	2,465	-	361	6	2,995
Net interest	589	1,500	344	127	1,349	733	8,104	1	12,747
Remeasurements	(2,308)	2,386	(273)	(6)	2,279	2,690	(17,221)	(9)	(12,462)
Benefits paid	(627)	(5,311)	-	-	(2,506)	(2,040)	(4,158)	-	(14,642)
Liabilities at the end of the year	**11,762**	**38,569**	**3,368**	**3,114**	**39,334**	**16,180**	**60,460**	**5**	**172,792**

Evolution of funds allocated to benefit schemes with pensions

In 2014 and 2013 the fund assets evolution was as follows:

	2014					
	VIVA Pensions	Seniority bonus	England Representation	Brazil	UCS	Total
Opening balance	16,443	35,218	14,948	58,585	587	125,781
Exchange rate variation	-	-	1,052	(817)	-	235
Allocation made in the year	-	4,656	544	1,608	-	6,808
Net interest	1,311	880	(560)	8,897	33	10,561
Remeasurements	-	197	-	(1,056)	-	(859)
Benefits paid	(800)	(1,356)	(435)	(4,823)	-	(7,414)
Closing balance	**16,954**	**39,595**	**15,549**	**62,394**	**620**	**135,112**

	2013					
	VIVA Pensions	Seniority bonus	England Representation	Brazil	UCS	Total
Opening balance	15,943	32,106	13,131	67,937	554	129,671
Exchange rate variation	-	-	(277)	(12,721)	-	(12,998)
Allocation made in the year	-	4,656	861	2,690	-	8,207
Net interest	1,127	1,204	769	6,855	33	9,988
Remeasurements	-	(242)	1,757	(1,495)	-	20
Benefits paid	(627)	(2,506)	(1,293)	(4,681)	-	(9,107)
Closing balance	**16,443**	**35,218**	**14,948**	**58,585**	**587**	**125,781**

The composition of the funds and respective category of the amounts included in the fair value of the plan's assets, as at 31 December 2014 and 2013, is as follows:

	2014						
	Fair Value Level	VIVA Pensions	Seniority bonus	England Representation	Brazil	UCS	Total
Shares	1	4,461	-	9,848	8,111	153	22,573
Bonds	1	5,525	35,256	4,221	54,283	403	99,688
Public debt	1	5,098	-	-	-	-	5,098
Real estate	1	769	261	-	-	17	1,047
Liquidity	1	1,101	4,078	-	-	47	5,226
Other current investments	1	-	-	1,480	-	-	1,480
		16,954	**39,595**	**15,549**	**62,394**	**620**	**135,112**

	2013						
	Fair Value Level	VIVA Pensions	Seniority bonus	England Representation	Brazil	UCS	Total
Shares	1	5,335	3	9,468	7,616	152	22,574
Bonds	1	4,929	32,683	4,057	50,969	394	93,032
Public debt	1	5,218	-	-	-	-	5,218
Real estate	1	961	247	-	-	18	1,226
Liquidity	1	-	2,285	-	-	23	2,308
Other current investments	1	-	-	1,423	-	-	1,423
		16,443	**35,218**	**14,948**	**58,585**	**587**	**125,781**

Costs related to pensions and other post-employment benefits

The costs relative to pensions and other post-employment benefits are detailed as follows:

	2014								
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Current services	159	-	-	-	3,149	-	225	3	3,536
Net interest	(869)	964	609	59	231	1,279	109	(33)	2,349
	(710)	**964**	**609**	**59**	**3,380**	**1,279**	**334**	**(30)**	**5,885**

	2013								
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Current services	255	-	(92)	-	2,465	-	361	6	2,995
Net interest	(538)	1,500	344	127	145	(36)	1,249	(32)	2,759
	(283)	**1,500**	**252**	**127**	**2,610**	**(36)**	**1,610**	**(26)**	**5,754**

As previously mentioned, the pilots of "TAP S.A.", recruited after 1 June 2007, and the pilots of Portugália benefit from a defined contribution plan. During 2014, a cost was recognised in the heading "Personnel costs - expenses related to post-employment benefits" of the amount of 1,476 thousand euros (2013: 1,353 thousand euros), relative to the contributions made during the year in favour of its employees.

The costs relative to pensions and other post-employment benefits for 2014 and 2013 are recorded under the heading "Personnel costs" (Note 42).

Remeasurement gains/losses

The remeasurement gains/losses related to post-employment benefit plans are detailed as follows:

	2014								
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Remeasurements									
Return of assets, excluding amounts included in net income	-	-	-	-	(197)	-	1,056	-	859
	-	**-**	**-**	**-**	**(197)**	**-**	**1,056**	**-**	**859**
(Gains)/losses due to changes in demographic assumptions	-	-	-	-	1,068	(1,686)	-	-	(618)
(Gains)/losses due to changes in financial assumptions	1,298	6,766	(2,572)	304	7,897	-	995	1	14,689
(Gains)/losses due to experience	(1,550)	(2,244)	853	(274)	-	(18)	2,526	28	(679)
	(252)	**4,522**	**(1,719)**	**30**	**8,965**	**(1,704)**	**3,521**	**29**	**13,392**
Total remeasurements	**(252)**	**4,522**	**(1,719)**	**30**	**8,768**	**(1,704)**	**4,577**	**29**	**14,251**

	2013								
	VIVA Pensions	Before 1997	Assets	Medical acts	Seniority bonus	England Representation	Brazil	UCS	Total
Remeasurements									
Return of assets, excluding amounts included in net income	-	-	-	-	242	(1,757)	1,495	-	(20)
	-	**-**	**-**	**-**	**242**	**(1,757)**	**1,495**	**-**	**(20)**
(Gains)/losses due to changes in demographic assumptions	-	-	-	-	284	-	-	-	284
(Gains)/losses due to changes in financial assumptions	480	1,987	(227)	118	-	2,616	(17,901)	-	(12,927)
(Gains)/losses due to experience	(2,788)	399	(46)	(124)	1,995	74	680	(9)	181
	(2,308)	**2,386**	**(273)**	**(6)**	**2,279**	**2,690**	**(17,221)**	**(9)**	**(12,462)**
Total remeasurements	**(2,308)**	**2,386**	**(273)**	**(6)**	**2,521**	**933**	**(15,726)**	**(9)**	**(12,482)**

The remeasurement gains/losses were recognised directly in the Group's comprehensive income.

The difference to the amount recorded in the consolidated comprehensive income statement refers to the remeasurements of the associated company SPdH, consolidated by the equity method (Note 26).

29 – Advances from customers

As at 31 December 2014 and 2013, the balance of the heading "Advances from customers" is broken down as follows:

	2014	2013
Linhas Aéreas de Angola - TAAG	206	181
Travel agencies	98	139
Misc. passengers	70	107
Ministère de la Défense	-	398
Other	446	533
	820	**1,358**

30 – Suppliers

As at 31 December 2014 and 2013, the balance of the heading "Suppliers" is broken down as follows:

	2014	2013
Suppliers - current account	124,155	107,135
Suppliers - invoices pending	16,927	11,151
	141,082	**118,286**

As at 31 December 2014 and 2013, this heading is detailed as follows:

	2014	2013
ANA - Aeroportos de Portugal S.A.	35,189	8,237
Eurocontrol - EU	7,548	7,271
Related entities (Note 56)	7,543	7,981
Petrogal	6,430	12,644
Suppliers of TAP M&E Brasil	5,240	3,646
Eagle Services Asia	2,657	609
Petrobras Distribuidora	2,310	8,087
IBM - Companhia IBM Portuguesa, S.A.	1,603	1,364
SONANGOL	1,473	-
INAC - Inst. Nac. Aviação Civil	1,463	1,876
Shell Brasil, Ltda.	1,361	1,245
BP Portugal - Comércio de combustíveis e lubrificantes S.A.	1,229	1,617
Heathrow Airport Limited - BAA	1,190	381
Suppliers of the Representation of Italy	1,119	790
Petróleos de Moçambique, S.A.	1,044	-
The Nuance Group (UK) Limited	1,018	-
Other	62,665	62,538
	141,082	**118,286**

31 – Other accounts payable

As at 31 December 2014 and 2013, the heading "Other accounts payable" is broken down as follows:

	2014		2013	
	Current	Non-current	Current	Non-current
Accrued costs	293,593	-	206,383	-
Personnel	3,274	-	2,252	-
Fixed asset suppliers	1,879	-	4,731	-
Related entities (Note 56)	264	-	364	-
Unions	261	-	281	-
Other	66,930	1,492	72,957	1,546
	366,201	**1,492**	**286,968**	**1,546**

Accrued costs

As at 31 December 2014 and 2013, the heading "Accrued costs" is broken down as follows:

	2014	2013
Remunerations	64,188	61,232
Maintenance reserves	55,887	45,686
Jet fuel rate swaps (Note 24)	49,166	-
Aircraft fuel	34,370	11,578
Navigation charges	15,165	12,442
Special sales charges	10,650	11,449
Remuneration - air crew	10,254	9,294
Variable remunerations	6,403	5,368
Specialised work	3,794	3,300
Passenger boarding taxes	2,996	3,666
Assistance by third parties	2,534	4,051
Booking fees	1,593	2,963
Insurance payable	714	2,249
Landing charges	711	1,227
Maintenance and repair of materials	135	3,328
Other	35,033	28,550
	293,593	**206,383**

The special sales charges refer to commissions granted to agents according to the flight revenue for the year obtained through this channel.

Other - non-current

As at 31 December 2014 and 2013, this heading refers to the fair value of the derivative financial instruments (interest rate swaps), of the amount of 1,492 thousand euros and 1,546 thousand euros, respectively (Notes 24 and 58).

Other - current

As at 31 December 2014 and 2013, the heading "Other - current" was detailed as follows:

	2014	2013
Rates and taxes	54,330	57,087
Customer balances payable	1,654	1,430
Work accident indemnities	881	842
Other	10,065	13,598
	66,930	**72,957**

The heading of rates and taxes essentially refers 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 2014 and 2013, the Group's liabilities relative to unused issued tickets, recorded under the heading "Advances from customers - tickets to be used", were as follows:

	2014	2013
Passengers	303,861	364,387
Cargo	28	120
	303,889	**364,507**

The decrease in this heading is mostly related to the decline in the average sale price of each passenger transported.

During 2014 and 2013, based on the partial and periodic analyses of this heading (Note 2.27.), adjustments were made to the revenue from passenger and cargo transport of the amount of 88,637 thousand euros (4.2% of flight revenue) and 90,678 thousand euros (4.4% of flight revenue), respectively, which were recognised under the heading "Sales and services rendered".

35 – Sales and services rendered

As at 31 December 2014 and 2013, the sales and services rendered, by external and internal market, are presented as follows:

	2014	2013
Sales		
Internal market		
Air transport and maintenance	668	580
Catering	5,445	5,804
Duty free shop	18,253	16,609
Health care	34	29
Other	1,621	1,598
External market		
Air transport and maintenance	24,398	27,091
Duty free shop	161,129	145,850
	211,548	**197,561**
Services rendered		
Internal market		
Air transport and maintenance	132,840	136,926
Catering	623	1,224
Health care	3,339	3,199
Information technologies	1,205	1,205
Other	3,014	2,677
External market		
Air transport and maintenance	2,345,752	2,326,235
	2,486,773	**2,471,466**
	2,698,321	**2,669,027**

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 Azores Islands, provided that the passengers meet the applicable legal conditions. The amount recognised for each year corresponds to the Group's estimated receivable value for the tickets used in the actual year by passengers covered by this benefit scheme.

The sales and services rendered by geographic market are as follows:

2014	Air Transport	Maintenance Portugal	Maintenance Brazil	Free shop	Catering	Holdings and other	Consolidated
Sales and services rendered:							
Mainland Portugal and islands	119,640	13,868	-	18,253	6,068	9,213	167,042
Europe	860,784	58,332	-	107,487	-	-	1,026,603
South Atlantic	793,757	4,616	69,256	26,222	-	-	893,851
North Atlantic	112,999	396	-	3,025	-	-	116,420
Mid Atlantic	106,105	-	-	1,768	-	-	107,873
Africa	349,198	4,065	-	21,016	-	-	374,279
Other	144	10,497	-	1,612	-	-	12,253
	2,342,627	**91,774**	**69,256**	**179,383**	**6,068**	**9,213**	**2,698,321**

2013	Air Transport	Maintenance Portugal	Maintenance Brazil	Free shop	Catering	Holdings and other	Consolidated
Sales and services rendered:							
Mainland Portugal and islands	121,080	16,426	-	16,609	7,028	8,708	169,851
Europe	850,010	37,818	-	97,295	-	-	985,123
South Atlantic	816,249	5,784	72,567	23,736	-	-	918,336
North Atlantic	106,480	4,144	-	2,738	-	-	113,362
Mid Atlantic	85,743	-	-	1,600	-	-	87,343
Africa	364,380	9,641	-	19,023	-	-	393,044
Other	114	396	-	1,458	-	-	1,968
	2,344,056	**74,209**	**72,567**	**162,459**	**7,028**	**8,708**	**2,669,027**

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 the destination country of the flight.

36 - Operating grants

As at 31 December 2014 and 2013, the value of this heading stood at 1,151 thousand euros and 3,852 thousand euros, respectively.

37 - Gains and losses in associates

As at 31 December 2014 and 2013, the heading of gains and losses in associates is detailed as follows:

	2014	2013
Gains		
SPdH	1,611	706
	1,611	**706**

On 18 June 2012, a purchase and sale contract was concluded 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 latter's acquisition of 50.1% of the capital of SPdH, to take effect as of 20 July 2012, the date of the Competition Authority's deliberation regarding the decision of non-opposition to the aforesaid operation. In the meantime, on 17 October 2012, Pasogal SGPS, S.A. succeeded Urbanos Grupo, SGPS, S.A. relative to all the rights and obligations arising to the latter from the agreement referred to above and shareholders' agreement (Note 26).

The value recorded in this heading, as at 31 December 2014 and 2013, of 1,611 thousand euros and 706 thousand euros, respectively, corresponds to the appropriation of the share in the net income of the associate company SPdH (Nota 26).

38 – Variation in production

The variation in production in 2014 and 2013 was as follows:

	2014	2013
Opening inventories (Note 20)	(5,288)	(10,046)
Adjustment of inventories	9	(314)
Closing inventories (Note 20)	14,173	5,288
	8,894	**(5,072)**

39 – Own work capitalised

Own work capitalised, in 2014 and 2013, of the amount of 791 thousand euros and 1,593 thousand euros, respectively, refers to staff and other costs included in inventory acquisition/production costs, with a duration of more than one year.

40 – Cost of goods sold and materials consumed

The cost of goods sold and materials consumed in 2014 and 2013 was as follows:

	2014		2013	
	Goods	Raw materials, inputs and consumables	Goods	Raw materials, inputs and consumables
Opening inventories (Note 20)	14,788	138,021	14,400	147,934
Purchases	129,952	126,899	104,692	115,088
Adjustment of inventories	-	(646)	(912)	(13,582)
Closing inventories (Note 20)	(15,112)	(117,319)	(14,788)	(138,021)
	129,628	**146,955**	**103,392**	**111,419**
		276,583		**214,811**

41 – External supplies and services

External supplies and services are broken down as follows:

	2014	2013
Aircraft fuel	797,812	767,973
Handling services	164,938	161,799
Navigation charges	143,334	136,296
Specialised work	90,465	86,233
Maintenance and repair of flight equipment	86,739	79,622
Landing charges	64,947	58,231
Hire and rental charges	61,666	53,281
Operating leasing of aircraft and spare parts	57,315	51,984
In-flight expenses	50,528	45,353
Commissions	41,365	41,009
Special sales charges - air transport	32,361	38,238
Accommodation and meals during stopovers	23,738	21,373
Subcontracts	15,553	14,121
Maintenance and repair of other assets	13,240	13,435
Insurance	5,535	5,427
Fees	5,365	4,049
Surveillance and security	3,655	3,688
Other costs related to external supplies and services	157,706	123,216
	1,816,262	**1,705,328**

The increase in costs related to external supplies and services is essentially due to: i) the increase in fuel costs (effect of the increase in quantity compensated by the reduction in average price), ii) other costs with passengers and aircraft charters (as a result of the irregularities occurred, especially in the summer and at the end of the year), iii) the increase in hire and rental charges related to the increase of the operating charges charged by ANA to the subsidiary Lojas Francas de Portugal, S.A., and iv) the increase of six new aircraft under operating leasing.

The heading "Other costs related to external supplies and services" presents the following details:

	2014	2013
Other costs related to passengers	28,590	17,117
Chartering of aircraft	28,007	10,382
Air traffic control charges	23,635	23,116
Baggage, cargo and mail charges	17,309	16,928
Advertising and publicity	14,093	11,770
Communication	7,868	7,226
Ground costs related to executive class passengers	6,108	4,725
Transport of goods	5,448	5,129
Electricity	4,657	4,553
Facilities at airports	4,262	3,704
Travel costs	4,045	3,436
Cleaning, hygiene and comfort	3,711	4,003
Other	9,973	11,127
	157,706	**123,216**

42 – Personnel costs

Personnel costs are broken down as follows:

	2014	2013
Personnel remuneration	437,995	436,663
Social charges	87,816	85,993
Other personnel costs	45,708	42,092
Expenses related to post-employment benefits (Note 28)	7,361	7,107
	578,880	**571,855**

The remunerations attributed to the members of the governing bodies of the "Group", in 2014 and 2013, were:

	2014	2013
Board of Directors / General and Supervisory Board (Note 56)	2,516	3,218
General Meeting	3	3
Supervisory Board / Statutory Auditor	76	105
	2,595	**3,326**

The heading "Other personnel costs" is detailed as follows:

	2014	2013
Insurance	17,666	16,936
Social action costs	12,447	11,127
Subsidies of meals	5,207	4,851
Indemnities	2,523	2,948
Other	7,865	6,230
	45,708	**42,092**

43 – Inventory impairment (losses/reversals)

As at 31 December 2014 and 2013, this heading is detailed as follows:

	2014		2013	
	Inventory impairment	Reversal of inventory impairment	Inventory impairment	Reversal of inventory impairment
Raw materials, inputs and consumables (Note 20)	2,035	(1,930)	5,931	(23)
	2,035	**(1,930)**	**5,931**	**(23)**
		105		**5,908**

44 – Impairment of debts receivable (losses/reversals)

As at 31 December 2014 and 2013, this heading is detailed as follows:

	2014		2013	
	Impairment of accounts receivable	Reversal of impairment of accounts receivable	Impairment of accounts receivable	Reversal of impairment of accounts receivable
Customers (Note 21)	15,650	(2,426)	3,592	(3,700)
Other accounts receivable - current (Note 18)	255	(176)	474	-
Other financial assets (Note 13)	741	-	-	-
	16,646	**(2,602)**	**4,066**	**(3,700)**
		14,044		**366**

45 – Provisions (increases/decreases)

The details of the value recorded under the heading of provisions, net of allocations and reversals, for the years ended on 31 December 2014 and 2013, are as follows:

	2014	2013
Provision for current lawsuits (Note 26)	5,752	(4,334)
Other provisions (Note 26)	(46)	711
	5,706	**(3,623)**

46 – Impairment of assets subject to depreciation/amortisation (losses/reversals)

In 2014, an impairment loss for the Embraer 145 aircraft in the amount of 1,984 thousand euros was recognised, given the expectation of sale of the fleet and its impact on the recoverable value relative to the book value. In 2013, no impairment of fixed assets was recognised.

47 – Fair value increases/reductions

A gain of 104 thousand euros was recognised for the year ended on 31 December 2014 (2013: a loss of 410 thousand euros) arising from the variation of the fair value of investment properties (Note 6).

48 – Other revenue and gains

As at 31 December 2014 and 2013, the heading of other revenue and gains is detailed as follows:

	2014	2013
REFIS (Note 17)	51,594	-
Supplementary income	48,415	45,156
Gains from Investment Properties	965	-
Gains from fixed assets	583	495
Gains from inventories	313	2,323
Cash discounts received	188	214
Other income and gains	1,900	1,171
	103,958	**49,359**

The heading "Supplementary income" presents the following composition as at 31 December 2014 and 2013:

	2014	2013
Sale of miles	18,402	19,239
Advertising	9,803	9,758
Recovered warehouse material	8,240	8,893
Rents and sub-leases	2,191	1,912
Other	9,779	5,354
	48,415	**45,156**

49 – Other costs and losses

As at 31 December 2014 and 2013, the heading "Other costs and losses" is detailed as follows:

	2014	2013
Taxes	11,274	10,577
Indemnities for lawsuits	6,012	6,931
Unfavourable operating currency conversion differences	5,391	38,590
Other costs and losses from financial services	5,301	4,306
Losses from fixed assets	1,838	1,058
Inventory losses	1,017	1,256
Fines and penalties	636	402
Other	1,788	1,478
	33,257	**64,598**

In 2014, the "Group" recorded a decrease in the heading "Unfavourable operating currency conversion differences" essentially due to the exchange rate stability of the real.

50 – Depreciation and amortisation costs/reversals

As at 31 December 2014 and 2013, this heading is broken down as follows:

	2014	2013
Tangible fixed assets (Note 5)		
Buildings and other constructions	5,821	5,810
Basic equipment	73,559	103,687
Transport equipment	153	147
Tools and utensils	1,892	1,863
Administrative equipment	1,615	1,923
Other tangible fixed assets	1,968	1,743
	85,008	**115,173**
Other intangible assets (Note 8)		
Other intangible assets	429	578
	85,437	**115,751**

The variation essentially results from the review of the useful lives of the aircraft, as described in Note 5.

51 – Interest and similar revenue received/costs paid

The interest and similar revenue received and the interest and similar costs paid, as at 31 December 2014 and 2013, are detailed as follows:

	2014	2013
Income and gains		
Interest received from investments	3,091	2,908
Favourable currency conversion differences	-	3,247
	3,091	**6,155**
Costs and losses		
Interest paid on loans	44,659	46,993
Unfavourable currency conversion differences	36,688	-
Other financial costs and losses	3,162	3,663
	84,509	**50,656**

The variation in exchange rate differences essentially results from the valuation of the financial leasing in dollars, in the amount of 14.5 million euros, and from the revaluation of the discount granted within the scope of the repatriation of capital related to the sales of 2013, following negotiations undertaken with the Venezuelan authorities, in the amount of 20.5 million euros.

52 – Corporate income tax

The Group's companies with head office in Portugal are subject to Corporate Income Tax (IRC) based on their individual net income, at the rate of 23% plus a surcharge at the maximum rate of 1.5% on taxable profit, thus reaching an aggregate rate of 24.5%. The austerity measures established by Law number 83-C/2013, of 31 December, which approved the State Budget for 2014, increased this rate to 3% on the portion of taxable profit of each company which is greater than 1.5 million euros and less than 7.5 million euros, to 5% on the portion of taxable profit of each company which is greater than 7.5 million euros and less than 35 million euros, and to 7% on the portion of taxable profit of each company which is greater than 35 million euros, giving rise to an aggregate maximum tax rate of 31.5%.

In the calculation of the taxable amount, to which the tax rates referred to above are applied, the amounts not accepted for tax purposes are added to and subtracted from the profit for accounting purposes. These differences between the profit for accounting and tax purposes may be of temporary or permanent nature.

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 a series of expenses, at the tax rates listed therein.

As at 31 December 2014 and 2013, the heading "Income tax for the year" is broken down as follows:

	2014	2013
Current tax	10,026	7,733
Deferred tax (Note 15)	(7,923)	(7,258)
	2,103	**475**

The current tax for 2014 essentially refers to the current tax of the subsidiaries "TAP S.A." and LFP of the value of 7,046 thousand euros (2013: 2,642 thousand euros) and 2,198 thousand euros (2013: 4,254 thousand euros), respectively.

The reconciliation of the effective tax rate for 2014 and 2013 is presented as follows:

	2014	2013
Pre-tax earnings	**(78,846)**	**(440)**
Nominal tax rate	23,0%	29,5%
	(18,135)	**(130)**
Permanent differences	(2,949)	(188)
Reversal/(reinforcement) of deferred tax assets relative to tax losses	3,354	(3,835)
Insufficient/(surplus) estimate of taxes for the previous year	90	(1,291)
Use of tax losses carried forward of previous years without IDA	(346)	(3,194)
Tax losses carried forward for the year without IDA	13,118	6,429
Autonomous tax and other forms of taxation	6,971	2,684
Income tax	**2,103**	**475**
Effective tax rate	(3%)	(108%)
Current tax	10,026	7,733
Deferred tax	(7,923)	(7,258)
	2,103	**475**

53 – Non-controlling interests - net income

The non-controlling interests, presented in the consolidated income statement, as at 31 December 2014 and 2013 are detailed as follows:

	2014	2013
Non-controlling interests of net income		
Cateringpor	643	233
LFP	3,504	4,720
	4,147	**4,953**

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 2014 is analysed as follows:

	Air Transport	Maintenance Portugal	Maintenance Brazil	Duty free shop	Catering	Holdings and other	Inter-segment Annulments	Consolidate
REVENUE								
Revenue	2,405,024	92,049	75,394	179,386	42,233	49,738	(145,503)	2,698,321
Net operating income	(12,538)	13,678	(2,751)	9,352	1,706	(6,875)	-	2,572
External net financial results	(20,985)	-	(19,852)	10	31	(40,622)	-	(81,418)
Net gains in associates	-	-	-	-	-	1,611	-	1,611
Income tax	(5,612)	-	-	(2,211)	(425)	6,145	-	(2,103)
Minority interests	-	-	-	3,504	643	-	-	4,147
Net income for the year	**(39,135)**	**13,678**	**(22,603)**	**7,151**	**1,312**	**(41,352)**	**-**	**(80,949)**

The financial information by business segment for 2013 is analysed as follows:

	Air Transport	Maintenance Portugal	Maintenance Brazil	Duty free shop	Catering	Holdings and other	Inter-segment Annulments	Consolidate
REVENUE								
Revenue	2,413,957	75,628	74,589	162,464	41,059	51,130	(149,800)	2,669,027
Net operating income	59,289	7,747	(28,671)	13,846	719	(8,976)	107	44,061
External net financial results	(274)	-	(11,680)	22	37	(32,499)	(107)	(44,501)
Net gains in associates	-	-	-	-	-	706	-	706
Income tax	(1,780)	-	-	(4,235)	(280)	5,820	-	(475)
Minority interests	-	-	-	4,720	233	-	-	4,953
Net income for the year	**57,235**	**7,747**	**(40,351)**	**9,633**	**476**	**(35,655)**	**-**	**(915)**

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" management staff of the Group.

During the financial years ended on 31 December 2014 and 2013, the remunerations earned by the Board of Directors and by the General and Supervisory Board reached 2,516 thousand euros (2013: 3,218 thousand euros), as described in Note 42.

As at 31 December 2014 and 2013, the balances with related entities are broken down as follows:

	2014 - Assets: Other non-current accounts receivable (Note 18)	2014 - Assets: Customers (Note 21)	2014 - Assets: Other current accounts receivable (Note 18)
Associates			
SPdH – Serviços Portugueses de Handling, S.A.	4,700	1,599	3,305
	4,700	**1,599**	**3,305**

	2014 - Liabilities: Suppliers (Note 30)	2014 - Liabilities: Other current accounts payable (Note 31)	2014 - Liabilities: Deferrals
Associates			
SPdH – Serviços Portugueses de Handling, S.A.	(7,543)	(264)	(99)
	(7,543)	**(264)**	**(99)**

	2013 - Assets		
	Other non-current accounts receivable (Note 18)	Customers (Note 21)	Other current accounts receivable (Note 18)
Associates			
SPdH – Serviços Portugueses de Handling, S,A,	3,700	2,667	3,454
	3,700	**2,667**	**3,454**

	2013 - Liabilities		
	Suppliers (Note 30)	Other current accounts payable (Note 31)	Deferrals
Associates			
SPdH – Serviços Portugueses de Handling, S.A.	(7,981)	(364)	(99)
	(7,981)	**(364)**	**(99)**

As at 31 December 2014 and 2013, the transactions which occurred between related entities are broken down as follows:

	2014				
	External supplies and services	Other costs and losses	Sales and services rendered	Other income and gains	Financial results
Associates					
SPdH – Serviços Portugueses de Handling, S.A.	(80,542)	(10)	6,753	1,178	240
	(80,542)	**(10)**	**6,753**	**1,178**	**240**

	2013				
	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.	-	-	-	-	(3,998)
Associates					
SPdH - Serviços Portugueses de Handling, S.A.	(80,388)	(5)	7,585	1,151	302
	(80,388)	(5)	7,585	1,151	(3,696)

The transactions, amounting to the total of 80,542 thousand euros (2013: 80,388 thousand euros) recorded under external supplies and services, refer to ground handling services provided by SPdH to support aircraft, passengers, baggage, cargo and mail.

57 – Contingencies

Contingent assets

As at 31 December 2014 and 2013, the Group did not own any contingent assets.

Contingent liabilities

The Brazilian subsidiary TAP M&E 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, as follows:

Labour claims

(i) Employees' Severance Indemnity Fund (FGTS) not deposited between 2002/2004 and Hazard/Unfitness (lawsuit filed by the union)
Amount: 61,722 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 Porto Alegre employees.

The other legal action refers to the request for additional payment due to insalubrity and hazard, for all employees working as aircraft maintenance auxiliaries at 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 Brasília pending judgement.

Based on information provided by its lawyers, TAP M&E Brasil believes that these legal actions will have no materially relevant impacts which might affect its financial statements as at 31 December 2014.

Tax claims

(ii) Notice of infraction of import tax ("II"), tax on industrialised products ("IPI"), PIS and COFINS
Amount: 22,966 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 challenge has been filed and awaits trial. Based on information provided by its lawyers, TAP M&E Brasil believes that this legal action will have no materially relevant impacts which might affect its financial statements as at 31 December 2014. The probability of a successful outcome for the subsidiary is considered possible.

(iii) Tax foreclosure relative to accessory obligations of tax on circulation of goods and services ("ICMS")
Amount: 9,589 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 foreclosure, arguing for a review of the tax foreclosure. The subsidiary is currently awaiting the Judge's decision relative to the suspension of the foreclosure. The probability of loss for the subsidiary is considered possible.

(iv) Notice of infraction of PIS and COFINS
Amount: 6,328 thousand euros

The tax authorities considered that there were differences between the analytical ledger and the Declaration of federal tax debits and credits, with reference to 2006. The subsidiary is currently awaiting the decision on the challenge at the Brazilian Federal Tax Office ("DRJ"). The probability of loss for the subsidiary is considered possible.

(v) Notice of infraction regarding failure to comply with the temporary import regime.
Amount: 5,811 thousand euros

In 2012, the subsidiary was notified by the Federal Revenue Office, due to failure to comply with the temporary import regime. It awaits judgement of the appeal filed with the Tax Appeals Administration Board ("CARF"). The defence lawyers concluded that the probability of loss for the subsidiary is considered possible.

(vi) Notice of infraction of corporate income tax ("IRPJ"), social contribution on net income ("CSLL"), "PIS" and "COFINS" relative to 2007.
Amount: 1,268 thousand euros

The federal tax authorities considered that there was inconsistency in the statements presented by the subsidiary TAP M&E Brasil, thereby disregarding all of the accountancy for the period referred to above and arbitrating the value of taxes owed. During 2013, the proceeding, whose amount was more significant, related to IRPJ and CSLL was concluded successfully. Regarding PIS and COFINS contributions, a protest letter has been submitted and trial is pending at first instance.

(vii) Notice of infraction of "IRPJ"/"CSLL"
Amount: 796 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 has been submitted and trial is pending at first instance. The probability of loss for the subsidiary is considered possible.

(viii) Notice of infraction - Tax fine
Amount: 206 thousand euros

The subsidiary TAP M&E Brasil was fined for failure to comply with the temporary export regimes in 2009. All the ensuing administrative processes are being defended under the Taxpayers' Council, with the probability of loss by the subsidiary being considered possible.

(ix) Notice of infraction - Non-ratified offsetting of taxes
Amount: 83 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 possible.

Civil lawsuits

(x) Claims over lawyers' fees
Amount: 3,854 thousand euros

Claims over fees filed by a law firm against the subsidiary TAP M&E Brasil, within the scope of the withdrawal of the lawsuit and adhesion to the subdivision programme of REFIS. It is currently awaiting judgement of the appeal. The defence lawyers concluded that the probability of loss for the subsidiary is considered possible.

(xi) Work accident
Amount: 1,306 thousand euros

Claim for indemnity following a work accident. The defence lawyers concluded that the probability of loss for the subsidiary is considered possible.

(xii) Contribution collection lawsuit
Amount: 113 thousand euros

Collection of monthly contribution based on the argument that the subsidiary is an industry. The defence lawyers concluded that the probability of loss for the subsidiary is considered possible.

(xiii) Claim for indemnity
Amount: 10 thousand euros

Claim for indemnity against TAP M&E Brasil and others arising from breach of contract. The proceedings await a conciliation hearing. The defence lawyers concluded that the probability of loss for the subsidiary is considered possible.

Other

(xiv) Pledged assets
Amount: 15,243 thousand euros

The subsidiary TAP M&E Brasil has pledged various assets to the value of 15,243 thousand euros (15,070 thousand euros in 2013), which refer to guarantees required in tax and labour proceedings. These assets include vehicles, computers, components and items of the hangars of Rio de Janeiro and Porto Alegre, among others.

58 – Breakdown of financial assets and liabilities

The reconciliation of the consolidated financial positions, as at 31 December 2014 and 2013, relative to the different categories of the financial assets and liabilities included therein, is broken down as follows:

	2014				
	Derivative financial instruments classified as hedge instruments (Note 24)	Credit and other receivables	Other financial liabilities	Non-financial assets and liabilities	Total
Assets					
Other non-current assets	-	50,691	-	-	50,691
Current receivables	-	216,797	-	30,972	247,769
Restricted bank deposits	-	100,917	-	-	100,917
Cash and cash equivalents	-	140,364	-	-	140,364
Total Assets	**-**	**508,769**	**-**	**30,972**	**539,741**
Liabilities					
Non-current loans received	-	-	(427,969)	-	(427,969)
Other non-current liabilities	(1,492)	-	-	-	(1,492)
Current loans received	-	-	(633,682)	-	(633,682)
Current payables	(49,166)	-	(458,937)	(393,627)	(901,730)
Total Liabilities	**(50,658)**	**-**	**(1,520,588)**	**(393,627)**	**(1,964,873)**

	2013				
	Derivative financial instruments classified as hedge instruments (Note 24)	Credit and other receivables	Other financial liabilities	Non-financial assets and liabilities	Total
Assets					
Other non-current assets	-	42,901	-	-	42,901
Current receivables	7,988	272,948	-	27,039	307,975
Cash and cash equivalents	-	270,611	-	-	270,611
Total Assets	**7,988**	**586,460**	**-**	**27,039**	**621,487**
Liabilities					
Non-current loans received	-	-	(660,131)	-	(660,131)
Other non-current liabilities	(1,546)	-	-	(59,898)	(61,444)
Current loans received	-	-	(390,512)	-	(390,512)
Current payables	-	-	(406,612)	(451,093)	(857,705)
Total Liabilities	**(1,546)**	**-**	**(1,457,255)**	**(510,991)**	**(1,969,792)**

The tables below present the assets and liabilities measured at fair value as at 31 December 2014 and 2013, according to the following hierarchical levels of fair value established in IFRS 13:

Level 1: the fair value of financial instruments based on active net market prices on the reference date of the financial position;

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

	2014			
	Total	Level 1	Level 2	Level 3
Financial assets at fair value recognised in reserves - hedge derivatives	–	–	–	–

	2013			
	Total	Level 1	Level 2	Level 3
Financial assets at fair value recognised in reserves - hedge derivatives	7,988	–	7,988	–

Liabilities measured at fair value

	2014			
	Total	Level 1	Level 2	Level 3
Financial liabilities at fair value recognised in reserves - hedge derivatives	50,658	–	50,658	–

	2013			
	Total	Level 1	Level 2	Level 3
Financial liabilities at fair value recognised in reserves - hedge derivatives	1,546	–	1,546	–

Derivative financial instruments

The fair value of the derivative financial instruments is recorded under the heading of payables when negative, and under the heading of receivables when positive.

During 2014 and 2013, the variation in the fair value of the derivative financial instruments was recorded under equity.

The breakdown of the fair value of the derivative financial instruments is detailed in Note 24.

Credit and other receivables

These values are initially recognised at their fair value, corresponding to their nominal value, minus any impairment identified during credit risk analysis.

Other financial liabilities

These values are recognised at their amortised cost, corresponding to the amount of the respective cash flow, discounted by the effective interest rate associated to each liability.

60 – Commitments

Guarantees provided

As at 31 December 2014 and 2013, the guarantees provided by the Group are broken down as follows:

	2014	2013
Bank guarantees provided by TAP S.A.		
Aircraft	37,573	25,848
BIC Angola credit line (unused)	16,473	14,502
Fuel	3,072	2,956
Natwest - Acquiring relative to credit cards	2,696	2,519
Portuguese State - Operation of the Azores routes	1,654	1,654
Labour Court	1,525	2,243
Other	16,004	9,932
Bank guarantees provided by LFP		
Operating license concession contracts for the Duty Free Shops	9,000	6,500
Bank guarantees provided by other Group companies	672	663
Securities provided to insurers	87	87
	88,756	**66,904**

The reinforcement undertaken during the current financial year, to bank guarantees provided by "TAP S.A." relative to aircraft, is essentially related to new operating lease contracts.

Purchase commitments

As at 31 December 2014, the financial commitments assumed by the subsidiary "TAP S.A." relative to operating lease contracts for aircraft and engines reached a total of 310,001 thousand euros (252,462 thousand euros as at 31 December 2013) (Note 27).

Moreover, a contract has been signed with Airbus for the future acquisition of twelve Airbus A350, to be received between 2017 and 2019, with the option of a further three aircraft.

61 – Subsequent events

The Executive Board of Directors has no knowledge whatsoever of any subsequent events on the reporting date which might have significant impact on the financial statements for the year ended on 31 December 2014.

Chartered Accountant

Sandra Candeias Matos da Luz

Executive Board of Directors

Chairman Fernando Abs da Cruz Souza Pinto

Member Maria Teresa Silva Lopes

Member Luiz da Gama Mór

Member Manoel José Fontes Torres

LEGAL CERTIFICATION OF THE CONSOLIDATED ACCOUNTS

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 2014 (showing a total of 1,560,397 thousand euros and a negative total equity of 511,860 thousand euros, including total minority interests of 7,935 thousand euros and a negative consolidated net income of 85,096 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 the responsibility of the Executive Board of Directors to prepare consolidated financial statements that present a true and appropriate 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 consolidated cash flow; the adoption of adequate accounting policies and criteria and the maintenance of appropriate internal control systems, as well as the disclosure of any relevant facts that have influenced the activity, financial position or net income of the companies included in the consolidation perimeter.

3. Our responsibility consists of expressing a professional and independent opinion, based on our examination of these financial statements.

Scope

4. Our examination was conducted in accordance with the Technical Standards and Review/ Auditing Directives of the Portuguese Institute of Statutory Auditors (OROC), which require that the review be planned and performed with the objective of obtaining an acceptable level of assurance that the consolidated financial statements are free of materially relevant distortions. For this purpose, the examination included:

    - 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 Executive Board of Directors used in their preparation;
    - verification of the consolidation operations and application of the equity method;
    - assessment as to whether the adopted accounting policies are adequate, their application is uniform and their disclosure suitable, in view of the circumstances;
    - verification of the applicability of the going concern principle; and
    - assessment of the adequacy, in overall terms, of the presentation of the consolidated financial statements.

5. Our examination also included verification that the financial information contained in the consolidated management report is consistent with the consolidated financial statements.

6. We believe that our examination provides an acceptable basis for the expression of our opinion.

Opinion

7. In our opinion, the aforesaid 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 2014, the consolidated net income and comprehensive income of its operations, the changes in consolidated equity and consolidated cash flows for the financial year ended on that date, in conformity 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 presented in the consolidated management report is concordant with the consolidated financial statements for the year.

Lisbon, 9 March 2015
Oliveira, Reis & Associados, SROC, Lda.
Represented by

José Vieira dos Reis, ROC nº 359

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 2014 (showing a total of 1,560,397 thousand euros and negative total equity of 511,860 thousand euros, including non-controlling interests of 7,935 thousand euros and negative net income of 85,096 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. The Board of Directors is responsible for the preparation of the Consolidated management report and consolidated financial statements that present a true and appropriate view of the financial position of the companies included in the consolidation, the consolidated net income and 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 conducted in accordance with the Technical Standards and Review/ Auditing Directives of the Portuguese Institute of Statutory Auditors (OROC), which require that the examination be planned and implemented for the purpose of obtaining a reasonable degree of security as to whether the consolidated financial statements are free of materially relevant distortions.

   For this purpose, the aforesaid 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 going concern principle; 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 contained in the Consolidated management report is consistent with the consolidated financial statements.

6. We believe that our examination provides an acceptable basis for the expression of our opinion.

Opinion

7. In our opinion, the aforesaid 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 2014, the consolidated net income and the consolidated comprehensive income of its operations, the changes in its consolidated equity and the consolidated cash flows for the year ended on that date, in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union.

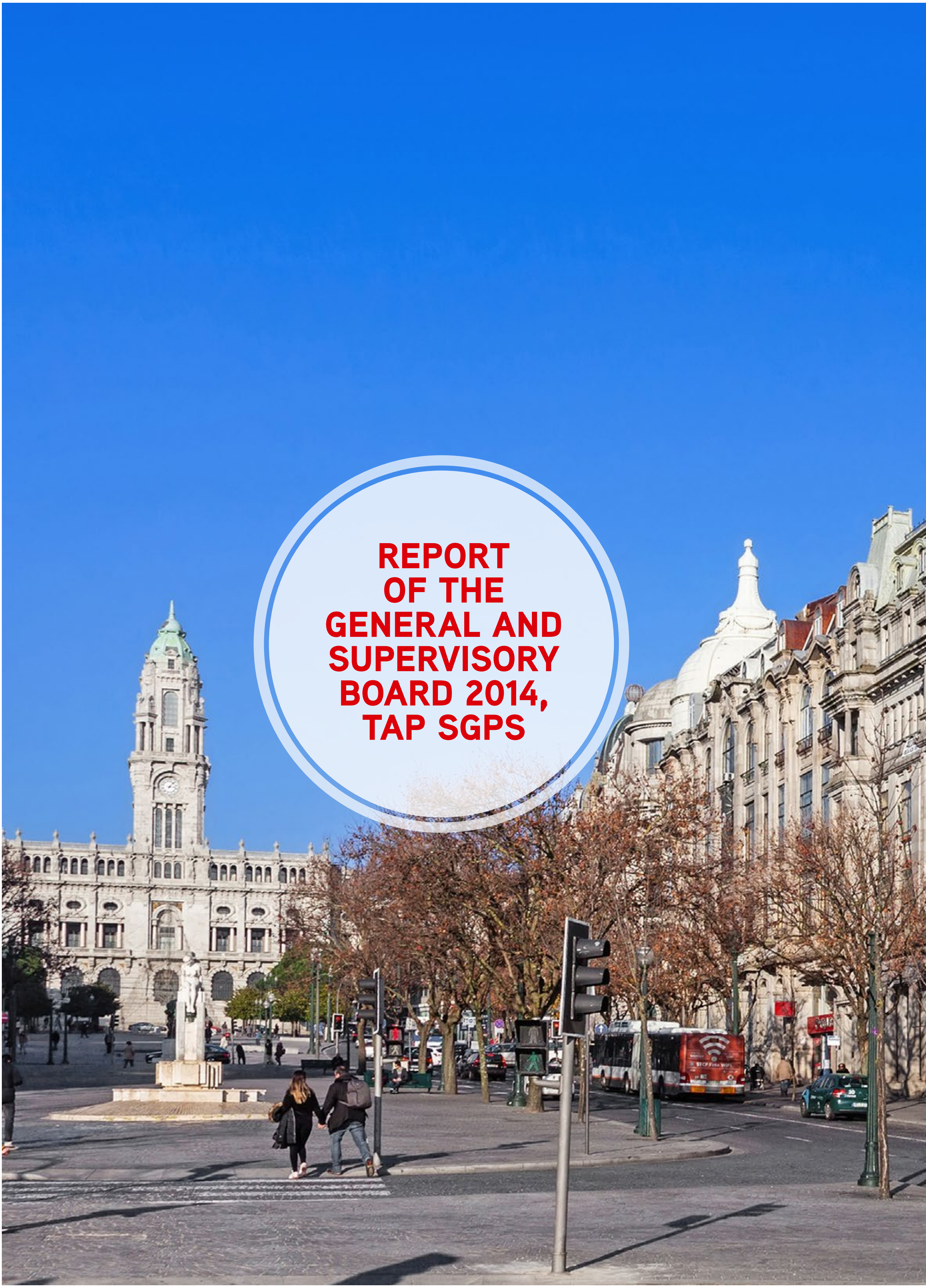
Reporting on other legal requirements

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.

9 March 2015
PricewaterhouseCoopers & Associados
– Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

José Pereira Alves, R.O.C.

REPORT OF THE GENERAL AND SUPERVISORY BOARD 2014, TAP SGPS




HOTEL UNIVERSAL
BBVA
BBVA
BBVA
BBVA
MB
BBVA

1. This opinion expresses the view of the General and Supervisory Board on the management report and accounts of TAP SGPS of 2014, submitted by the Executive Board of Directors, which includes the individual and consolidated financial statements.

2. The work conducted by the General and Supervisory Board in 2014 is documented in the minutes of the eleven meetings of the Board held over the course of the year. The Chairman of the Executive Board of Directors and, whenever the items on the agenda called for it, the Directors responsible for the respective areas, also participated in these meetings. The General and Supervisory Board acquainted itself in due time with the deliberations of the Executive Board of Directors which, under the statutory terms, were submitted for its appraisal and deliberation, as well as the respective substantiation, having obtained in this regard all the clarifications from the Executive Board of Directors it deemed necessary.

3. The Specialised Audit Commission and the Specialised Sustainability and Corporate Governance Commission provided the General and Supervisory Board with all the relevant information and clarifications relative to the performance of its functions, namely with respect to the verification of compliance with the applicable articles of association and legal precepts. The summarised minutes of the meetings of these Commissions were made available to the General and Supervisory Board.

4. The Specialised Audit Commission maintained the General and Supervisory Board informed of the issues of greater relevance debated within the scope of this Commission and namely of the matters dealt in the meetings of the Specialised Audit Commission with the Company's Statutory Auditor, the External Audit and the Internal Audit.

5. Within the scope of the supervision of the "Group" over the course of 2014, the General and Supervisory Board undertook a diligent scrutiny of the activities of the companies of the Group, dedicating special attention to the performance of TAP SA, the dominant company in the Group. Various exogenous and endogenous factors contributed to the performance of this associated company having been lower than expected and below that of the previous year, having resulted in a net loss of -46 million euros (against 34 million euros in 2013). TAP traffic grew in this financial year at a significant pace (+7% RPK), as a result of the expansion of the fleet and of the operation of new routes, in spite of the increased competition in the sector, both in the intra-European market and in the intercontinental market. Air transport was negatively conditioned by global economic activity that continued to expand at a modest pace, in combination with a significant economic slowdown in Brazil as of the second half of the year. TAP also suffered from the negative consequences of the operational crisis of the summer, and from the occurrence of several strikes, constraints whose unfavourable repercussions began manifesting themselves from the 3rd quarter onwards. The market conditions led to such a pronounced reduction of the yield (-7.2%) that it outweighed the aforesaid traffic growth, causing a sharp decline in ticket revenue. The total revenue of TAP SA did not suffer the effects of this decline any more intensely due to the remarkable recovery in the third-party maintenance business, which ensured some, although minor (0.4%), growth of operating revenues. This modest growth was, however, insufficient to offset the increase in operating costs (3.4%). This resulted in the move to an operating deficit (-7 million euros). It should be noted that, in addition to the effect of the expansion of the activity, several exceptional costs (irregularities, charters and personnel) arising from the aforementioned operating crisis contributed significantly to this increase in costs. The expansion of the activity in 2014 was also reflected in the increase (26 million euros) in fuel costs relative to 2013, an increase which would have been more significant (43 million euros) if it had not been for the favourable evolution of the price in dollars and of the exchange rate.

6. Within the "Group", in addition to TAP SA, the companies SPdH and TAP M&E Brazil, which have undergone restructuring processes in recent years, also merited specific attention from the General and Supervisory Board. SPdH, which reached breakeven in 2013, confirmed the trend towards improved performance in 2014 (profit of 2.4 million euros, of which 1.6 million euros are imputable to TAP SA), thus contributing positively once again to consolidated net income. Likewise, the recovery of TAP M&E Brazil, initiated in 2011, underwent new developments in 2014, although net operating income remained negative (-3 million euros). The improved performance of TAP M&E Brazil was reflected in an improvement in net income (-23 million euros, against -40 million euros in 2013), to which the gain obtained from the settlement of the debt of TAP M&E Brazil to the Brazilian State (REFIS) contributed significantly. In fact,

the Executive Board of Directors of TAP, with a favourable opinion from the General and Supervisory Board, decided to take advantage of the opportunity created by the entry into force of the new tax legislation in Brazil to, with the payment of 30% of the REFIS debt in advance, obtain the cancellation of the remaining 70% via tax loss carryforwards, thus achieving a significant improvement of the balance sheet of TAP M&E Brazil. In addition, the Specialised Audit Commission also took note of an opinion issued by the Brazilian Public Attorney's Office in September, which makes TAP's liability exemption regarding tax and labour contingencies of the former VARIG, prior to the acquisition of VEM, likely.

7. In 2014, the "Group" closed its accounts for the year with a consolidated loss of –85.1 million euros (against –5.9 million euros in 2013), which reflects, on the one hand, the accumulation of the mentioned deficits of TAP SA and TAP M&E Brazil with the deficit of SGPS individual (-21.3 million euros) and, on the other, the positive contributions of SPdH (+1.6 million euros) and of the other units (+3.6 million euros). Due to its importance, it is also important to mention the losses associated to the exchange rate devaluation in Venezuela (-33.7 million euros) which weighed significantly on the Group's consolidated net income. In the appraisal of the annual report, the Specialised Audit Commission registered concern with the deterioration of the Group's accounts, resulting from the lower--than-expected performance of TAP SA in 2014, a performance that bucks the positive trend observed over the last few years. This unforeseen performance essentially reflects the cumulative exceptional effects, which took place in the second half of the year, of the worsening market conditions, the operational crisis of the summer, the strikes and the significant disturbance of the Company's working environment. However, to a certain extent, it also reflects the growing difficulties that TAP has faced – a company that operates in a highly competitive market, but subject, as determined by law, to a conditioned management regime that is costly and dysfunctional – in dealing, in an effective and timely manner, with several uncertainties that disturb its activity with unusual frequency.

8. Within the scope of financial supervision, the General and Supervisory Board monitored – through information received from the Specialised Audit Commission and from the Director responsible for financial matters – the evolution of treasury over the course of 2014, the year in which the aforesaid unfavourable evolution of the profit and loss account, due to the decisive influence it has on liquidity, placed additional pressure on the management of cash assets. In addition, the level of cash assets and the associated liquidity risk were also strongly conditioned by the continued blocking, in 2014, of the repatriation of TAP balances withheld in Venezuela – which in December came to 101 million euros –, as well as the emergence of restrictions in the repatriation of balances from Angola. The General and Supervisory Board was informed of the precautionary measures adopted by the executive board of directors to minimise this risk, as well as the initiatives taken by TAP to attempt to obtain the necessary financing from credit institutions to cover liquidity needs. In spite of these difficulties, the Company succeeded in avoiding cash flow problems and ensuring sufficient liquidity to continue its normal operation in 2014. The General and Supervisory Board was also informed of the evolution of the official intergovernmental contacts made during the year, with a view to unblocking the situation in Venezuela.

9. In the analysis of the balance sheet, attention should be drawn once again to the added risks arising from the persistent undercapitalisation of TAP SGPS, compounded by the result for 2014, which reduced net worth to -512 million euros. In a context marked, on the one hand, by the uncertainty and high volatility of the activity of the sector and, on the other, by the difficulties in accessing financing, this situation makes the recapitalisation of the Company ever more critical. Net debt increase by 141 million euros relative to 2013, reflecting the negative consolidated results obtained in 2014.

10. On the basis of the foregoing considerations, and under the recommendation of the Specialised Audit Commission, as well as the reports of the Statutory Auditor and the External Auditor, with which it concurs, the General and Supervisory Board, under the terms of the general commercial company law and sub-paragraph n) of Article 23 of the Articles of Association of TAP, SGPS, has issued a favourable opinion on the management report and accounts of TAP SGPS for 2014, recommending their approval by the General Meeting of TAP, SGPS.

Lisbon, 6 March 2015

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

Abbreviations

AEA Association of European Airlines

APCER Portuguese Certification Association

EASA European Aviation Safety Agency

FAA Federal Aviation Administration

IATA International Air Transport Association

INAC National Civil Aviation Institute

IPAC Portuguese Accreditation Institute

IOSA IATA Operational Safety Audit

ISO International Standards Organization

LCC Low Cost Carrier

MRO Maintenance Repair and Overhaul

OEM Original Equipment Manufacturer

QTC Quick Transfer Centre

Glossary

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
Tel. +351 218 415 000
Fax +351 218 415 774
Taxpayer number 506623602

Design and Graphic Production

diagonaldesign

Photography

TAP PORTUGAL

Legal Deposit

182.801/15

July 2015

TAP PORTUGAL
de braços abertos *with arms wide open*
A STAR ALLIANCE MEMBER

TAP, SGPS, S.A. | Apartado 50194, 1704-801 Lisboa | Tel. +351 218 415 000 | Fax +351 218 415 774 | www.flytap.com